

Pareto Annual Report 2011

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

This is the Pareto group

Pareto is a leading, independent operator in the Norwegian market for financial services. The company has offices in Oslo, Stavanger, Bergen, Trondheim, Kristiansand, Bryne, Tønsberg, Stockholm, Malmö, Rio de Janeiro, Singapore and New York. Pareto was founded at the tail end of 1985 and since that time has grown into a corporate group offering a wide array of products. The group has 578 employees and shareholders' equity of close to NOK 3.7 billion.

Business sectors

Through its subsidiaries, Pareto offers a wide range of services within the broking of shares, bonds and partnership interests, the management of issues of equity and debt capital instruments, and direct investments. The group also provides business management services, valuations, refinancing, financial counselling, commercial property and insurance broking, investment counselling, investment management, asset management and system solutions for independent investment advisors. Furthermore, Pareto is involved in chartering and buying and selling tanker and dry bulk tonnage and drilling rigs through its ship broking operation, and in 2011 a company was formed to provide marine technical management services. The company works closely with Pareto Bank in which Pareto is the majority 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 which generates sound, long-term returns. Pareto's long-standing engagement with local markets and companies has equipped us with experience and competence, enabling us to treat each client individually and to safeguard and promote our clients' interests in the best way possible.

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

Pareto's aims and strategies

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

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

The Pareto Group – what we do

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

The Pareto group in 2011

Developments in 2011 were more or a less a mirror image of the way in which 2010 unfolded: in the first half of the year markets performed satisfactorily, while in the latter half falling markets and a greater aversion to risk were the most pronounced features.

This situation impacted on transaction revenues as well as management revenues. Even so, most of the companies in the group succeeded in improving on their performances in 2010.

- Revenues for the Pareto group amounted to NOK 1.7 billion (2010: 1.9 billion). The operating profit totalled NOK 750 million (1 024 million), and the pre-tax operating profit was NOK 570 million (828 million). The profit for the year was NOK 436 million (650 million). Value adjustments to the securities portfolio reduced the result by close to NOK 50 million. This contrasts with a positive contribution of close to NOK 100 million in the preceding year. The group's losses on accounts receivable continue to be negligible. As a result of acquisitions and organic growth the group's total personnel count rose by 98 people to 578 during 2011. Equity at yearend stood at NOK 3.7 billion.

- Pareto Securities maintained its leading position in the Norwegian capital market. The company was involved as advisor to and arranger of a number of major equity issues on Oslo Børs in 2011, including the listing of Aker Drilling, Sevan Drilling and Høegh LNG. At the same time, the company maintained its leading position in the Norwegian second-hand market. Since 2004, Pareto Securities has arranged almost 80 IPOs on Oslo Børs/Oslo Axess, which is equivalent to a market share of about 40 per cent. During 2011 the company arranged equity placements of the order of approximately NOK 18 billion and high-yield bonds to a value of over NOK 16 billion. Pareto Securities is the leading broker by far in the Norwegian second-hand market for high-yield bonds. Last year the company acquired Swedish brokers Öhman Fondkommission, now renamed Pareto Öhman, effective for accounting purposes from mid-September.

- Pareto Project Finance strengthened its leading position in the Norwegian market for project finance, through the purchase/sale and syndication of property to a value of approximately NOK 5 billion and the purchase/sale and syndication of shipping/offshore projects to a value of approximately NOK 3.5 billion. The broker desk traded shares and project interests to a value of NOK 600 million. At yearend the company managed investment companies with a gross value of NOK 46 billion. Revenues and profits were both up on the preceding year.

- Pareto Forvaltning recorded net new subscriptions by a stable client base, but a general downturn in prices on the Norwegian stock market reduced total assets under management from NOK 42 billion to NOK 40 billion. The company's flagship product, Pareto Aksje Norge, which has a minimum investment requirement of NOK 100 million per client, celebrated its tenth anniversary and at yearend recorded the highest ten-year return of any

Norwegian equities fund. Over a total of 13 years of management, the company's portfolio of Norwegian equities has recorded an average return after expenses of 13.5 per cent. Over the same period, Oslo Børs recorded an average return of 8.0 per cent. Four years have now passed since the new management team took over Pareto Aksje Global. Measured over the course of these four years the fund has recorded the highest return of the 81 global equities funds on the Norwegian market. Pareto Forvaltning is a leading asset manager within high-yield corporate bonds, in which area 2011 proved to be yet another year of positive returns in excess of the risk-free rate and growth in assets under management.

- Johan G. Olsen Shipbrokers can look back on yet another year of very high activity levels, reporting its second-best result ever, thanks in no small part to the performance of the offshore department. The company has a very healthy order backlog on the supply market.

- Pareto Bassøe Shipbrokers had a more difficult year. Activity levels for both Pareto Dry Cargo and P.F. Bassøe remained consistently high throughout the year, notwithstanding a slow market and low rates. A stable level of contract closures on the spot side of the business and an increased focus on time charters contributed to a satisfactory performance.

- For Pareto Wealth Management 2011 proved to be an eventful year. The company merged with sister company Pareto PPN, hired a number of former employees of Orkla Finans and developed a network of regional offices. This has given the company a significantly stronger position in the Norwegian market for wealth management/private banking.

- At yearend 2011, Pareto Bank's total assets stood at just over NOK 7.6 billion. Deposits and loans both continued to grow in 2011, and the profit after taxes was more than double the figure recorded in the preceding year. During 2011 Pareto Bank focused attention on developing its activities in the maritime sector, as a supplement to its real estate and securities businesses.

- In its first full year as a subsidiary, Pareto Forsikringsmegling succeeded in turning loss into profit, notwithstanding continuing tough price competition. In November, the company moved into new premises in Pareto's headquarters in Oslo.

- Pareto Nordic Investments has been reorganised and has extended its licence base. The company encompasses the entire fund management business of former Orkla Finans and focuses on the Nordic market.

The market and the economy in 2011

Developments in 2011 accentuated a more long-term trend: whereas commercial operators are reporting steady growth and building real values, investors are increasingly reluctant to pay for these same values. The question is whether this development has reached its limit.

For investors there is always something to worry about. The past year was no exception to this rule.

Clearly, the unmanageable Greek sovereign debt must be at the forefront of our minds, since it has repeatedly been the cause of unrest in the market. At times, attention was also focused on Portuguese, Spanish and Italian debt, which is potentially even more serious. To cap it all, US politicians, whose sovereign debt has always enjoyed a triple-A rating, succeeded in discussing themselves into a downgrade by Standard & Poor's.

There are two dimensions to the fear and unrest felt by investors. Firstly, it is clear that for many countries, and for many years to come, tight fiscal policy will be the order of the day, both out of fiscal necessity and because this represents the dominant political consensus. Pro-cyclical belt-tightening is rarely a suitable means of promoting healthy growth.

Secondly, there is concern that high unemployment and social unrest will feed a more fundamental pessimism and fear of investment that will turn Europe – and perhaps the West more generally – into an economic backwater. From this perspective, the economic significance of, for example, riots in the UK is greater than can be read from the direct damage caused.

Social unrest is closely linked to fiscal policy and economic growth. Research has shown that when budgets are tightened or when growth rates shrink, the incidence of riots and demonstrations increases. This serves to emphasise the more fundamental anxiety underlying last year's poor market performance: the fear that large parts of the West are facing a downward economic spiral.

Thus, in purely financial terms, the earthquake disaster in Japan was of less significance, notwithstanding the enormous direct damage and tragic deaths that ensued. What has been lacking is a belief in the future.

This is probably the most likely explanation for the drop in the MSCI World Index by over 5.0 per cent (adjusted for dividends) and the downturn of almost 12.5 per cent in the Norwegian benchmark index, despite very satisfactory earnings. This also explains why investors flocked to short-term government papers in countries that were presumed to be safe, while the risk premiums climbed in the case of other sovereign and corporate debt in general.

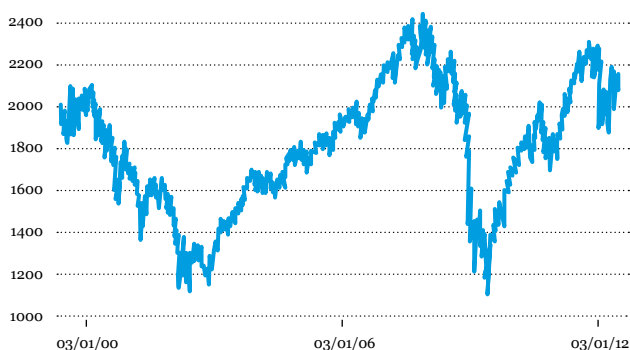
Accordingly, both the stock market and the credit market tell us the same story: 2011 was a year in which the cost of capital was high, and rising.

Depressing for investors ...

Nevertheless, the most striking feature of 2011 was not the dramatic events of the year. From an investor's perspective, the key point was that this development seems to conform to a more long-term trend.

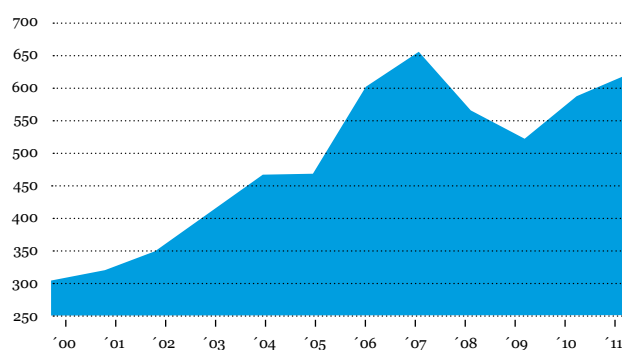
We can start by looking at the investor's bottom line: the early years of the new millennium proved to be a disappointment for the stock market. Although it is not accurate to say that equities have generated zero returns globally since the start of this new millennium, this is not far off the truth. Since New Year's Eve 1999, the MSCI World Index has recorded an average annual return of 0.7 per cent, while the US S&P 500 index has returned a miserly 0.55 per cent. Compared to the peak in 2007 both indexes are still clearly recording negative figures.

