

Pareto Annual Report 2018

Contents

This is the Pareto group	4
Pareto's history	5
The Pareto group in 2018	6
The market and the economy in 2018	8
Pareto Securities	18
Pareto Asset Management	20
Pareto Alternative Investments	22
Pareto Wealth Management	23
Enter Fonder	24
Pareto Shipbrokers	25
Pareto Bassøe Shipbrokers	26
Pareto Forsikringsmegling	27
Eiendomsmegler Krogsveen	28
Pareto Bank	29
Annual Financial Statements 2018	30

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 provide a reliable indicator 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 skillfulness of the fund manager/management, as well as on any changes in the applicable tax regulations and other framework conditions. Returns may be negative as a consequence of capital losses, reductions in value and/or losses. Returns on shipping projects are stated in the currency of the project and returns in NOK will accordingly vary in line with fluctuations in the foreign exchange market. All information on, and assessments of, external conditions in this report are based on our own best estimates and on sources that we regard as credible and reliable. Nevertheless, Pareto cannot guarantee that the information is correct.

This is the Pareto group

Pareto is a leading, independent operator in the Nordic market for financial services. The company has offices in Oslo, Stavanger, Trondheim, Kristiansand, Stockholm, Malmö, Helsinki, Copenhagen, London, Aberdeen, Zürich, Hamburg, Frankfurt, Paris, Singapore, Perth, New York and Houston. Pareto was founded in late 1985 and has since grown into a corporate group offering a wide array of products. The group has 1 024 employees and shareholders' equity of some NOK 1.4 billion.

Business sectors

Through its subsidiaries, Pareto offers a broad range of services: brokerage of equities, bonds and partnership interests, facilitation of equity and debt capital issues, and direct investments. The group also provides project financing, business management services, valuations, financial advisory services, asset management services, and insurance and real estate brokerage. Furthermore, Pareto is involved in chartering and buying and selling tanker and dry bulk tonnage and drilling rigs through its ship brokerage business, as well as providing technical management services to the maritime market. In certain areas of business, the group works closely with Pareto Bank, in which Pareto is the largest shareholder.

Diversity and a strong local presence

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

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

Pareto's goals and strategies

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

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

The Pareto Group – what we do

<i>Securities brokerage/ capital raising/ project financing</i>	<i>Ship/ offshore brokerage</i>	<i>Asset management/ investment advisory services</i>	<i>Banking/ insurance/ real estate brokerage</i>
Pareto Securities	Pareto Shipbrokers	Pareto Asset Management	Pareto Bank
	Pareto Offshore	Pareto Wealth Management	Pareto Forsikringsmegling
	Pareto Dry Cargo	Pareto Business Management	Eiendomsmegler Krogsveen
	P.F. Bassøe	Enter Fonder	
		Pareto Alternative Investments	

A history of success and profitability

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

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

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

At the same time, the parent company has succeeded in building financial strength and liquidity, giving the company strategically valuable freedom of action and the ability to seize new opportunities as they arise.

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

	Operating profit	Profit for the year	Equity	Oslo Børs
1992	40	8	43	-10,0 %
1993	90	23	31	64,8 %
1994	82	15	37	7,1 %
1995	83	22	59	11,6 %
1996	160	50	101	32,1 %
1997	364	115	170	31,5 %
1998	232	46	239	-26,7 %
1999	291	71	293	45,5 %
2000	548	149	432	-1,7 %
2001	507	79	466	-16,6 %
2002	458	41	435	-31,1 %
2003	517	139	541	48,4 %
2004	964	239	725	38,4 %
2005	2 044	681	1 412	40,5 %
2006	3 277	1 099	2 049	32,4 %
2007	3 470	1 126	2 931	11,5 %
2008	1 755	2	2 801	-54,1 %
2009	1 606	715	3 270	64,8 %
2010	1 899	650	3 310	18,3 %
2011	1 678	436	3 707	-12,5 %
2012	1 869	536	4 147	15,4 %
2013	2 485	940	4 970	23,6 %
2014	2 512	895	5 908	5,0 %
2015	2 038	1 032	5 845	5,9 %
2016	1 940	742	6 387	12,1 %
2017	2 719	1 071	7 334	19,1 %
2018	2 857	662	1 433*	-1,8%

Consolidated figures expressed in millions of Norwegian kroner. Oslo Børs stock market returns are based on the Benchmark Index linked backwards to the former Total Index.

*In 2018, Pareto AS demerged the company's financial investments into the newly formed company, Pareto Invest AS.

The Pareto group in 2018

High activity and solid earnings in Pareto

In 2018, consolidated revenues of the Pareto group amounted to NOK 2.9 billion (2017: 2.7 billion). The operating profit totalled NOK 674 million (866 million) and the pre-tax profit was NOK 923 million (1 295 million). The profit for the year amounted to NOK 662 million (NOK 1 071 million). The decrease in net profit was primarily due to demanding markets in the fourth quarter and fewer gains from investments compared to the year before. Even so, activity levels were high throughout the year and all in all the results for the group must be described as very satisfactory.

Securities brokerage, capital raising and project financing

The majority of the group's revenue comes from financial advisory, securities brokerage and project financing in Pareto Securities, which in 2018 registered revenues of approximately NOK 1.7 billion and a profit before tax of approximately NOK 497 million.

Pareto Securities took part in 70 equity capital issues in 2018 to a combined value of approximately NOK 29 billion. Activity levels were high in many sectors in 2018, including banking/finance, E&P, industrials, shipping and oil service. The company also advised on a total of seven stock exchange flotations in 2018: two in Norway and five in Sweden.

2018 was another year with high activity in the Nordic high-yield bonds market. Pareto Securities was involved in arranging issuance of bonds for an amount in excess of NOK 60 billion, including in sectors such as E&P, transportation, offshore services, real estate and mining. Pareto Securities also acted as adviser on several large-scale M&A transactions (sales, acquisitions and mergers) in 2018, including the sale of Hafslund Produksjon Holding on behalf of Fortum, the sale of TTS Group to MacGregor, the sale of Sølvtrens to Antin Infrastructure Partners and the sale of the seismic operations and assets of Schlumberger to Shearwater. In addition, Pareto Securities acted as advisor to the Norwegian Ministry of Industry and Fisheries in Kongsberg Gruppen's acquisition of Rolls Royce Marine.

The Project Finance division had a very strong year, with high levels of activity in both real estate and shipping/offshore. The division was involved in property-related transactions with a total value of over NOK 20 billion, and in shipping/offshore-related transactions with a value of over NOK 5.2 billion.

Asset management

Pareto Asset Management strengthened its international presence through increased sales activities and its new Frankfurt branch, which was granted a licence in January. Nordic corporate bonds in particular attracted the attention of clients in Continental Europe. In September, Pareto Global Corporate Bond became the first fixed income fund in Norway, Sweden and Finland to receive the Nordic Swan Ecolabel. In October, the company launched a new fund, Pareto Nordic Equity. The company has signed an agreement to acquire Swedish asset management company Enter Fonder AB, effective as of January 1st 2019.

2018 proved to be a more demanding year for Swedish equities.

Industrials, which nevertheless offer an attractive long-term growth story, were the most affected. This contributed to some of the underperformance in Enter Fonder's large cap portfolios. Small caps were less affected and performed better. The low risk strategies in Enter's fixed income funds played out comparatively well during the general market turbulence towards the end of 2018.

Pareto Alternative Investments reported an increase in assets under management and good returns in most funds and discretionary mandates. At yearend, the firm managed NOK 13.1 billion allocated to real estate, credit and maritime investments.

Pareto Wealth Management provides investment advice and wealth management for companies and high-net-worth individuals. Assets under management totalled NOK 10 billion at yearend.

In total, operating revenues from asset management operations amounted to NOK 448 million and the profit before tax was NOK 102 million. Net assets under management for these companies amounted to NOK 61 billion at year end.

Ship/rig, real estate and insurance brokerage

Notwithstanding the continuing gloom in the offshore and renewable energy markets in 2018, Pareto Shipbrokers AS and its subsidiary Pareto Shipbrokers Ltd succeeded in reporting very satisfactory profits.

Compared to previous years, 2018 as a whole turned out to be a reasonably positive year in dry bulk. Pareto Dry Cargo reported a good year, yet again improving the profits of the year before. Tanker rates remained under pressure throughout the year, but exited 2018 on a high note. P.F. Bassøe reported performance in line with the year before.

Eiendomsmeidler Krogsvæen became part of the Pareto group in 2018. The company reported good activity and results much in line with previous years. The real estate broker sells about 7 000 homes and vacation homes annually, worth NOK 30 to 35 billion.

Pareto Forsikringsmegling achieved solid profits in the face of stiff competition in its market. The company purchased insurance cover on behalf of its clients worth NOK 1.9 billion in 2018.

Revenues from these companies amounted to NOK 677 million. Profits before tax were NOK 55 million.

Pareto AS

The Pareto group is a decentralised operation, operating through several fully independent legal entities. Pareto AS, the parent company, is a holding/investment company that owns the subsidiaries alongside with key employees.

For many years, Pareto AS has invested surplus liquidity in the securities market, building up a relatively substantial portfolio of securities. In order to more clearly distinguish operations from pure financial investments, the financial portfolio was demerged into the newly formed company Pareto Invest AS. The demerger took effect on 1 September 2018. The portfolio – much of which is invested in the group's own investment products – will still be managed by the group's investment teams.

At yearend, consolidated book equity amounted to NOK 1.4 billion and the personnel count stood at 1 024 employees.

Pareto AS owns 16.5 per cent of Pareto Bank ASA, which is listed on the Oslo Stock Exchange. The bank's profits after taxes ended the year at NOK 330.8 million, up from the NOK 312.6 million reported in the previous year. This represents a post-tax return on equity of 15.0 per cent, which was in line with the bank's target. Profitability was driven by record high lending growth. Total lending at year end amounted to NOK 11.7 billion.

Financial markets and the economy in 2018

by Chief Investment Officer Finn Øystein Bergh

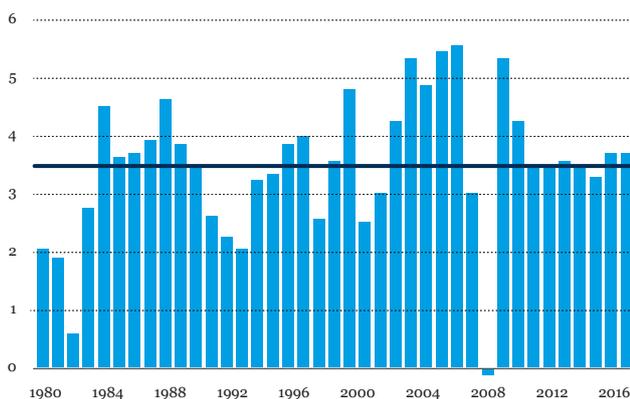
In 2018, all eyes were on a turning point that, despite several warning signs, failed to appear.

Stretching the cycle

Just as the last leg of a long trip tends to colour your impression of the entire journey, the last quarter of 2018 may have made you think that it was a most unusual year, portending perhaps the end of this long, profitable cycle. After three quarters of slightly apprehensive bull markets, the fourth quarter of 2018 offered rapidly falling stock prices and similarly rising credit spreads.

Let me point out, then, that the calendar year 2018 was in fact well within the expected range of outcomes for any given year. Global GDP growth, estimated at 3.7 per cent, was slightly above average.

GDP growth above average

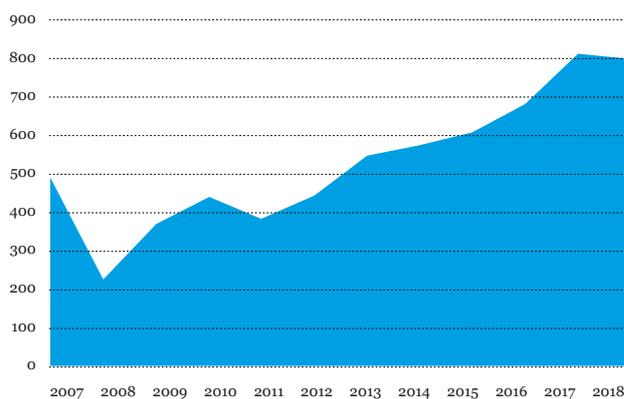


Global GDP growth.
Source: IMF

In Sweden and Mainland Norway, growth came in at 2.3 and 2.0 per cent, respectively. The S&P 500 lost some four per cent, adjusted for dividends. The Norwegian benchmark index lost just 1.8 per cent.

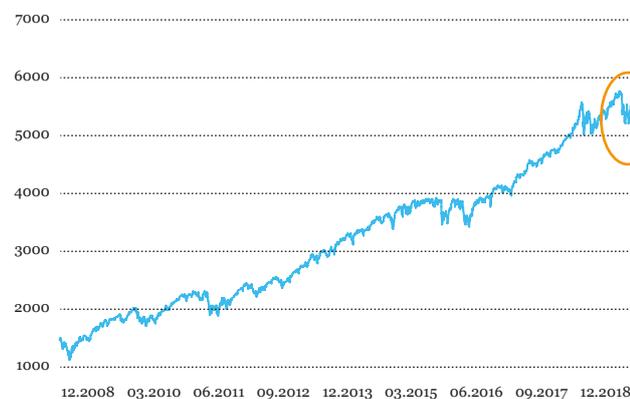
With the benefit of a little hindsight, after market reversals at the beginning of 2019, the gloomy end to 2018 looks like a false alarm. Keep in mind, though, that false alarms are a regular feature of forward-looking financial markets trying to divine future developments. This year, against a relatively stable backdrop, the predominant theme was the length of the business cycle, or rather how much was left of it. Would reversal of the extremely expansionary

Just a breather?