Wall Street came to a halt



S&P 500 as a total return index. Source: Datastream

Things didn't come to a halt here though



Book value of equity per share (index unit) for the S&P 500. Source: FactSet

In Norway, the situation has been better, with an average return of 5.4 per cent over the course of the same 12 years. Nevertheless, in the latter half of this period – more precisely since the first quarter 2006 – zero returns have been the order of the day here too.

... but uplifting for chief financial officers

The companies included in these same indexes, however, have performed well. For example, during the course of this millennium the book value of the companies in the S&P 500 has doubled, while earnings per share have increased by over 85 per cent and dividends are up by over 90 per cent. According to the Financial Times, record margins are being reported on both sides of the Atlantic.

The companies quoted on Oslo Børs have also recorded considerable progress, but their stock prices have remained stagnant. During the course of six years of zero returns on the stock market the book value of these companies has increased by over 50 per cent, even after high – and rising – dividends have been paid. Earnings have increased by a more modest seven per cent, but the low growth rate can in the main be attributed to pro-cyclical accounting regulations that include unrealised gains in good times and unrealised losses in bad times on the stock market. Aggregate cash flow was up by 20 per cent during the same period, according to FactSet.

Low pricing – high cost of capital

Taken together these two developments are mirrored in significantly lower pricing. In the United States, the P/E level has fallen by more than 50 per cent since the start of the millennium, from 27-28 to 13-14. On Oslo Børs, the reduction has been more modest, from around 13 to 9.5, although, as we have already seen, this is measured over a zero return period of half the duration.

During this period, the earnings yield – expected earnings per share as a percentage of the share price – on the Norwegian stock market rose from 7.5 to 10.5 per cent. This represents an implicit rate of return that is no less than 7.6 percentage points above the Norwegian money market rate. In historical terms, this is very high indeed. One year earlier, this figure was in the region of 6.3 percentage points. The figure has remained consistently high ever since the financial crisis hit in 2008.

Six lost years?



The Oslo Børs benchmark index (OSEBX). Source: Oslobors.no

In the case of debt capital, the picture appears to be different. Norwegian government bond yields, which still deserve to be described as risk-free, have fallen to very low levels. For example, the five-year bond yield dropped from 2.93 to 1.56 per cent during the course of 2011.

However, at the same time, what is termed the swap premium rose by approximately 0.7 percentage points. The swap premium can be understood as the cost of switching between a floating and a fixed rate of interest for given periods of time, and thus expresses the price of the interest rate risk in the same periods. Accordingly it provides an addition to the interest rate, over and above the risk-free rate, to cover general interest-rate risk in the market in accordance with the market's own interest-rate expectations.

In addition to this there is the risk premium for the individual company, which in many cases has increased by a significantly greater amount.

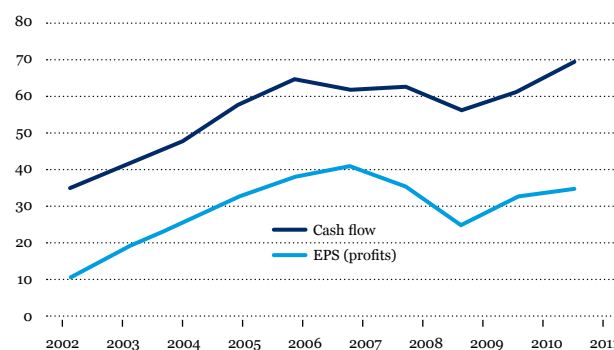
In the case of a sound company like Orkla, the premium is modest: an increase from 1.25 to 1.6 percentage points in the course of the year. Thus overall, Orkla bondholders receive an interest-rate premium of approximately 2.3 percentage points above the risk-free rate.

For other companies the premium is of an entirely different order. Pareto High Yield Index (Series 3), which comprises companies that are rated significantly lower than Orkla, closed the year with a spread (average company premium) of approximately 12 percentage points (!). This represents a doubling – more or less – in just six months.

This is the irony of the market: whereas expectations of high returns meant that capital was cheap before the financial crisis, since then expectations of low returns have made capital expensive.

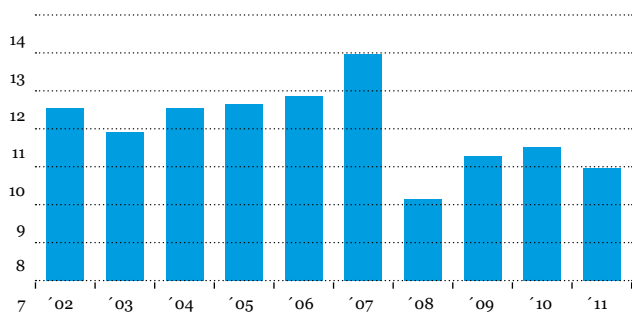
In essence, this means that investors will get more for their money now that they are not expecting to get so much for their money.

King Cash still rules



The Oslo Børs benchmark index (OSEBX), estimated value per share (index unit). Source: FactSet

Lowest since the financial crisis



Average estimated P/E throughout the year on Oslo Børs. Source: FactSet

When the alarm bell sounds

It could be argued that the securities markets can perform badly even if the companies quoted on these markets are reporting growth. For example, increasing correlation has made it more difficult to reduce risk through diversification and to steer the portfolio in the direction of safer assets.

Firstly, correlation increases in times of unrest, as a cyclical phenomenon. In August 2011, when share prices plummeted, there was a monthly correlation between Oslo Børs and the S&P 500 of no less than 0.995. The long-term average is around half of this. In the same way, the correlation between shares that, more or less by definition, should move in opposite directions, such as oil producer Statoil and oil consumer Royal Caribbean Cruises, shot up. In addition, we have seen increasing correlation between different classes of assets. When the alarm bell sounds, everyone heads for the exit at the same time, even if the building isn't on fire.

Secondly, there is a longer-term trend towards greater correlation as a structural phenomenon. Here, of course, there is no escaping increasing globalisation. Normally, world trade grows at a faster rate than GDP. Investment increases across national borders. Regulations are coordinated and investment barriers are dismantled, not least in countries that previously had poorly developed markets. And moreover, media coverage is globalised, with the result that we all nervously follow the same key figures.

Increased correlation between individual shares can be attributed to factors such as algorithmic trading (software-controlled order placement) and increased indexation, both direct (index funds, ETFs) and indirect (benchmarking). The latter will increase correlation more or less by definition. And you thought that indexing would reduce risk ...

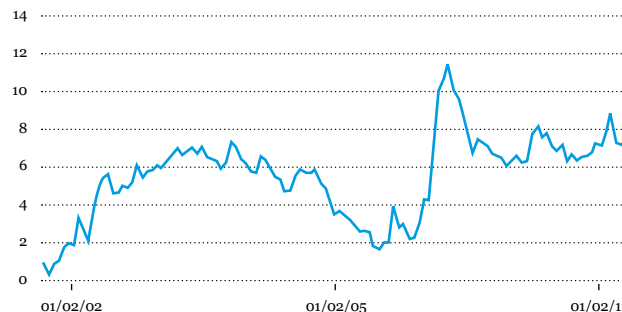
In addition, we have been given a lesson in sentiment risk. The mood generally swings from one extreme to the other, and at present the market is suffering the after effects of the unbounded optimism that prevailed five years ago. Once bitten, twice shy, as the saying goes. Unfortunately, the market behaves in precisely the same way.

The upside to this is that it creates opportunities.

Record results

No new margin records were set in Norway, but for business and industry in mainland Norway, EBITDA has never been higher.

High share premium



Earnings yield OSEBX less 3 month NIBOR. Source: FactSet

The provisional figure of NOK 614 billion represents an increase of 13.6 per cent in two years and almost 45 per cent of the gross product produced by business and industry.

Figures reported by the oil sector were down on 2008, although this in no way provides grounds for claiming that times are hard. Gross operating profits are now approaching 90 per cent of the gross product of this sector. Even though the government takes a sizeable chunk, there is, literally, plenty of money left over.

At first glance it appears that the companies quoted on Oslo Børs have some way to go before they reach the levels recorded in 2006 and 2007, but this can largely be attributed to accounting effects – typically the recognition in the income statement of unrealised losses on securities or the writing down of fish in accordance with the accounting standard IFRS. Cash flow has never been higher. Last year alone, cash flow was up by 13 per cent, according to FactSet.

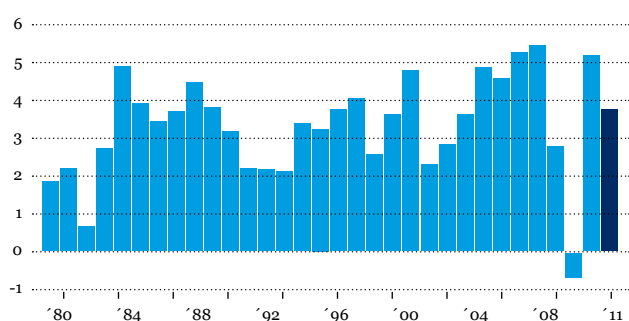
Over time, earnings have grown faster on Oslo Børs than in the Norwegian economy as a whole. This could be a function of selection, with the best-run companies finding their way to the stock market. But it could also be an indication that profitable sectors – especially oil-related companies – are over-represented on the stock exchange. Furthermore, some listed companies are domiciled outside Norway.

That being said, results fluctuate more on Oslo Børs than they do outside the exchange. Even so, fluctuations are not greater there than in the US stock market. It probably helps that three such key drivers as the oil price, the rate of exchange of the dollar and the price of salmon rise and fall entirely independently of each other – with a correlation that is as close to zero as it is possible to get in practice.

For the purposes of this calculation, all three prices have been measured in kroner to facilitate comparison and because the point is to measure the NOK earnings per share. Furthermore, this allows us to eliminate the misleading exchange-rate waltz between the dollar and an oil price quoted in dollars.

On the other hand, fluctuations in the pricing of Norwegian shares are far greater. Swings in P/E are more than three times as great for the OSEBX as for the S&P 500. When compared with the Eurozone the difference is less, but even so it is pronounced. In other words, Norwegian shareholders are far more reliant on

The world keeps on growing



Global GDP growth in percentages. Source: IMF

the interpretations and reactions of the stock market.