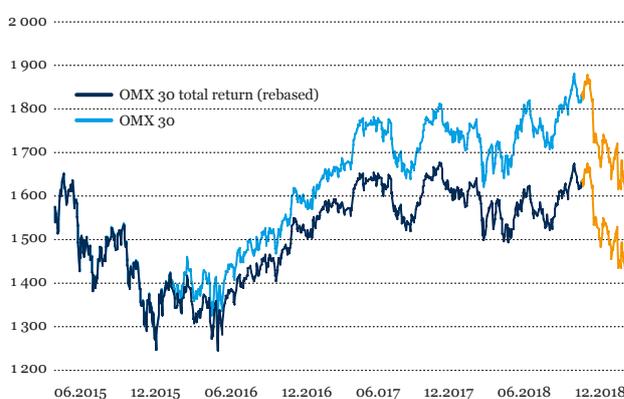
The Oslo Børs benchmark index, year-end quotes.
Source: oslobors.no

The end of a beautiful relationship?



S&P 500 Total Return.
Source: FactSet

Swedish pullback



Source: FactSet

monetary policies send interest rates upwards, terminating the cycle? Would inflation resurge? Would there be a recession? And, of course, would there be new tweets indicating an escalation of the budding trade war between the US and China?

... and counting

An unusual number of analyses this year were based on plain and simple counting. At the end of January, the MSCI World Index had recorded 15 consecutive up months. A few months later, the American economy recorded its second-longest expansion in US history, starting in June 2009. And in August, the US stock market notched up its longest bull run in history, starting in March 2009.

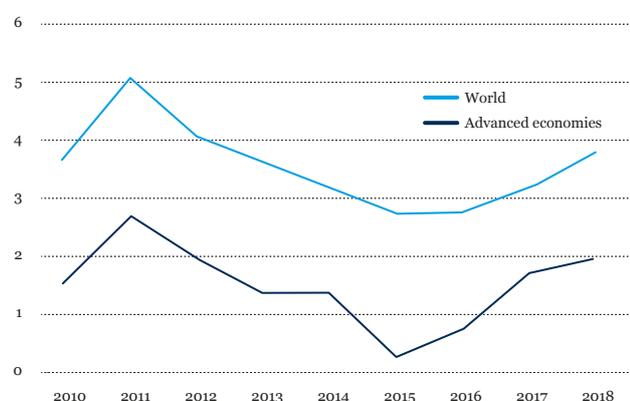
Given the gravitational pull of the American market on pretty much all markets around the world, what did that tell you? Actually, not a lot.

For one thing, defining expansions or bull runs is a matter of statistical malleability. There are more ways than one of defining when to start or stop counting. Furthermore, the great financial crisis made room for quite a bit of catching up, in terms of GDP growth as well as financial returns. It has been a slow climb.

Let us take a closer look at the economic picture in 2018. As for monetary policy, market jitters were fuelled by two factors: four rate hikes by the US Federal Reserve, the last of which just before Christmas, and the seemingly imminent risk of a negative term spread – a classic recession indicator.

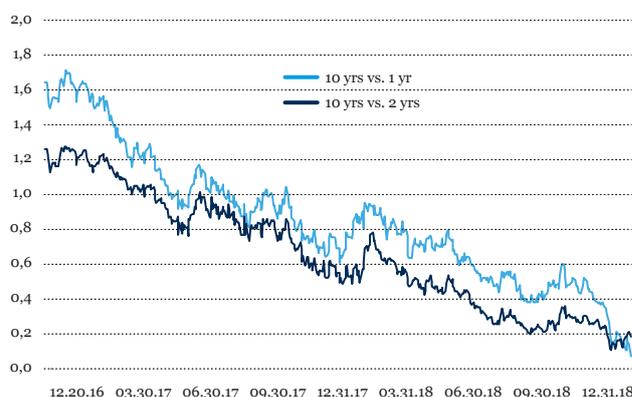
Normally, the yield curve is upward-sloping, compensating for higher risk on bonds of longer maturity. Yields on longer-dated bonds also

Inflation picking up?



Inflation, average consumer prices, per cent. Source: IMF

The 2018 yield curve scare



Term spread, U.S. government bonds. Source: FactSet, Pareto

convey expectations of economic growth. High long rates signal a belief in good growth further ahead, whereas low long rates indicate expectations of weaker growth and a future need for further rate cuts.

Policy rates are short-term. Traditionally, therefore, the yield curve reflects key policy rates at the short end and market expectations at the long end.

And here's the clue to the importance of the yield curve: If the central bank hits the brake (increase short-term rates) just as the market sees speed bumps ahead (falling long-term rates), speed (growth) is very likely to become unduly slow.

Hence, an inversion of the yield curve – short-term interest rates rising above long-term rates – has come to be known as a reliable recession indicator. According to the Federal Reserve Bank of San Francisco, every US recession since 1955 has come in the wake of a negative term spread. Similarly, every yield curve inversion but one has been followed by a recession.

No wonder the rapidly falling term spread became a hot issue in 2018. It didn't turn negative, but it came very close to doing so.

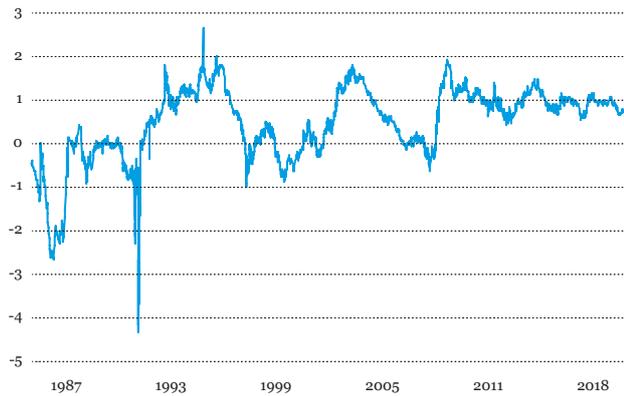
Bear sightings?

On closer inspection, the term spread case may have been overplayed. For one, whereas the Fed study looked at the spread between 10-year bonds and 1-year bonds, it seems many analysts were zooming in on selected parts of the yield curve to make their point. In addition, such predictions are not that precise. Some recessions occur after six months, others after as much as two years.

Better yet, this time is different. All the major central banks have been buying government bonds in abundance and some still do. By doing so they have lowered long rates, which in a sense are artificially low and, logically, don't necessarily reflect bearish expectations.

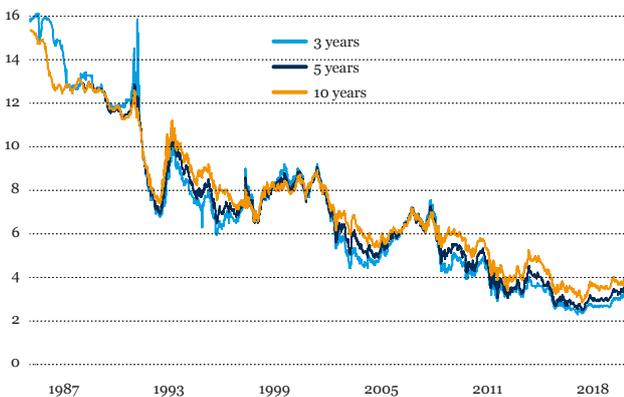
You've probably seen this question many times in 2018: How can the central banks reverse their quantitative easing without pushing up long rates through massive bond sales? Now, in a neat twist of fate, lower long rates may just make it easier to unload bonds without pushing rates uncomfortably high. This time, central banks may be able to influence (or, if you like, manipulate) both ends of the yield curve. And, of course, please remember that while a rising stock market may forecast better growth, increasing growth does not forecast rising markets. By extension, the same goes for term spreads. For instance, in December 1988 the term spread turned negative (by a

So far, no spread warning



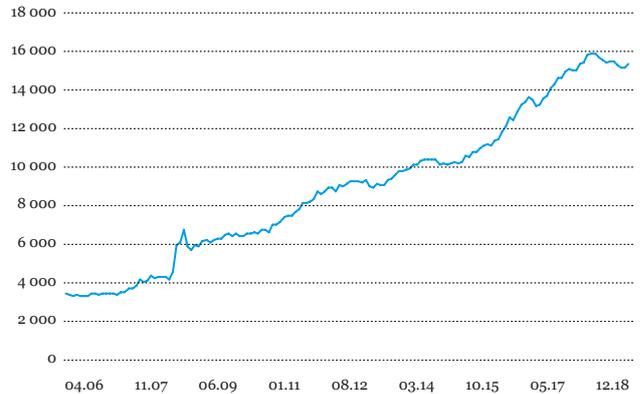
Term spread Norwegian government bonds in percentage points: yields on 10-year bonds less yields on 3-year bonds. Source: Norges Bank

Bouncing off the rate floor?



Yields on Norwegian government bonds in per cent. Source: Norges Bank

Not much tightening, really



Total central bank assets (FED, ECB, BOE, BOJ and Riksbanken), billion dollars. Sources: FRED (FED), FactSet, central banks

small margin, though). The following year the S&P 500 returned an impressive 32 per cent.

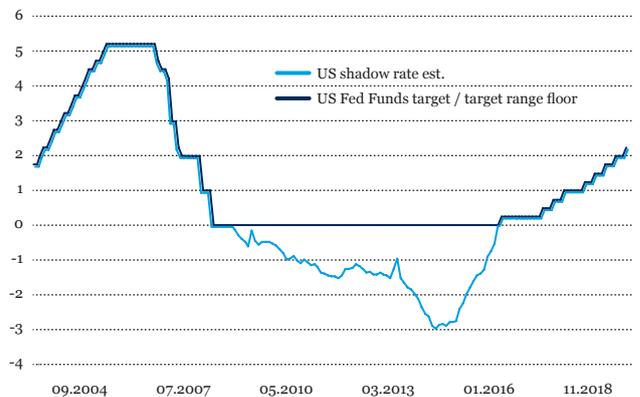
Lesson to be learned: There is often a plethora of figures pointing in either direction – and of commentators basing their forecasts, uncritically, on too few of them.

Shadow rates

How do you measure the impact of monetary policy when major central banks have been using unconventional methods for years, buying vast quantities of securities and setting key policy rates at or below zero?

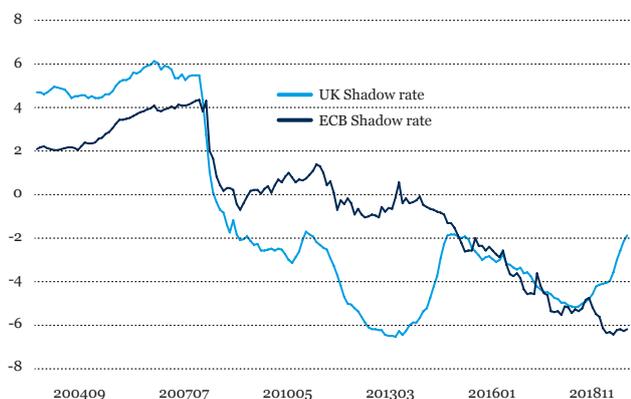
One possible answer is calculating shadow rates, designed to capture the effect of unconventional monetary policy and summarise policy in a kind of interest-rate equivalent. The graphs here are based on figures from American finance researcher Jing Cynthia Wu. They reveal a major change: By this measure American monetary policy has

Pushing the pedal below the floor



Sources: Jing Cynthia Wu, Federal Reserve

Still expansionary



Sources: Jing Cynthia Wu

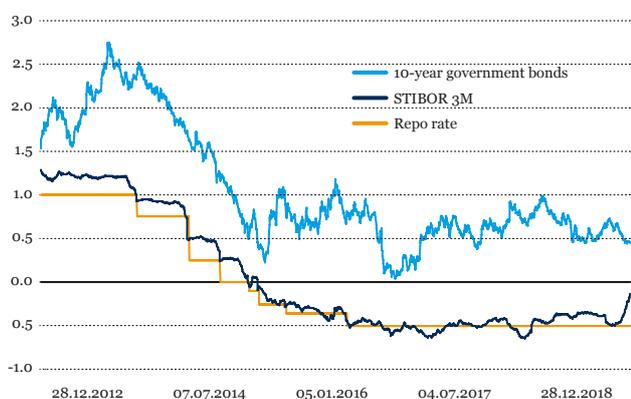
been tightened by the equivalent of a full 5.25 percentage points after the Fed halted its bond purchases in 2014.

Quantitative tightening was initiated in June 2017, whereby the Fed would reduce its 4,500-billion-dollar balance by up to 50 billion dollars a month. One may argue that the markets started to feel the punch towards the end of 2018.

On the other hand, as you can see from the next graph, monetary policies are still clearly expansionary in the eurozone and the possibly soon to be independent Great Britain. The same obviously goes for Sweden, where the repo rate was kept unchanged at -0.5% until one week into 2019 (when it was set at still expansionary -0.25%).

Of course, key policy rates are only one part of the picture. Towards the end of 2018, credit spreads shot up, especially on high-yield bonds. In December alone, spreads on US high-yield bonds increased by more than 100 basis points (one percentage point). While this may

Back to normalcy?



Swedish interest rates / yield. Per cent. Source: riksbank.se

Rising credit spreads



ICE BofAML US High Yield Master II option-adjusted spread, per cent, not seasonally adjusted. Source: FRED

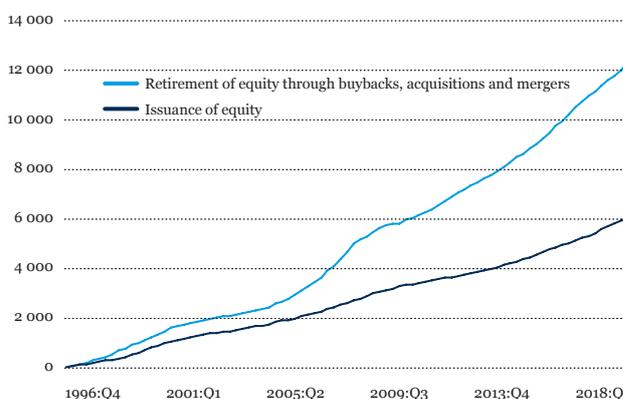
seem dramatic, spread levels were nowhere near levels seen in 2016, 2011 or – naturally – 2008.