For Norway, this makes the distinction between movements in prices and the underlying operations far more important.

Unheeded risk elements?

The next question is: what can we say about underlying risk? The danger of international recession is the chief hazard, but it is also the one that is both obvious and has been talked and written about at endless length. There is little point in rehearsing this discussion here, beyond acknowledging that for the foreseeable future there will be a very real danger of poor macroeconomic performance amongst our trading partners.

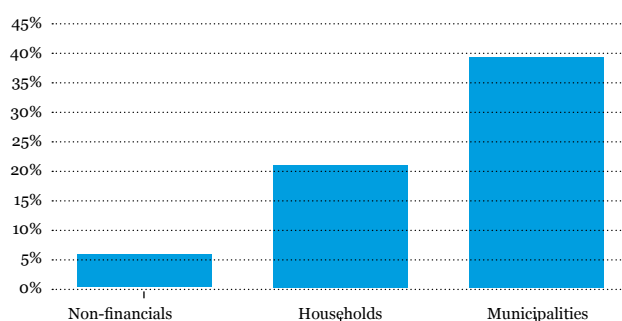
Nevertheless, this only represents a serious problem for investors in equities if and to the extent that the market has not priced it in. The low pricing suggests that the market is very aware of – and fears – a development of this nature. Hardly surprising, given the massive attention devoted to this issue by the media.

Similarly, it should be noted that listed companies will not necessarily have their heaviest exposure to Norway’s trading partners. The high percentage of commodity-based stocks listed on Oslo Børs suggests that developments in emerging markets are of greater importance, in relative terms, for sales volumes and, not least, prices.

At the same time, there is no doubt that, on the whole, Norwegian companies are well equipped to take on new problems. Costs have been cut and the debt ratio has been reduced. If you have been reading about a Norwegian debt bubble you should take a look at these figures: over the last three years Norwegian business and industry (excluding the financial services sector) increased its overall debt by a meagre 5.3 per cent, compared with 20.9 per cent for households and no less than 39.8 per cent in the municipal sector. The paucity of attractive investment projects has resulted in a higher proportion of liquid assets and equity.

A further point worth noting is that an increasing number of Norwegian companies have introduced defined contribution pension schemes for their employees. It is unlikely that this transition will have any major effects in the short term, but in the longer term it will lead to a reduction in risk, strengthening the impression of an increasingly well-adapted and lean commercial sector. The Norwegian economy is not necessarily the oasis in a world beset by problems that many people would have us believe,

Debt bubble? Not the corporate sector.



Growth in domestic credit December 2008 – December 2011. Source: Statistics Norway

but at the same time it is not necessarily business and industry that will face the greatest problems adapting.

Adaptation is also a question of time. Many commentators have expressed frustration over the time it is taking to clear up the sovereign debt problem. Politically and economically this frustration is understandable. However, in purely commercial terms there are advantages. Every single quarter the accounts reveal that losses are being absorbed and money is being earned. Most of the estimated losses resulting from the financial crisis have already been absorbed in the accounts, and the closing of the last financial year provided an excellent opportunity to digest a big chunk of the value reduction of European sovereign debt. In the meantime, companies continue to make money. Taken as a whole, the companies in the S&P 500 have never recorded a loss in all the years that this statistic has been compiled, i.e. as far back as 1871. And even if it is no longer the case that the gross operating profit of the Norwegian mainland economy has increased every single year since 1970 – revised figures now show a reduction of 1.4 per cent in 2009 – the statistic provides a timely reminder of the robust health of Norwegian business and industry.

It also provides a reminder of the real foundations for returns on equity and debt capital alike: that companies earn money. The statistic shows that they are doing just that – in spades.

Which means that it can only be a matter of time before this will be reflected in the returns generated on securities.

2011 in a nutshell

• OSEBX	-12.5%
• S&P 500 return	+2.11%
• MSCI World net	-5.5%
• 3-month NIBOR	from 2.60% to 2.89%
• 10 year Norwegian Treasury	from 3.68% to 2.41%
• Share turnover Oslo Børs (value)	-15.6%
• Brent Blend	from USD 94.70 to USD 106.87
• USD/NOK	from 5.86 to 5.99
• EUR/NOK	from 7.81 to 7.75
• GDP growth global	3.8%
• GDP growth Norway	1.6%
• GDP growth Mainland Norway	2.6%

Sources: Oslo Børs, Standard & Poor’s, MSCI Barra, Norges Bank, FactSet, IMF, Statistics Norway, Pareto

Pareto Securities AS

Pareto Securities is a leading operator within stock and bond broking and financial counselling. The firm concentrates on areas of business and industry in which Norway enjoys particular advantages. Analyses are based on detailed, in-depth knowledge and a long-term engagement. In consequence, our research and broking products are rated highly by a wide community of international investors.

Broking and counselling

Pareto Securities' services consist primarily of stock and bond broking and financial advisory services in connection with corporate financing, stock exchange listings, and mergers and acquisitions. Pareto has held a leading position in these fields for the past 10 years.

Our focus on Norwegian securities and areas of business and industry in which Norway enjoys particular advantages, enables us to anchor our research and counselling in detailed knowledge of the industries and companies with which we work. This is of particular importance to our international investors; specialisation and first-hand knowledge being what they call for. Accordingly, Pareto's local presence gives us an important competitive edge, which helps to win the confidence of our clients.

International placement power

The combination of a local presence and international investor contacts forms the foundation for Pareto Securities' placement power in the stock and bond markets. International clients account for over 50 per cent of our revenues, which in turn enables us to complete a large number of large-scale, complicated projects. The company is recording considerable growth, not only in the proportion of revenues deriving from international clients, but also in the number of international clients.

Our European investors are generally serviced by our offices in Oslo, Stockholm and Stavanger. Our US clients are the responsibility of brokers in New York as well as of a dedicated team of brokers in Norway. We also have offices in Bergen, Kristiansand, Trondheim and Malmö. This enables us to offer our clients a combination of:

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

Our research products are more case-based

Our research staff of 19 analysts in Norway and 10 in Sweden work continuously to ensure that they have the market's best insight into the companies and sectors in which they specialise. A unique understanding of the companies and industries listed on Oslo Børs represents a prerequisite for servicing our clients efficiently. All of Pareto Securities' departments are able to draw on the knowledge accumulated by our research team.

Importance is placed on the drafting of unique case studies, which, if timed correctly, can secure healthy returns for our clients.

During 2011, we improved the distribution of products and cases, implemented a new publishing and database system and arranged a number of road shows outside Norway. In addition, we integrated the research department in Sweden, which extends our reach. Our research products are made available to our clients as and when they are completed at www.paretosec.no.

The research department also functions as a recruitment and training agency where young talent receive training in corporate research and finance. After one or more years these new recruits are given the opportunity to transfer to other departments in Norway, Sweden, New York or Singapore. Our philosophy is that a solid grounding in research enhances the likelihood of success in the other areas of our business, and we have already seen

numerous examples of smooth transitions from research to broking and corporate finance.

Four credit analysts in Norway and two in Sweden monitor the Norwegian and Swedish credit markets and compile credit reports. Because credit analysis forms an integral part of the research product, our credit analysts cooperate with stock analysts. Pareto takes the view that first-hand knowledge of the ability of a company to raise loan capital is a prerequisite for understanding its chances of success on the stock market.

Conferences and road shows

An important aspect of our research work is arranging seminars and field trips for our investors. Amongst other events, Pareto hosts an annual oil and offshore seminar, which has become one of Europe's leading investment forums for oil and oil-related companies. No fewer than 1,400 private and institutional investors and other interested parties from Norway and abroad attended the 2011 conference. Other events included an energy seminar in Oslo which attracted over 350 attendees. We regularly take company representatives to meet our clients in the US and Europe, in addition to which our analysts travel around to discuss the latest investment opportunities.

A comprehensive range of services

Being an independent financial advisor, Pareto Securities is able to offer a comprehensive range of financial services, from share and bond issues, listings and diffusion sales to mergers/demergers and acquisitions/disposals of businesses or companies.

In common with our research activities, our advisory services are based on a long-term approach and in-depth knowledge

of the areas of business in which we specialise. With divisions in Oslo, Stavanger, Bergen, Kristiansand and Trondheim we are close to the most important business communities in Norway. Our advisory team consists of people with broad management experience from industry, consultancy and the capital market.

Pareto Securities' main area of focus is listed companies or companies with the potential for listing within a reasonable time frame. In the area of mergers, acquisitions and sales of businesses (M&A) our experienced advisors offer valuation and advisory services to both buyers and vendors. In 2011, we saw an increase in the demand for these services and a number of sales and acquisitions were executed. In addition, we work closely with Pareto Offshore, Pareto Shipping, Johan G. Olsen Shipbrokers and Pareto Project Finance, in order to serve companies at an early stage in their development and to take full advantage of the group's expertise and networks.

A substantial bond broking business

Pareto Securities is a major independent operator in the Norwegian bond market. This enables us to offer debt funding to our corporate clients. We also offer Norwegian and international investors investment opportunities in fixed income instruments.

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

One important consequence of the converging of the equity and debt sectors of our operations is the broad expertise that this enables us to bring to both advisory services and sales. The company is therefore able to perform transactions involving not only equity and debt, but also structured products such as convertible loans, share or bond issues with associated subscription rights and wholly or partly guaranteed equity products.

Pareto Securities Inc.

In 2009, Pareto Securities acquired all the shares of New York-based Nordic Partners and renamed the company Pareto Securities Inc. The staff now comprises 22 employees. The subsidiary

has established a strong position in the North American institutional investor community as a broker of Norwegian shares and bonds. An expanding corporate department works closely with head office in Norway to offer US clients equity and debt financing. The collaboration between our offices in the US and Norway enables us to combine closeness to the issuing companies with proximity to the investors.

Pareto Securities Asia Pte. Ltd.

Subsidiary Pareto Securities Asia is into its seventh year of operations in Singapore and now has a staff of 15. The company offers advisory services to local companies and expatriate Norwegian operators, mostly in the shipping and offshore sectors. Pareto Securities Asia has held a licence to conduct its corporate business since it was established. This licence was extended in 2010, as a consequence of which the company is now authorised to provide both corporate and broking services.