A tremendous source of liquidity

In December 1996, Alan Greenspan, then Chair of the US Federal Reserve, held a speech suggesting that asset prices might be inflated by irrational exuberance. At the very same time, in a possible coincidence, the Fed started compiling data on the issuance of equity in US companies – and the opposite, i.e. retirement of equity through repurchases and mergers and acquisitions. Their data set has been undeservedly anonymous.

Not unexpectedly, huge and ever-increasing amounts of equity are being injected into American companies. The annual rate has risen from \$155 billion to \$480 billion through the third quarter of 2018, boosted by what is presently a very good climate for US business. In total, since December 1996, equity issuance adds up to more than 6,000 billion dollars.

Negative net issuance of equity



Issuance and retirement of equity in American corporations. Accumulated amounts in billion dollars. Sources: Federal Reserve, Pareto Asset Management

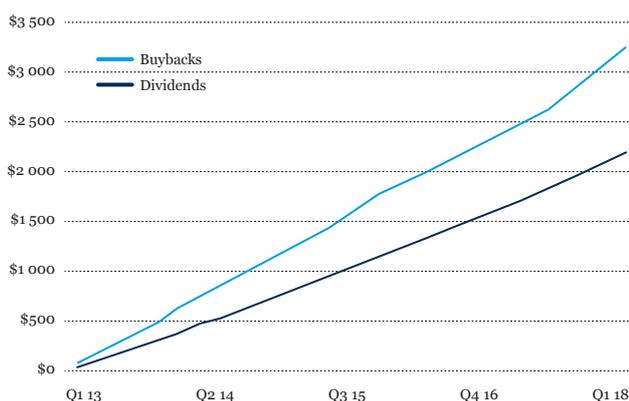
Note, however, a bit of a surprise: Net issuance is negative and the gap increases. By the end of 2018, stock buybacks, acquisitions and mergers (only the cash part) add up to more than 12,000 billion dollars.

This represents a tremendous supply of liquidity that cannot possibly have failed to influence the price level of American stocks – and, indirectly, of stock markets around the world.

Note that dividends are not included in the above figures. Over the same couple of decades, dividends paid from US non-financial corporations add up to more than 11,000 billion dollars.

These figures apply to all US corporations, not just listed companies.

Returning cash to shareholders



S&P 500, billion dollars, accumulated figures.
Source: Spindices.com

For listed companies, stock buybacks have surpassed dividends. Either way, it all adds up to an even more impressive flow of liquidity, financed by rising profit margins and increasing leverage. In other words: Strong liquidity generation in US companies has given a strong impetus that must be considered when explaining the high pricing in recent years. It's a bit like the housing market. When new housing is not being built – or, in this case, more equity is not being issued (on the contrary!) – more money is chasing the equities that are already there.

In the short term, there are few if any signs of this effect petering out. Longer term, though, rising profit margins, increasing leverage and liquidity generation in US business are hardly laws of nature.

Inflating EPS?

In addition to providing liquidity, do stock buybacks also lift stock prices through increasing earnings per share?

Let's take a look at the little-known S&P 500 buyback index, produced by selecting the 100 companies in the S&P 500 with the highest buyback ratios. From the end of 2010 through 2016, this index beat its famous cousin by an annual margin of a full 2.7 percentage points. The buyback index is equal-weighted, but comparing it to the equal-weighted S&P 500 does not alter the conclusion: Companies with high buyback ratios eclipsed other stocks.

The past couple of years, however, paint a different picture. Whereas the S&P 500 delivered an annualised return of 7.9 per cent, the buyback index lagged by a margin of 1.8 percentage points.

Why the about-turn? A likely cause might be leverage. For some years now, many US companies have loaded up on debt – partly to finance buybacks and dividends. When leverage is low, the market probably has few misgivings about increasing levels of corporate debt. At higher levels of leverage, though, risk increases – possibly to such an extent that it outweighs the benefits of higher earnings per share.

If that is the case, many a finance professor would feel vindicated. There really is no such thing as a free lunch.

A margin of safety

Have you found it puzzling that stock markets have held up so well against monetary tightening, a bull market possibly nearing its expiration date, a random walk down trade policy tweets, or perhaps still more expensive stocks?

First, a couple of notes on the latter point. Contrary to popular belief, stocks became less expensive in 2018; earnings and book values rose in most markets, while stock prices slipped somewhat. Historically, severe downturns have not occurred in the absence of unusually high pricing. And while multiples like P/E (price to earnings) or P/B (price to book) may seem well above average, they cannot be evaluated without reference to the level of interest rates.

Comparing the earnings yield (the inverse of P/E) on Wall Street and Oslo Børs with the yield on 10-year government bonds, we see that something changed after the global financial crisis: the stock market became unwilling to adapt its pricing as interest rates crept ever lower. The gap produced by lower interest rates was filled by increasing the forward-looking equity premium. Stock investors demanded a margin of safety, an expected return from stocks that was not based on interest rates staying this low indefinitely. After gradually shrinking for a few years, this margin of safety increased notably in 2018.

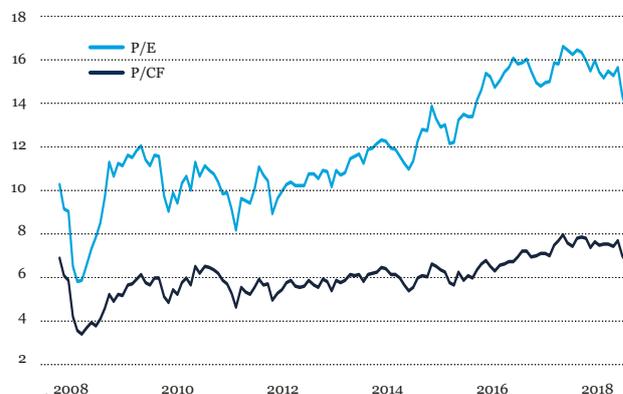
As for Oslo Børs, a further point is that cash flow has grown a lot faster than earnings. In terms of the price to cash flow multiple, Norwegian stocks ended 2018 with a pricing on par with the years immediately following the global financial crisis. Part of the

Mind the gap!



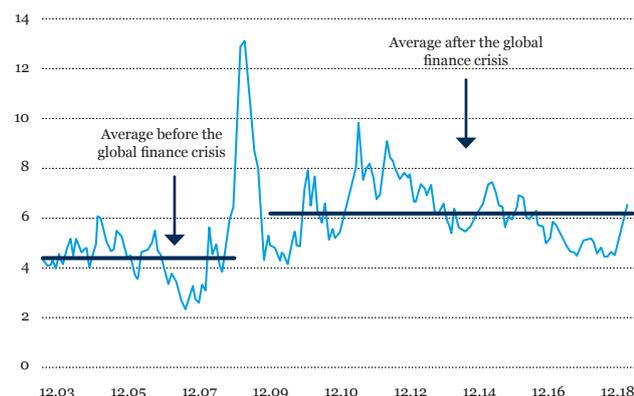
Sources: Robert Shiller, FactSet, Pareto

Not so expensive on cash flow



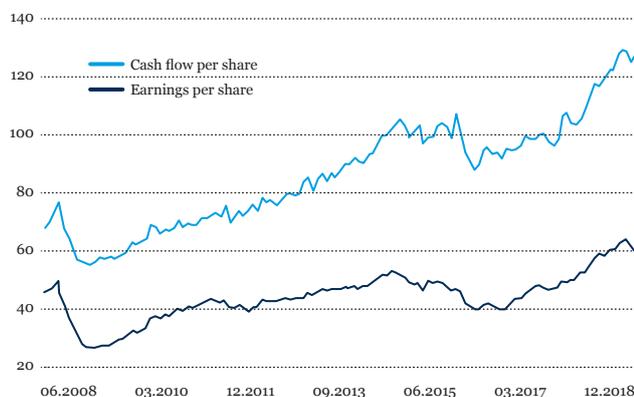
Price to earnings and price to cash flow ratios for the Norwegian benchmark index based on estimates for the next 12 months. Source: FactSet

Renewed margin of safety



Percentage points, difference between the OSEBX forward earnings yield (next 12 months) and the yield on Norwegian 10-year government bonds. Source: FactSet, Norges Bank, Pareto Asset Management

More cash in earnings



Oslo Bors benchmark index. Source: FactSet

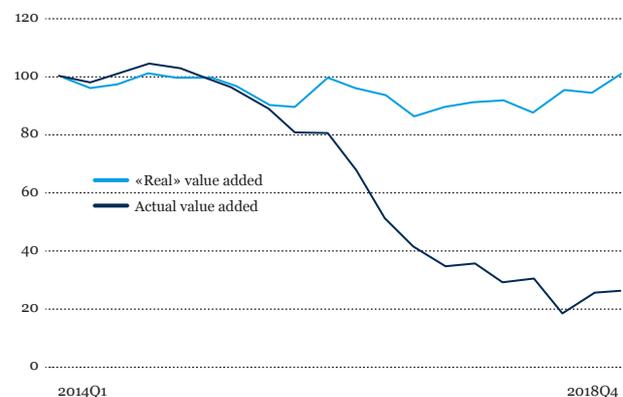
divergence may be explained by higher accounting accruals at the beginning of this period, meaning that a lower share of earnings represented cash income, although differing rates of depreciation cannot be disregarded. Either way, such figures hardly represent a crash warning.

The oil service shock revealed

In the Norwegian economy, the oil sector – and oil service companies in particular – took a considerable beating after the oil price started falling midway in 2014. On the face of it, or rather according to the national accounts, the downturn is now officially over. In the last quarter of 2018, value added in oil services – “service activities incidental to oil and gas”, in statistical parlance – was slightly above the Q2 2014 level.

That, however, is but statistics. In calculating the “real” contribution to GDP, Statistics Norway adjusts for price changes – as indeed they should. This is the way national accounts are being calculated every-

Masking the downturn in oil services



Rebased to 2014Q1 = 100. Value added, service activities incidental to oil and gas. Source: SSB

where, according to internationally agreed conventions. The problem is that this price adjustment does not capture anything like an inflation effect. When prices on products and services skydive, the entire industry experiences a downturn that makes ordinary recessions seem immaterial.

Just look at these figures: In terms of actual invoice figures in Q4 2018, valued added in this sector is down almost 75 per cent from Q2 2014!

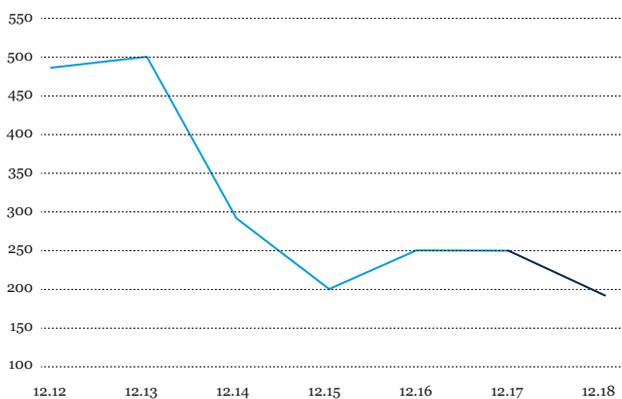
Things are picking up, though. Share prices for oil service companies indicate that the worst is behind them, although there is no strong rebound save for selected companies. A further sign is that cost cutting seems to have run its course in local oil major Equinor; according to Pareto Securities estimates, operating costs are picking up again.

Furthermore, as I have repeatedly pointed out, the impact of the oil industry on the Norwegian mainland economy is probably understated. It is visibly clear in the graph here, where I have produced an index showing the strength of the Norwegian mainland economy relative to the Swedish economy. Even though the oil sector is excluded, it is apparent that the mainland economy is heavily impacted by movements in the oil price about four quarters earlier.

Given the extent of the fall in the oil price, from 110 dollars in June 2014 to about half that level towards the end of 2018, with months of even lower prices in the intervening years, it may seem surprising that the mainland economy has not suffered further hits to growth. The reason this did not occur is the exchange rate; a weaker Norwegian krone boosted mainland exports and helped compensate for the downturn in oil-related business.

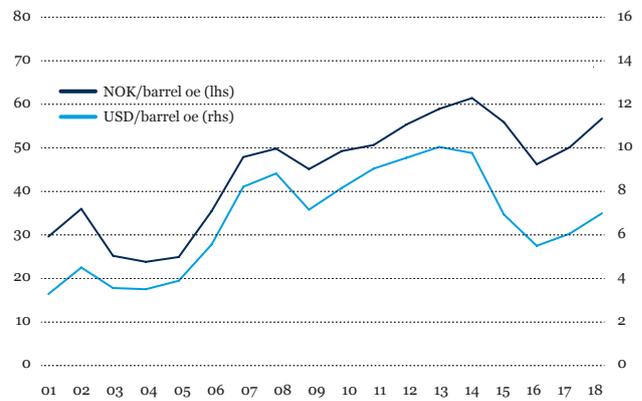
Considering the rebound in the oil price since it hit bottom in January 2016, the Norwegian krone might have been expected to reverse part of the depreciation. So far, this has yet to happen. Part

Rebound in oil services? Not really ...