Pareto Öhman AB

On 15 September 2011, we acquired Swedish investment firm E. Öhman J:or Fondkommission AB, which was subsequently renamed Pareto Öhman. The company provides services within stock and bond broking as well as financial advisory services in Sweden and has offices in Stockholm and Malmö. The business has 87 employees.

Pareto Offshore AS

Subsidiary Pareto Offshore, which was founded in 2004, is a leading broker of offshore rigs and provider of advisory services to the global drilling industry. The firm's staff of five also undertakes valuations and market updates.

Pareto Shipping AS

Subsidiary Pareto Shipping offers broking services relating to the purchase and sale of ships and the contracting of new-building orders. The company has five employees.

Pareto Securities Ltda.

In 2011, we opened a representative office in Rio de Janeiro. The office will serve as a bridgehead on the Brazilian oil and oil service market and works closely with the corporate department in Norway. The company has one employee.

Other services

Pareto Securities has conducted currency operations since 2006 as an integral part of our investment services. We now have a staff of four to provide these services.

The company is also a broker of freight and commodity derivatives, which activities form an integral part of our investment services.

Integrated web solution

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

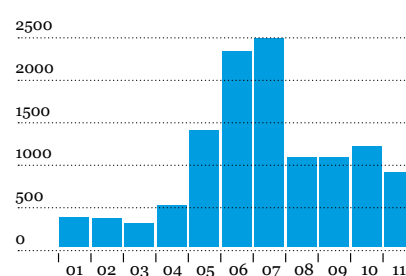
Credit and trading for own account

Pareto Securities does not grant clients credit. 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

Pareto Securities increased its personnel count from 247 to 317 during 2011. The company recruits young talent, focusing on the ablest students from the best schools. The company offers them a flat organisational structure, attractive incentives and early responsibility.

Revenues NOK mill.



Pareto Securities AS

Dronning Mauds gate 3
P.O.Box 1411 Vika
Oslo, Norway
Telephone: +47 22 87 87 00
Turnover 2011: NOK 977 million
Number of employees: 317
CEO: Ole Henrik Bjørge
ole.henrik.bjorge@pareto.no
www.paretosec.no

Pareto Project Finance AS

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

I – Shipping and Offshore

PPF has extensive experience and expertise in syndicating and managing shipping/offshore projects. At present we hold a portfolio of 86 ships/vessels, having sold off a substantial number of ships in recent years. Our ambition is that the projects we arrange should provide a combination of an annual return on equity (IRR) of between 15 and 20 per cent and regular dividends, at an acceptable level of risk. Over the last ten years, our portfolio has generated an annual return of 20 per cent. Our primary focus is on projects involving long-term charters and recognized charterers, although we also arrange more risky asset play projects. Our projects are generally established in collaboration with experienced shipowners/managers who are actively involved as owners. In 2011, PPF was the biggest operator on the Norwegian market for project financing. The company was involved in purchases/sales and syndications of shipping/offshore projects to a value of approximately NOK 3.5 billion. In 2011, we extended our maritime operations, establishing Pareto Maritime Services AS, which with its technical expertise enhances our ability to follow up projects.

II – Real Estate

With over 20 years of experience, PPF is a leading financial operator in the Norwegian real estate market. The company acts as advisor on major real estate transactions, including IPOs and purchases and syndications of real estate in both Norway and internationally and has extensive experience within the field of corporate finance services. PPF arranges direct investments in modern, centrally-located properties with long-term, financially sound tenants. As an alternative to investing in equities, bonds and the money market, investments of this type have

generated very satisfactory returns. The company has one of Norway's largest real estate portfolios with a total value of NOK 30 billion (2.3 million m²), of which projects arranged by PPF account for some NOK 20 billion and approximately 1.1 million m². The average term of contracts of lease in Pareto projects is approximately 12 years. The expected annual rate of return on equity is between 10 and 15 per cent. In 2011, PPF was involved in acquiring/selling/syndicating properties with a total value of some NOK 5 billion and was the biggest fund raiser in the Norwegian real estate market.

III – Investment companies

In 2011, PPF continued to develop its investment company management operations. Since its inception in 2006, PPF has procured over NOK 5.0 billion in equity for companies of this nature. Notwithstanding volatile markets, all of the investment companies were able to report profits to their shareholders in 2011. PPF will continue to focus on building investment companies in the real estate, offshore and shipping sectors as well as developing new investment companies that will be offered to our investors directly and through existing distribution networks.

IV Pareto Business Management

Pareto Business Management AS (PBM) is Norway's leading financial service and support partner within the areas of real estate and shipping/offshore. We provide professional asset management and business management services and have administrative responsibility for investment companies with a value of NOK 46 billion. PBM's staff includes experienced professionals in the areas of accountancy, financing, taxation, corporate law and technical management. Efficient web-

based reporting tools have been established for sharing information, calculating returns and managing portfolios.

V – Sales and broking of shares and partnership interests

Trading in shares and partnership interests in established projects is a separate business area within PPF. We have a dedicated brokerage desk which works systematically to ensure liquidity of shares and project holdings invested in by PPF investors. Trading in projects arranged by PPF was up by approximately 15 per cent in 2011. The brokerage desk also increased its broking of unlisted property companies not arranged by PPF. The total volume traded in the second-hand market in 2011 was up by approximately 55 per cent on the 2010 figure.

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Pareto Project Finance AS

Dronning Mauds gate 3
P.O.Box 1396 Vika
0114 Oslo, Norway
Telephone: +47 22 87 87 00
Turnover 2011: NOK 259 million
Number of employees: 70
CEO: Anders Endreson
anders.endreson@pareto.no
www.paretoprojectfinance.no

Pareto Forvaltning AS

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

Pareto's in-house asset manager

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

In addition the company manages a total of NOK 3.0 billion on behalf of companies and personnel in the Pareto group, making them the company's largest "client". Our willingness to invest in all of our own products demonstrates our faith in our ability to invest wisely, our methodologies and our management philosophy.

The company has a staff of 34 people, including 10 managers and 16 strategic advisors with an average of 17 years' relevant experience. The company is located in Oslo. Pareto AS and the company's partners hold stakes of 81.5 per cent and 19.5 per cent, respectively.

A bespoke service

Our philosophy is that individually-tailored solutions are a prerequisite for sound, risk-controlled management. Our management concept is to provide a bespoke service adapted to the individual client's unique needs and risk profile, with a close and individual focus on the requirements of a small, exclusive group of clients.

The personal attention offered by the firm's advisors and healthy portfolio management results have generated substantial growth in recent years. At yearend 2011 the company managed NOK 16.5 billion in equities and NOK 23.5 billion in fixed-income instruments, of which a total of NOK 20.1 billion in securities funds.

Conservative, consistent and long-term

Our management of equities on the Norwegian and global markets is value-oriented and research-based. Over time, there will be a close correlation between a company's financial performance and

the returns on its share, which is why we concentrate on analysing individual companies rather than market or technical analyses.

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

The analysis devotes little attention to speculative factors, such as special market conditions (technical, manipulative and psychological) or other factors associated with a high degree of uncertainty. We limit the number of shares in the portfolio, because in our judgement a high degree of risk diversification can be achieved with as few as 25-30 stocks. A concentrated portfolio allows us to monitor our investments closely and continuously. We are long-term owners and thus avoid high turnover with the associated high decision-related risk and transaction costs that eat away at the return on the portfolio.

Similarly, our management of fixed income instruments is based on a fundamental analysis of the financial situation of the individual issuer and an assessment of relevant macro-economic conditions. In the case of our liquidity fund and bond fund with investment grade counterpart risk, we aim for excess return by taking positions in selected areas of the yield curve. In the case of our two high yield funds, the risk premium and the right choice of company can contribute substantially to the excess return. Following a prudent management approach where funds are chiefly invested in companies

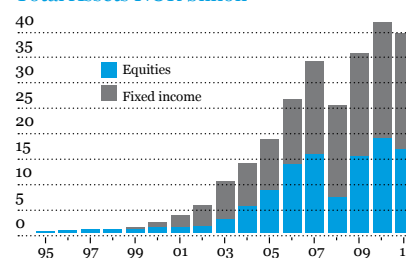
operating within finance, energy and manufacturing as well as in local government should provide a satisfactory return in excess of the risk-free rate.

Annual average returns of 13.5 per cent

Our long-term approach and a value-focused management philosophy have paid off. Since the company was established in the autumn of 1998 our primary profile under active management in the Norwegian stock market has generated a total return of 421 per cent after expenses. This represents an excess return of 246 percentage points relative to Oslo Børs, which during the same period generated a return of 175 per cent. The MSCI World Index recorded no more than 1.4 per cent, measured in Norwegian kroner.

The development in the value of our portfolios in the Norwegian stock market represents an annual average return of 13.5 per cent net of all expenses. This has generated a very satisfactory excess return relative to both the 8.0 per cent return recorded by Oslo Børs and a three-month NIBOR of 4.2 per cent during the period.

Total Assets NOK billion



Pareto Forvaltning AS

Dronning Mauds gate 3
P.O. Box 1396 Vika
0114 Oslo, Norway
Telephone: +47 22 87 87 00
Turnover 2011: NOK 187 million
Number of employees: 34
CEO: Petter W. Borg
petter.borg@pareto.no
www.paretoforvaltning.no

Johan G. Olsen Shipbrokers AS

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

Southern Norway's preferred shipbroker

JGO's history dates back to 1912, when Johan G. Olsen started out in the lumber and ship broking business. Johan G. 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, Johan G. Olsen Shipbrokers remained the exclusive broker for a great many shipping companies in Southern Norway for chartering, contracting newbuildings, buying and selling tonnage.

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

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

The tanker department

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

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

The offshore department

Johan G. Olsen Shipbrokers' offshore department is numbered among the leaders in its field in Norway. JGO established its offshore department in the 1970s, when the supply vessel companies started to grow. Since then the department has become a major operator in most segments of the offshore market. The offshore brokers arrange long-term contracts between the owners of supply vessels and the operators/oil companies, securing rights of disposition over the vessels for long periods of time, from a few months to several years. In the spot market the brokers arrange short contracts for supply vessels to carry cargoes and supplies to drilling and production platforms and other offshore instal-

lations. They also arrange contracts for anchor-handling vessels and tugs for moving and towing rigs. Furthermore, JGO arranges the chartering, buying and selling of oil rigs.

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

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

Johan G. Olsen Shipbrokers AS

Vestre Strandgate 19 A
4663 Kristiansand, Norway
Telephone: +47 38 12 31 11
Turnover 2011: NOK 76 million
Number of employees: 18
CEO: Karsten Christensen
karstenc@jgoship.no
www.jgoship.no

Pareto Bassøe Shipbrokers AS

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

P.F. Bassøe AS

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

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

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

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

Pareto Dry Cargo AS

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

P.F. Bassøe AS

Dronning Mauds gate 3
P.O. Box 1396 Vika
0114 Oslo, Norway
Telephone: +47 22 01 08 00
Turnover 2011: NOK 9 million
Number of employees: 6
CEO: Odd Jacob Fritzner
crude@pfbassoe.no
www.pfbassoe.no

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Pareto Dry Cargo AS

Dronning Mauds gate 3
P.O. Box 1411 Vika
0115 Oslo, Norway
Telephone: +47 22 01 09 30
Turnover 2011: NOK 12 million
Number of employees: 5
CEO: Morten Lie
dry@pareto.no
www.pareto.no

Pareto Wealth Management AS

A year of restructuring has strengthened the position of the company within the investment counselling and wealth management sector.

Building strength

Pareto Wealth Management more or less tripled the size of its staff in 2011. This can be ascribed largely to two structural adjustments.

Firstly, the company took on a number of employees from the company formerly known as Orkla Finans. This has given us the opportunity to open offices in Bergen, Trondheim, Stavanger, Kristiansand, Tønsberg and Bergen and to increase the staff at head office in Oslo. Pareto Wealth Management has also assumed responsibility for managing and following up a not insubstantial portfolio of clients and products.

Secondly, the company merged with sister company Pareto PPN, which specialises in facilitating investment products and system solutions for independent investment advisors. This business is continuing in what is now the company's branch office in Bryne, which is also where the company's back office and middle office functions are based.

The result is a bigger and stronger entity that manages client funds to a value of almost NOK 11.7 billion. The company sells and manages investment products for high net worth individuals, small and medium-sized enterprises, and associations. A high proportion of the company's employees work as advisors.

Strategy

Pareto Wealth Management has continued its strategy of building a sound, appropriate and long-term client portfolio, with a high level of attention being devoted to existing and potential clients. Mutual funds, Norwegian and international, in various private banking accounts as well as independent investment fund solutions, have accounted for a high proportion of turnover, but the company has also recruited capital for various project companies and other investments.

Product development in collaboration with other Pareto companies is therefore given high priority with a view to creating a robust platform for our clients. The company also seeks to establish a broad product range outside traditional Pareto products, to supplement the client's overall investment portfolio.

The watchwords on the personnel side are expertise and focus. Our aim is that our people should be known for their professional expertise within their individual fields. Sound investment advice and expertise will secure the loyalty of our clients.

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

In 2011, we continued to focus on providing advisory services with a more conservative bent to the more high-net-worth end of the market. This is a track that we are more than comfortable to follow. In the longer term, it will provide higher earnings and an approach in which the quality of the advisory process itself makes up a key element.

The goal of Pareto Wealth Management is to be in the vanguard of investment counselling and wealth management services in Norway.

Pareto Wealth Management AS

Dronning Mauds gate 1
P.O. Box 1418 Vika
0115 Oslo, Norway
Telephone: +47 23 23 99 00
Turnover 2011: NOK 83 million
Number of employees: 60
CEO: Rune Wassum
rune.wassum@pareto.no
www.pareto.no

Pareto Nordic Investments

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

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

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

At yearend 2011 the company offers five traditional funds to its clients:

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

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

Pareto Nordic Investments AS

Dronning Mauds gate 3
P.O. Box 1724 Vika
0121 Oslo, Norway
Telephone: +47 22 87 87 00
Turnover: NOK 15 million
Number of employees: 7
CEO: Tore Været
tore.vaeret@pareto.no
www.pareto.no

Pareto Forsikringsmegling AS

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

Insurance broking and advisory services

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

Drawing on in-depth risk analysis and industry expertise we advise our clients on the structure of the risk associated with their business and what we consider to be the correct level of cover.

This analysis provides the basis for the drafting of a general insurance policy and an optimum insurance programme.

The company has 30 employees. All our personnel have extensive experience and a high level of expertise within their professional fields. We are owned 100 per cent by Pareto AS and on 1 November 2011 we moved into Pareto headquarters in Dronning Mauds gate in Oslo. Pareto Forsikringsmegling is a member of the independent Wells Fargo Global Broker Network.

Non-life insurance

The intense price competition between the large number of insurance providers in the market for non-life insurance continued in 2011. The major international companies and the smaller niche operators continue to capture market share from the large Norwegian companies. The primary concern of our non-life department is that our clients should have the requisite level of cover. We use risk and vulnerability analyses to alert our clients of areas of risk of which they may not have been aware previously. This applies to insurance areas such as property, automobile, liability and consequential loss. All the insurance cover obtained by our brokers on behalf of clients is from A-rated companies. As a result, our clients can be confident that the insurer will have the willingness and ability to meet claims should the need arise.

Pension and life insurance

The life and pension department arranges group pension and personnel cover in collaboration with our clients and their employees. The market is characterised by intense competition between suppliers and the major changes in the framework conditions that have accompanied the introduction of a new pension system in Norway. Low interest rates and the downturn in the stock market halved the profits reported by pension and life companies in 2011. Value-adjusted return on capital, which does not take account of the application of the market value adjustment reserve, fell from 6.8 per cent in 2010 to 2.8 per cent in 2011.

The introduction of a new pension system effective from 2011 has thrown up new challenges for clients, insurance companies and their collaboration partners. Generally speaking, the developments seen over the last few years have resulted in increased

flexibility and greater choice for the client. The consequence for suppliers has been an intensification in competition. From the perspective of the client this is a positive development, while the increasing complexity of the insurance market makes new demands as regards the acquisition and management of insurance cover and, not least, communicating personnel benefits to the employees.

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

Our modules include:

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

Damage prevention

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

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

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Pareto Forsikringsmegling AS

Dronning Mauds gate 3

P.O. Box 1527 Vika

0117 Oslo, Norway

Telephone: +47 22 87 87 00

Turnover 2011: NOK 52 million

Number of employees: 29

CEO: Jan Kristian Løbersli

jkl@pareto.no

www.pareto.no/forsikringsmegling

Pareto Bank ASA

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

With a staff of just 28 employees Pareto Bank is a compact organisation, allowing proximity to the client and personal attention to form a natural part of every-day banking operations. A high level of banking expertise combined with efficient decision-making processes enables decisions to be made quickly and precisely.

Real estate, securities and the maritime sector

Since the founding of the bank in 2007, Pareto Bank has developed a real estate venture with a particular focus on building loans and project financing for residential and commercial properties.

Through the Pareto group, Pareto Bank has access to expertise, clients and efficient system solutions. This has enabled competitive solutions to be developed within the area of securities.

In 2011, the bank continued to develop both of these business areas.

With a 15 per cent holding, Pareto AS is the Pareto Bank's biggest shareholder and the Pareto group is an important collaboration partner. Pareto Bank is in the process of developing a new business area within the maritime sector. The motivation for the venture is to take even greater advantage of the opportunities afforded by the bank's ties to the Pareto group.

The fourth year of operations

In 2011, its fourth year of operations, Pareto Bank's balance sheet and profits developed well. Post-tax profit increased to NOK 47.6 million (22.5 million in 2010). Total revenues increased to NOK 146 million (from 86.5 million) as a consequence of increased lending margins, growth in lending and a higher proportion of revenues from charges and commissions. The result is equivalent to a return on equity of 6.3 per cent after taxes.

Lending grew by NOK 1 billion in 2011, largely in the area of real estate project funding. At yearend, loans to customers stood at close to NOK 5.5 billion, whereas undrawn credit facilities and guarantees amounted to NOK 1.3 billion.

Customer deposits increased by NOK 1.1 billion in 2011 to NOK 4.9 billion, with a deposit-to-lending ratio of 90 per cent at yearend. The bank will continue to apply a high deposit-to-lending ratio. The bank issued its first note and bond loans in 2009 and issued a further five loans during 2011. At yearend net outstanding securities debt totalled just under NOK 1.3 billion.

Tier 1 capital was strengthened in 2011 with the issuance of a perpetual bond loan. At yearend, the total capital and Tier 1 capital ratio stood at 14.46 per cent.

The biggest shareholders of Pareto Bank:

Name	Stake
Pareto AS	15,00 %
Geveran Trading Co Ltd.	8,02 %
Indigo Invest AS	7,54 %
Rasmussengruppen AS	6,50 %
Goldman Sachs Int.	4,88 %

Senior staff of Pareto Bank ASA and senior staff of the Pareto group own a total of 4,38 per cent of the shares.

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Pareto Bank ASA

Dronning Mauds gate 3
P.O. Box 1823 Vika
0123 Oslo, Norway
Total assets 2011: NOK 7,644 million
Telephone: +47 24 02 81 20
Number of employees: 28
CEO : Tiril Haug Villum
tiril.villum@paretobank.no
www.paretobank.no

Pareto's history

These figures tell the story of Pareto's growth and development since the founding of the company.

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

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

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

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

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

Consolidated figures expressed in millions of Norwegian kroner. Operating profit is shown after bonuses and other variable employment remuneration, but before returns paid to silent partners. The parent company now holds an investment portfolio valued at well over NOK 2 billion, as a result of which fluctuations in share prices can bring about major variations in the results recorded by the company. However, our accounting policies are prudent and conservative: we apply the tried and tested "lowest value principle" whereby our portfolio of securities is booked at the lower of historical cost and market value. Oslo Børs stock market returns are based on the Benchmark Index linked backwards to the former All Shares Index.