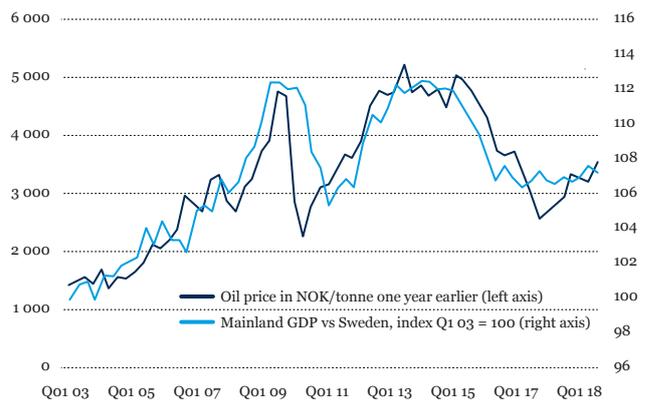
The OSE101010 Energy Equipment & Service index. Source: Oslo Børs

of the explanation may be that it has been pulled down alongside **Cost inflation revisited**



Equinor in Norway, operating costs per barrel of oil equivalent. Source: Pareto Securities

Oil certainly fires the mainland economy



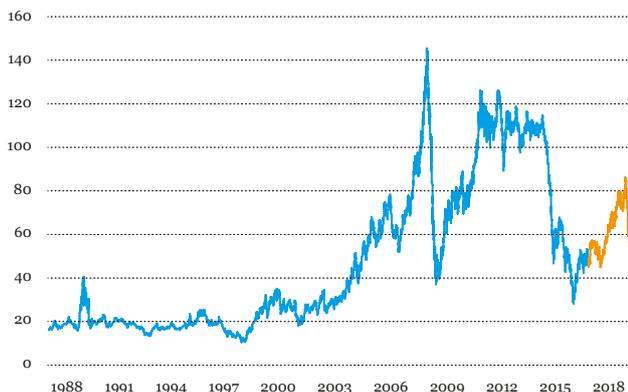
Sources: Pareto, SCB, SSB

NOK still soft



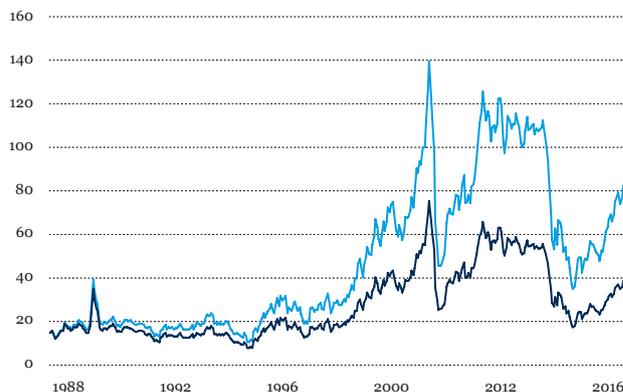
TWI, trade weighted effective krone exchange rate (reversed scale). Rising index values indicate a depreciating krone. Source: Norges Bank

Stunted again



Oil price, Brent Blend for immediate delivery, USD per barrel.
Source: FactSet

Really quite moderate



Oil price (Brent Blend), current quotes and adjusted for American CPI.
Source: FactSet, US Bureau of Labor Statistics, Pareto

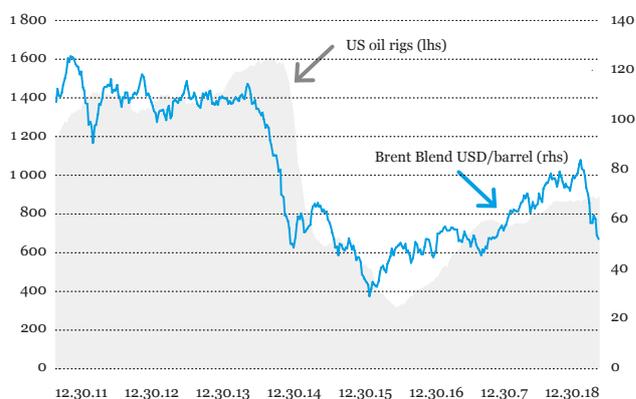
Swedish kroner; there is a surprising degree of correlation between the two currencies. Another part may be a more pessimistic view of the Norwegian economy after government budgets will have to be tightened in the years to come.

Expensive tweets?

Last year provided an interesting example of just how jumpy the oil price can be. Apparently in response to Saudi Arabian authorities killing a journalist in their consulate in Turkey, President Trump wrote a tweet generally considered as intent on bringing the oil price down – as indeed it did. In a short space of time, the oil price (Brent Blend) fell by some 30 dollars a barrel.

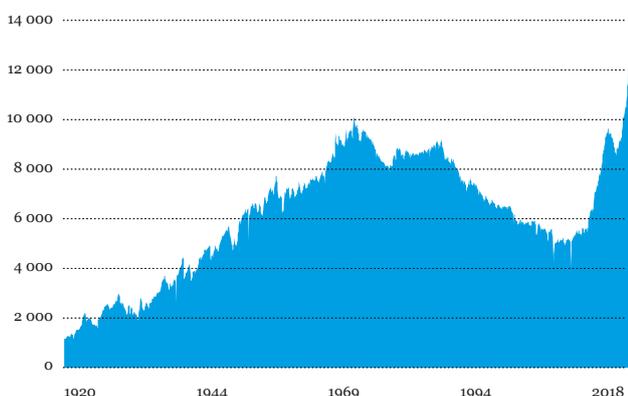
Of course, there was more to the falling oil price than a tweet or two. Over the last few years, US production of crude oil has more than doubled, covering almost half the accumulated increase in world oil demand. Since a major part of this increase has been based on

Responding to the oil price - this time too?



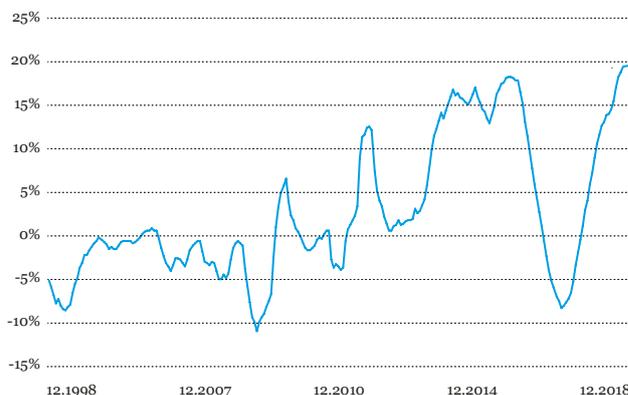
Source: Baker Hughes rig count.

US crude production at an all-time high ...



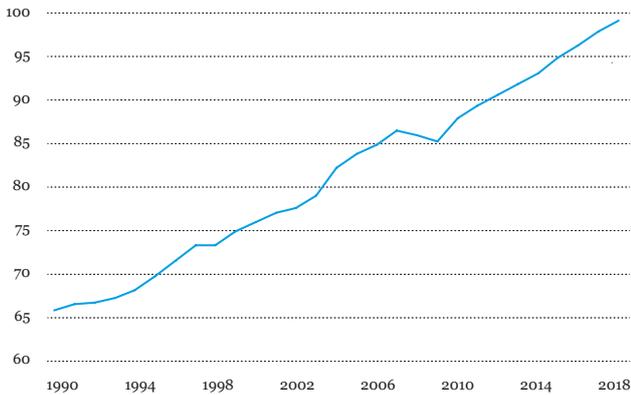
US field production of crude oil (thousand barrels per day).
Source: US Energy Information Administration

... and still growing fast ...