The Directors' report

Our business objectives

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

Operations

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

The market

The first few months of 2011 were characterised by a spirit of cautious optimism and confidence in renewed global growth. However, in spring the frail stock market rally dissolved, long-term interest rates began to fall and the downward adjustment of estimates that was already underway started to accelerate.

Towards the end of July unrest turned to pessimism. This seemed to be triggered by the difficulties that US politicians had in agreeing to raise the debt ceiling and moreover on proposals for a more long-term reduction in debt. The ensuing inflow of capital to – yes – US treasury papers, despite a very low yield, made it clear that the issue at stake was more fundamental in nature.

And it did not take long before attention switched once again to Greek and other European sovereign debt, ably assisted by riots in England and somewhat more restrained protests in other countries. This fed a more general fear that the West, and not least Europe, had entered into a state of long term stagnation from which these countries would not find it easy to extract themselves.

At least that was the way it looked judging from the securities markets.

In the last quarter of the year it became clear that these fears had been exaggerated – as they so very often are – and the markets signalled a new degree of confidence. By yearend the downturn in the market looked far more restrained, although 2011 must still be characterised as a weak year.

Moreover this very obvious risk helped to uphold a more fundamental scepticism amongst investors, which in fact has been present in varying degrees since the financial crisis in 2008. This has affected both transaction revenues and management revenues for the group and other operators in markets in which Pareto is active.

Earnings

Movements on the securities markets have a significant impact, both directly and indirectly, on Pareto's income statement. Thus last year's unrest and downturn in the market resulted in some reduction in operating revenues and profits relative to the year before. Nevertheless, viewed from a broader perspective the company's performance was sound and the Directors are satisfied with the performance achieved in what was a difficult year. Once again, the Directors are pleased to note that Pareto's operating model played its part in maintaining a focus on costs and reducing risk.

The parent company of the group has for many years invested surplus liquidity in the securities market and has built up a relatively substantial portfolio of securities, mainly in the form of investments in the group's own equity and fixed income funds. Unrealised downward adjustments of these securities reduced the group's pre-tax profit by NOK 48 million last year, compared to accounting write-ups in excess of 300 million in 2009 and almost NOK 100 million in 2010.

Group operating revenues in 2011 amounted to NOK 1,680 million, compared with NOK 1,899 million in 2010. Operating profit was NOK 750 million, as against NOK 1,024 million in 2010. Pre-tax profits totalled NOK 570 million, compared with NOK 828 million in 2010.

The financial strength and liquidity of the group are good. Book equity at yearend stood at NOK 3,707 million. Bank deposits amounted to NOK 1,148 million. Investments not related to operations amounted to NOK 3,456 million, most of which were equity investments. The group continues to have a very modest level of interest-bearing debt.

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

Pareto Securities

For Pareto Securities 2011 was a very satisfactory year with total

revenues of almost NOK 1.0 billion and an operating profit of NOK 424 million. At the same time, the company maintained its conservative stance on risk, recording negligible losses on accounts receivable.

The company consolidated its strong competitive position in 2011. Pareto Securities was involved as advisor and lead manager in a number of the biggest equity issues on Oslo Børs during the year, including the listings of Aker Drilling, Sevan Drilling and Höegh LNG. In all, the company participated in equity placements of some NOK 18 billion. Moreover, last year Pareto Securities arranged high-yield bond issues to a value of more than NOK 16 billion.

Since 2004, the company has arranged more than 80 IPOs on Oslo Børs/Oslo Axess.

In 2011, as in earlier years, the company was one of the leading brokers in the Norwegian second-hand market, for both equity and, not least, high-yield bonds.

Subsidiary Pareto Offshore reported yet another very satisfactory year, with operating revenues of NOK 52 million and an operating profit of close to NOK 33 million.

Last year Pareto Securities acquired Swedish brokers Öhman Fondkommission, which was renamed Pareto Öhman. The takeover was recorded in the accounts with effect from mid-September.

This acquisition has resulted in a significant increase in employee numbers, notwithstanding a certain degree of organic reduction. In total, the company now employs 317 personnel.

Pareto Project Finance

2011 was a good year for Pareto Project Finance. Operating revenues increased to almost NOK 259 million and the operating profit exceeded NOK 139 million.

During 2011 Pareto Project Finance arranged purchases/sales/syndications of real estate to a value of approximately NOK 5 billion and purchases/sales and syndications of shipping/offshore projects to a value of approximately NOK 3.5 billion. In the assessment of the Directors, this made Pareto Project Finance the largest operator in the Norwegian project financing market.

Trading in shares and holdings in existing projects developed well in 2011. In our assessment, an active second-hand market helps to safeguard correct prices and lower risk for our investors.

At yearend, the subsidiary Pareto Business Management managed investment companies to a value of NOK 46 billion.

Pareto Forvaltning

In 2011, Pareto Forvaltning recorded net new subscriptions for both securities funds and discretionary management, but by

yearend the downturn in the Norwegian and international markets had reduced total assets under management from NOK 42 billion to NOK 40 billion. Of this figure, NOK 16.5 billion was in the equities market and NOK 23.5 billion in fixed income instruments. Securities funds accounted for NOK 20.1 billion.

The company's flagship product, Pareto Aksje Norge, which has a minimum investment requirement of NOK 100 million per client, celebrated its tenth anniversary and at yearend recorded the highest ten-year return of any Norwegian stock fund – an annual average of 13.9 per cent, well outstripping the 7.8 per cent recorded by the OSEFX.

Since Pareto Forvaltning was established in the autumn of 1998, the company's main profile under active management on the Norwegian stock market has recorded an annual average return of 13.5 per cent after all expenses have been taken into account, compared with a figure of 8.0 per cent for Oslo Børs.

Four years have now passed since the new management team took over Pareto Aksje Global. During these four years the fund has recorded the highest return of in total 81 global equities funds on the Norwegian market.

2011 was yet another good year for corporate bonds (high yield) with positive excess returns and growth in total assets.

Operating revenues amounted to NOK 187 million, while the operating profit bordered on NOK 115 million.

Johan G. Olsen Shipbrokers and Pareto Bassøe Shipbrokers A buoyant market for newbuildings of supply vessels made 2011 a very good year for Johan G. Olsen Shipbrokers. Revenues of close to NOK 76 million were not far below the record figure posted in 2010, and the operating profit totalled NOK 44 million.

Pareto Bassøe Shipbrokers, which comprises tanker chartering arranged by P.F. Bassøe and dry bulk chartering arranged by Pareto Dry Cargo, faced a somewhat more difficult year in 2011. A tough market and low rates combined to reduce revenues to NOK 22 million and the operating profit to NOK 7.2 million.

Pareto Wealth Management

For Pareto Wealth Management, 2011 was a year of extensive restructuring. The company merged with sister company Pareto PPN, employed 17 personnel from what was formerly Orkla Finans and acquired a large client portfolio from the company formerly known as Orkla Finans Kapitalforvaltning. Following closures and the establishment of new operations the company now has offices in Tønsberg, Kristiansand, Bryne, Stavanger, Bergen and Trondheim.

As a result of this process personnel numbers have almost tripled, and now stand at 60 employees. By the end of the year, the revenue-generating client portfolio amounted to just under NOK 8.3 billion.

Falling securities markets and scepticism amongst investors made 2011 a demanding year for the recently restructured company. Nevertheless, progress was made relative to the combined results recorded by the two Pareto businesses in the preceding year. Operating revenues totalled close to NOK 83 million while the operating profit was NOK 10.5 million.

Pareto Forsikringsmegling

The company was acquired in its entirety by Pareto and renamed Pareto Forsikringsmegling in 2010. Thus 2011 was the company's first full year of operations as part of the Pareto group and moreover the year in which the company relocated to the same premises as the other Pareto companies in Dronning Mauds gate in Oslo.

The company provides broking and advisory services within non-marine insurance to large and medium-sized enterprises in the public and private sectors in Norway. Having recorded accumulated operating losses of no less than NOK 165 million in the four preceding years, the company reported an operating profit of NOK 3.7 million in 2011. Operating revenues amounted to some NOK 52 million.

Pareto Nordic Investments

The asset management business of Orkla Finans has been transferred to and continues within Pareto Nordic Investments, with an explicit focus on Nordic securities.

At year-end Pareto Nordic Investments had total assets under management of the order of NOK 2 billion. The year has been spent streamlining the business to its present form. Pareto has augmented the company's equity by NOK 10 million.

The accounts report operating revenues of NOK 15 million and an operating profit of NOK 1.4 million. Acquired business has been included in these figures for parts of the year.

Vilfredo/Vilfredo Kapitalforvaltning

The parent company in the former Orkla Finans group which, following its acquisition by Pareto, was renamed Vilfredo, was a holding company with limited funds and no commercial activities of its own. The company was wound up in 2011.

The present Vilfredo Kapitalforvaltning was the main operating company in the group. In 2011, all licences were returned and the client portfolio was transferred to Pareto Wealth Management. A number of former personnel were taken on by Pareto Wealth Management, Pareto Project Finance, Pareto Business Management and Pareto Nordic Investments, which as a consequence emerged from the restructuring process as stronger companies. However, Vilfredo Kapitalforvaltning retained responsibility for handling past client complaints, a process requiring some resources. The downsizing process having been completed the company had no full-time employees at year-end.

Operating revenues, which derived from now ceded business,

amounted to NOK 8.4 million. Operating profits totalled NOK 13 million, primarily deriving from the partial reversal of provisions made in the accounts for previous years.

Pareto Bank

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

In accordance with the terms of the licence, Pareto AS holds a 15 per cent stake. Senior employees of the Pareto group and of Pareto Bank own a total of 4.38 per cent of the shares.

The bank provides specialist banking services within the financing of securities and real estate. During 2011, the bank embarked upon the process of developing the maritime sector as its third area of business.

In its fourth year of operations the bank recorded an operating profit of NOK 66 million, as compared to NOK 31 million in the preceding year.

Following another year of impressive growth total assets stood at NOK 7.64 billion at yearend, as compared with NOK 6.16 billion in the preceding year.

Pareto's strategy

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

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

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

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

Outlook

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

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

Following a significant downturn during and in the wake of the financial crisis, global growth has picked up again, but more cautious estimates of growth provide evidence of continuing uncertainty about how the world economy will develop in the coming years. As was the case last year, this uncertainty attaches to the significant levels of public sector borrowing in some countries and the need for long-term cost reductions. Nevertheless, developments in recent months have strengthened the expectation that 2012 will be a satisfactory year.

Although entirely aware of these challenges, the Directors have a fundamentally optimistic outlook and take a buoyant 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 their own trading, market making and client payments.

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


The company's operations do not pollute the external environment.

The group's profit after tax cost totals NOK 436.4 million. The parent company's after-tax profit is NOK 478.6 million. The Directors propose that the entire profit after taxes be transferred to Other Equity.

At yearend, owner's equity in the parent company had increased to NOK 3,154.2 million, of which NOK 2,837.7 million is distributable capital as provided for in the Norwegian Companies Act. Consolidated book equity stands at NOK 3,706.9 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.

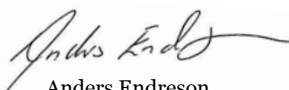
Oslo, 27 March 2012



Erik Bartnes (chairman)



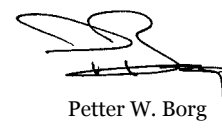
Ole Henrik Bjørge



Anders Endreson



Svein Støle (director/CEO)



Petter W. Borg



Mette Andersen

Income Statement

Parent company (NOK '000)

Group (NOK '000)

2010	2011	Operating revenues	Notes	2011	2010
0	0	Operating revenues	2	1 679 932	1 899 029
0	0	Total operating revenues		1 679 932	1 899 029
Operating expenses					
-7 419	-4 915	Personnel costs	3	-633 474	-605 813
-3 280	-5 229	Sundry other operating costs		-275 165	-245 825
-931	-482	Ordinary depreciation & amortisation	4	-21 255	-23 217
-11 630	-10 626	Total operating expenses		-929 894	-874 855
-11 630	-10 626	Operating profit/loss		750 038	1 024 174
Financial income/expenses					
64 794	83 020	Financial income		109 729	95 670
377 277	455 093	Share dividends		67 224	51 374
95 400	-43 204	Adjustments, securities	10	-47 989	98 976
1 828	8 439	Share of associated companies	5	8 439	1 828
-39	-81	Interest paid		-3 335	-3 646
-15 297	-7 005	Other financial expenses		-314 139	-440 233
523 963	496 262	Total financial income/expenses		-180 071	-196 031
512 333	485 636	Income before tax		569 967	828 143
-8 796	-7 003	Tax cost	13	-133 554	-177 865
503 537	478 633	Profit for year		436 413	650 278
Allocations					
0	0	- Minority's share of profit		-34 030	18 057
-13 601	0	- Provision for dividend		-34 437	-129 351
-489 936	-478 633	- Transferred to other equity		-367 946	-538 984
-503 537	-478 633	Net		-436 413	-650 278

Balance Sheet - Assets

Parent company (NOK '000)

Group (NOK '000)

31.12.2010	31.12.2011	Fixed assets	Notes	31.12.2011	31.12.2010
		Intangible assets			
923	1 481	Deferred tax assets	13	43 861	48 017
923	1 481	Total intangible assets		43 861	48 017
		Property, plant & equipment			
775	363	Fixtures, fittings, machinery etc.	4	51 533	38 726
		Financial fixed assets			
421 606	429 022	Shares in subsidiaries	5	0	0
12 291	15 875	Shares in associated companies	5	15 875	12 291
282 751	286 494	Other securities	6	286 604	289 721
308	275	Other non-current receivables	7	1 923	1 889
30	18	Premium fund	8	4 562	6 652
0	0	Pension funds	8	3 013	3 466
716 986	731 684	Total financial fixed assets		311 977	314 019
718 684	733 528	Total fixed assets		407 371	400 762
		Current assets			
		Receivables			
0	0	Trade receivables		1 137 379	730 918
10 116	45 799	Other receivables	9	2 876	0
10 116	45 799	Total receivables		1 140 255	730 918
		Investments			
1 933 158	2 240 496	Securities	10	3 169 187	2 640 051
1 933 158	2 240 496	Total investments		3 169 187	2 640 051
31 110	144 870	Bank deposits	11	1 148 305	1 301 008
1 974 384	2 431 165	Total current assets		5 457 747	4 671 977
2 693 068	3 164 693	TOTAL ASSETS		5 865 118	5 072 739

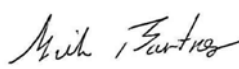
Balance Sheet - Equity and Liabilities

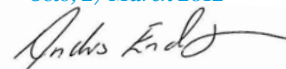
Parent company (NOK '000)

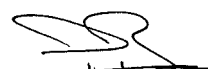
Group (NOK '000)

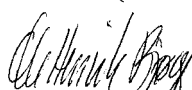
31.12.2010	31.12.2011	Equity	Notes	31.12.2011	31.12.2010
		Paid-in capital			
22 000	22 000	Share capital		22 000	22 000
50 138	50 138	Share premium reserve		0	0
72 138	72 138	Total paid-in capital		22 000	22 000
		Retained earnings			
2 603 427	3 082 060	Other equity		3 566 325	3 199 584
2 603 427	3 082 060	Total retained earnings		3 566 325	3 199 584
		Minority interests		118 563	88 017
2 675 565	3 154 198	Total equity	12	3 706 888	3 309 601
		Liabilities			
		Provision for commitments			
0	0	Pension commitments	8	5 323	5 328
0	0	Other long-term commitments	4	12 064	15 080
0	0	Deferred tax	13	702	1 498
0	0	Total provision for commitments		18 089	21 906
		Non-current liabilities			
0	0	Capital contributed by silent partners		77 907	113 427
0	0	Total non-current liabilities		77 907	113 427
		Current liabilities			
3 712	10 288	Other current liabilities	9	1 560 351	1 264 177
0	0	Financial instruments	10	292 668	0
0	0	Line of credit		0	26 535
1	0	Tax payable	13	131 227	178 829
13 601	0	Dividends		34 437	133 369
189	207	Government charges and special taxes payable		43 551	24 895
17 503	10 495	Total current liabilities		2 062 234	1 627 805
17 503	10 495	Total liabilities		2 158 230	1 763 138
2 693 068	3 164 693	Total liabilities and equity		5 865 118	5 072 739

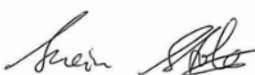
Oslo, 27 March 2012


Erik Bartnes (chairman)


Anders Endreson


Petter W. Borg


Ole Henrik Bjørge


Svein Støle (director/CEO)


Mette Andersen

Cash Flow Statement

Parent company (NOK '000)

Group (NOK '000)

2010	2011		2011	2010
		Cash flow from operational activities		
512 333	485 636	Ordinary profit before income tax	569 967	828 143
-5 540	-2	Tax paid in period	-177 796	-165 374
-9 307	-7 560	Group contributions in Income Statement, no cash effect	0	0
931	482	Ordinary depreciation and amortisation	21 255	23 217
-95 400	43 204	Securities adjustments	47 989	-98 976
4	12	Net change in pensions without cash effect	2 538	1 693
-1 828	-8 439	Share of profits of associated companies	-8 439	-1 828
21 127	-35 683	Change in receivables	-409 337	-263 472
-1 180	6 594	Change in other debt items	580 963	396 715
421 140	484 244	Net cash flow from operational activities	627 140	720 118
		Cash flow from investment activities		
0	-70	Payments for purchases of tangible assets	-37 078	-30 018
154 938	-350 542	Net cash flow, short-term investments	-577 125	543 871
-109 921	-11 159	Payments for purchases of financial fixed assets	-3 878	-1 464
8 559	4 888	Received from sales of financial fixed assets	11 816	8 633
53 576	-356 883	Net cash flow from investment activities	-606 265	521 022
		Cash flow from financing activities		
-12 149	-13 601	Dividends paid	-133 369	-106 816
-476 540	0	Capital reduction paid out	0	-476 540
0	0	Change non-current commitments and liabilities	-35 520	15 758
0	0	Payments of equity to/from minority interests	-4 689	-4 756
-488 689	-13 601	Net cash flow from financing activities	-173 578	-572 354
-13 973	113 760	Net change in bank deposits	-152 703	668 786
45 083	31 110	Bank deposits in hand at 1 Jan.	1 301 008	632 222
31 110	144 870	Bank deposits in hand at 31 Dec.	1 148 305	1 301 008

Notes to the Accounts

Note 1 Group structure

- **Pareto AS** owns 75.0 per cent of Pareto Securities AS, 84.9 per cent of Pareto Project Finance AS, 81.5 per cent of Pareto Forvaltning AS, 100.0 per cent of Pareto Bassøe Shipbrokers AS, 100.0 per cent of Pareto Commodity AS, 100.0 per cent of Johan G. Olsen Shipbrokers AS, 100.0 per cent of Pareto Forsikringsmegling AS, 100.0 per cent of Pareto Wealth Management AS, 100.0 per cent of Gazza Eiendom AS, 100 per cent of Pareto Online AS, 100.0 per cent of Pareto Nordic Investments AS, 100.0 per cent of Vilfredo Kapitalforvaltning AS.
- **Pareto Securities AS** owns 100.0 per cent of Pareto Öhman AB, 100.0 per cent of Pareto Securities Inc, 100.0 per cent of Pareto Shipping AS, 100.0 per cent of Pareto Securities Asia Pte Ltd, 100.0 per cent of Pareto Securities Representação Ltda, 87.0 per cent of Pareto Offshore AS and 60.0 per cent of North Atlantic Seafood Forum AS.
- **Pareto Project Finance AS** owns 100.0 per cent of Pareto Business Management AS, Pareto Eiendom AS and Pareto Maritime Services AS.
- **Pareto Bassøe Shipbrokers AS** owns 100.0 per cent of P.F.Bassøe AS and Pareto Dry Cargo AS.
- **Pareto Commodity AS** owns 100.0 per cent of Pareto Commodity Consulting AS.
- **Pareto Forsikringsmegling AS** owns 100.0 per cent of Pareto Forsikringsrådgivning AS.

Consolidation principles

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

Accounting principles

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Accounts

Note 2 Operating revenues, consolidated

(NOK '000)

	2011	2010
Brokerage/Corporate finance	1 322 313	1 541 964
Management/Business management	357 619	357 065
Total operating revenues	1 679 932	1 899 029

Note 3 Salaries, number of employees, remuneration etc.

(NOK '000)

	<i>Parent company</i>		<i>Consolidated</i>	
	2011	2010	2011	2010
Wages and salaries, holiday pay, nat. insurance	2 478	1 701	341 976	270 969
Profit-related remuneration	2 282	3 481	256 563	310 013
Pensions and other personnel costs	155	2 237	34 935	24 831
Total	4 915	7 419	633 474	605 813
Number of man-years	3	3	489	442

The CEO was paid NOK 500,000 in remuneration. No provision has been made for fees for the directors of the parent company. A provision of NOK 1,060,000 has been made for fees for directors of subsidiaries.

Deloitte AS received fees of NOK 140,000 for auditing the parent company and NOK 3,273,000 for the group. Payment for other assurance engagements totalled NOK 71,000 for the parent company and NOK 2,340,000 for the group. Payments to other auditors for services provided to the group totalled NOK 626,000.

The law firm Deloitte Advokatfirma DA was paid NOK 401,000 for services provided to the parent company and NOK 4,176,000 for services for the group. All figures are exclusive of VAT.

Note 4 Tangible fixed assets

	<i>Parent company</i>		<i>Group</i>	
	Fixtures & fittings, IT		Fixtures & fittings, IT	Badwill
Procurement cost 01.01	4 010		192 363	-15 080
Additions in year	70		90 815	0
Disposals/sale	3 690		38 468	0
Procurement cost 31.12.	390		244 710	-15 080
Acc. depreciation 01.01.	3 235		202 089	0
Disposals/sale	3 690		33 183	0
Depreciation this year	482		24 271	-3 016
Acc. depreciation 31.12.	27		193 177	-3 016
Book value 31.12.	363		51 533	-12 064
Economic life	3-6 år		2-6 år	5 år
Depreciation plan	Straight-line		Straight-line	Straight-line

The parent company has concluded a 10-year lease on the premises Dronning Maudsgate 1-3, which expires on 13 July 2020. The annual rent excluding common expenses is approximately NOK 19.5 million.

Notes to the Accounts

Note 5 Shares in subsidiaries

(NOK '000)

Company	Office	% stake and votes	Book value 31.12.
Pareto Securities AS	Oslo	75,00 %	50 728
Pareto Project Finance AS	Oslo	84,91 %	28 623
Pareto Forvaltning AS	Oslo	81,52 %	15 112
Pareto Bassøe Shipbrokers AS	Oslo	100,00 %	40 600
Johan G. Olsen Shipbrokers AS	Kristiansand	100,00 %	48 500
Gazza Eiendom AS	Oslo	100,00 %	23 906
Pareto Commodity AS	Oslo	100,00 %	52 206
Pareto Wealth Management AS	Oslo	100,00 %	74 739
Pareto Nordic Investments AS	Oslo	100,00 %	16 193
Pareto Online AS	Oslo	100,00 %	35 220
Pareto Forsikringsmegling AS	Oslo	100,00 %	20 423
Vilfredo Kapitalforvaltning AS	Oslo	100,00 %	22 772
			429 022

Pareto PPN AS was deregistered to be merged with sister company Pareto Wealth Management AS in 2011. Vilfredo AS was deregistered in 2011, and the company's subsidiaries Pareto Nordic Investments AS and Vilfredo Kapitalforvaltning came under the direct ownership of Pareto AS.

Shares in associated companies

(NOK '000)

Company Office in Pareto's stake	Fondsforvaltning Oslo 35,0 %	Odin Marine New York 35,0 %	Total Associated comp.
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.	7 040	5 251	12 291
Share of year's profit	424	8 015	8 439
Dividends received	-676	-4 179	-4 855
Closing balance 31 Dec.	6 788	9 087	15 875

Note 6 Other shares/bonds

Other securities, parent company	Number	Cost price	Book value
Imarex ASA	108 662	10 596	10 596
Pareto Bank ASA	127 500	53 700	53 700
Oslo Børs VPS Holding ASA	3 662 230	213 892	213 892
Norsk Tillitsmann ASA	7 415	8 306	8 306
Total other securities, parent company		286 494	286 494
Other securities, subsidiaries		110	110
Total other securities, group		286 604	286 604

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

Notes to the Accounts

Note 7

The parent company has granted employees/partners of the subsidiaries interest-bearing loans on which the outstanding balance as of 31 December 2011 is NOK 274,791.

Note 8 Pensions

The group has a defined contribution pension scheme as required under the Act concerning Mandatory Occupational Pensions. Premium paid in 2011 totalled NOK 23,000 for the parent company and NOK 3,402,000 for the group. The premium fund assets recorded in the balance sheet as at 31 December 2011 stood at NOK 18,000 for the parent company and NOK 4,562,000 for the group.

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

(NOK '000)

	2011	2010
Present value of year's pension earnings	655	435
Interest cost on pension commitments	443	452
Estimate adjustment recognised in income statement	217	116
Administration expenses	57	56
Accrued employer's nat. ins. contribution	100	11
Return on pension funds	-448	-519
Net pension costs	1 024	551
Estimated pension commitments	-10 070	-9 863
Pension funds (at market value)	8 916	8 469
Accrued employer's Nat. Ins. contribution	-163	-196
Effect of estimate variances, not recognised in income statement	4 330	5 056
Pension funds in balance sheet	3 013	3 466
Unsecured pension commitments	-5 323	-5 328

Note 9

The parent company has claims in the amount of NOK 42,923,000 on group companies. The parent company has debts of NOK 7,000,000 to group companies.

Notes to the Accounts

Note 10 Securities

(NOK '000)

Mutual funds, parent company	Cost	Book value
Fixed income funds	335 813	333 123
Direct investment funds	148 395	109 511
Equities funds	1 131 062	1 123 724
	1 615 270	1 566 358
Other securities, parent company		
Shares (NOK)	326 027	287 587
Shares (SEK)	205 818	199 670
Shares (EURO)	14 486	14 363
Shares (GBP)	52 036	52 036
Shares (CHF)	29 847	29 847
Shares (USD)	75 967	73 155
Bonds	10 135	10 509
Other securities	8 950	6 971
	723 266	674 138
Total securities, parent company		2 240 496
Mutual funds and other securities, subsidiaries		
		Market value
Shares		508 016
Derivatives		54 432
Norwegian government bonds		87 358
Bonds and certificates		99 561
Mutual funds		179 324
Total securities, subsidiaries		928 691
Total securities, group		3 169 187
Financial liabilities, subsidiaries		
Shares and units		157 900
Derivatives		134 768
Total financial liabilities		292 668

Note 11 Bank deposits

The parent company has a non-distributable deposit of NOK 127,000 lodged in an account for tax withholdings. The group's bank deposits include NOK 181,613,000 in non-distributable accounts, of which NOK 11,131,000 in accounts for tax withholdings. Sums lodged in client accounts belonging to clients (client funds) are not recorded in the balance sheets of the companies.

Notes to the Accounts

Note 12 Equity

(NOK '000)

Parent company	Share capital	Share premium account	Other equity	Total
Equity as of 1 Jan.	22 000	50 138	2 603 427	2 675 565
Year's profit			478 633	478 633
Total equity as of 31 Dec.	22 000	50 138	3 082 060	3 154 198

Group	Share capital	Other equity	Total
Equity as of 1 Jan.	22 000	3 287 601	3 309 601
Provision for dividends		-34 437	-34 437
Net payment to minority interest		-4 689	-4 689
Year's profit after tax		436 413	436 413
Total equity as of 31 Dec.	22 000	3 684 888	3 706 888

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

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

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

Notes to the Accounts

Note 13 Taxes

(NOK '000)

Parent company

Group

2010	2011		2011	2010
512 333	485 636	Profit before income tax	569 967	828 143
-480 920	-458 692	Permanent differences	-59 631	-131 867
1 828	1 991	Change in temporary differences	-23 123	370
0	0	Deduction for previous years' deficit	0	0
33 241	28 935	Year's tax base	487 213	696 646
9 308	8 102	Tax payable	131 768	178 829
0	-541	Tax payable, withholding	-541	0
9 308	7 561	Total tax payable	131 227	178 829
Specification of temporary differences				
-3 074	-5 129	Current assets	-6 042	-3 374
-31	-7	Tangible fixed assets	-37 317	-45 791
-193	-154	Intangible assets	-12 203	-15 136
0	0	Remaining loss for carrying forward	-98 335	-96 808
-3 298	-5 290	Basis for calculating deferred tax benefit/tax	-153 897	-161 109
-923	-1 481	28% deferred tax benefit/tax	-43 159	-46 519
Year's tax cost				
9 308	7 561	Tax payable	131 228	178 829
0	0	Tax correction for earlier years	-235	-188
-512	-558	Change in deferred tax benefit/tax	2 561	-776
8 796	7 003	Tax cost	133 554	177 865
1,7 %	1,4 %	Effective rate of taxation	23,4 %	21,5 %
Reconciliation from nominal to true tax cost				
143 453	135 978	Anticipated tax cost at nominal rate	158 302	231 131
-134 657	-128 434	Permanent differences	-12 878	-36 924
0	-541	Other items	-11 870	-16 342
8 796	7 003	Tax cost	133 554	177 865

Notes to the Accounts

Note 14

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

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

Note 15

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

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

Note 16 Related-party transactions

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

Sales of services to other group companies	51 585
Purchases of services from other group companies	2 623

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 478.633.000, and the financial statements of the group, showing a profit of NOK 436.413.000. The financial statements of the parent company and the financial statements of the group comprise the balance sheet as at 31 December 2011, 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 2011, and

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Medlemmer av Den Norske Revisorforening
Org.nr: 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 and the the allocation of the profit

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

Opinion on Registration and Documentation

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

Oslo, 27 March 2012
Deloitte AS

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

[Translation has been made for information purposes only]

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