US crude oil production last six months, per cent change year on year.
Source: US Energy Information Administration

Filling 'er up



World oil demand, million barrels per day. Source: IEA

shale oil, i.e. short-duration oil production with steadily improving technology, American crude production is highly price-elastic. This helps limit oil price changes on the upside as well as the downside.

So far, neither heightened awareness of climate risk nor increasing supply of renewable energy has managed to dent oil demand, which is about to reach 100 million barrels per day. A growing number of analyses indicate that peak oil may come as a result of lower demand rather than limitations to supply. These analyses have a decidedly long-term perspective, however, meaning that oil demand is not likely to plateau in the near future. Besides, even keeping production at present levels will require increased exploration, providing more business for a number of oil-service companies.

Be prepared, though, to read more about climate risk in future reports.

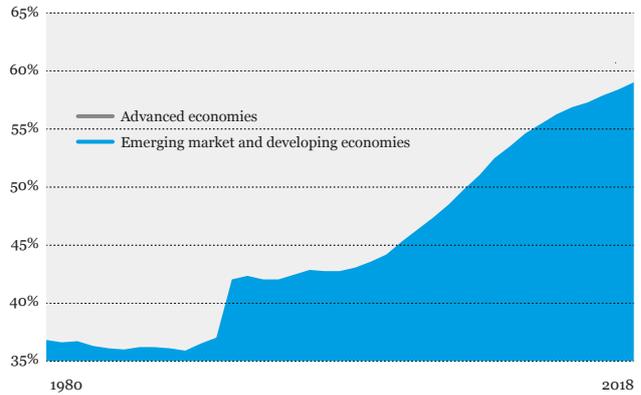
Overblown fears of a Chinese slowdown?

Much of the growth in energy demand comes from brisk economic growth in emerging economies, in particular China. Similarly, a significant – and increasing – share of global growth over the past couple of decades can be ascribed to emerging economies. The two effects must, however, be separated.

For a country like Norway, the stimulus from high energy demand has been of vital importance – through increased prices on oil exports, repercussions in the oil-service sector and the mainland economy, the accumulation of wealth in the Norwegian Government Pension Fund Global and the resulting possibility of a more expansive fiscal policy.

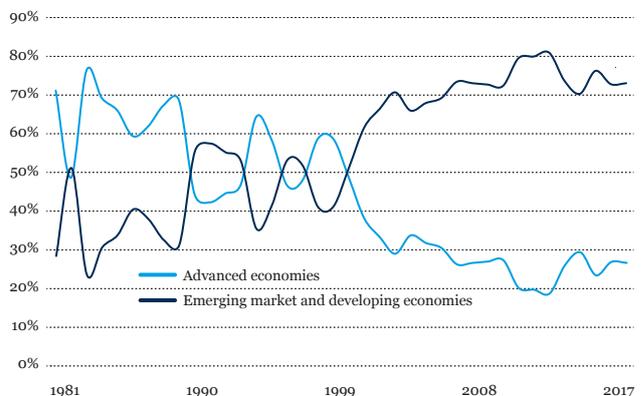
For other developed countries, the picture is decidedly more mixed. There is a vital distinction between emerging economies' contribution

A truly different economic geography



PPP GDP, share of world GDP. Source: IMF

Gaining in importance



Share of global GDP growth, PPP, 1992 and 2008/2009 smoothed. Source: IMF, Pareto Asset Management

to global growth and emerging economies' contribution to growth in the rest of the world – a distinction that sometimes seems to be lost in the fear of a major slowdown in the Chinese economy, a recurring topic in 2018.

On several accounts, Chinese statistics can't be trusted. There is a clear possibility that national accounts are being inflated by regional authorities wanting to comply with official growth goals, or simply central authorities wanting to paint a sufficiently rosy picture of the economy. In 2018, pumped up Chinese growth figures were a major concern in assessments of the global growth outlook.

If, somehow, we were to receive confirmation that the Chinese government had made up their national accounts, what would

happen? Most likely, global growth figures would have to be revised down by a substantial margin. But the impact on growth in developed countries would be more limited, and evident long before this came to surface. Absent a severe contraction, inflated Chinese figures may be less of a menace to the world economy than some would have it.

Chinese debt bubble?

On the other hand, the problem may be compounded by what looks very much like a Chinese debt bubble. There are lots of empty apartments in Chinese cities, financed in large part by rapidly growing amounts of debt. Transparency is not up to Western standards, but Chinese authorities do seem to have more control of their financial system than in freer markets. And should there be a financial crisis of sorts in China, the linkages to the international financial system may not be sufficient to warrant losing sleep.

As for Chinese growth, the major short-term concern is trade relations with the US. Towards the end of 2018, a trade war – or at least a prolonged trade conflict – seemed likely if not unavoidable. Judging from events during the first few weeks in 2019, a couple of presidential tweets on the US-Chinese trade negotiations calmed market nerves, making it seem more likely that a trade war will be avoided.

Trade relations nevertheless represent a major source of uncertainty going into 2019. There is obviously a wide range of possible outcomes, but a World Economic Forum simulation may give us an idea of what is at stake here. According to their estimates, a full-blown trade war could reduce global GDP growth by 0.7 percentage points in 2019. US growth, less vulnerable, would be reduced by 0.4 percentage points, while Europe, much more dependent on free trade, could lose a full 0.8 percentage points.

While recent tweets suggest that these figures would have to be reduced, they certainly explain why so much attention has been devoted to this issue. But that's the nature of financial markets: It's all about risk. That's what you get paid for.

A decennial anniversary provides an illuminative example.

Lehman Brothers – ten years on

Let's say that you put your money in the stock market at the end of August 2008 – little more than two weeks before Lehman Brothers filed for bankruptcy and unleashed the global financial crisis. There can hardly be a better definition of utterly horrible timing in the stock market. For most investors, initial trepidation would surely have turned to terror.

In Norway, the nadir came as early as 21 November. On that day, the market had fallen some 64 per cent from its all-time high – and 56 per cent from the end of August, i.e. in less than three months. A

fine example of real stock market risk, as opposed to statistical risk metrics.

And yet: If indeed you had invested in the Norwegian stock market at the end of August 2008 and stayed the course for ten years, you would have doubled your money. Your annualised return would have been 7.5 per cent, despite the horrible timing. As bad luck goes, I'd say that's not bad.

If instead you had chosen the global stock market, as represented by the MSCI World Index, you would in fact have tripled your money and then some, provided you tallied your gains in Norwegian kroner. Average compound return would amount to a decent 11.9 per cent.

Our fund investors would have done even better, provided they did not jump ship at the very wrong moment. If they did, I suspect they never got back on board in time – if ever. That, too, as evidenced by the forgone return, is risk. For a sufficiently long-term investor, it may very well be the biggest risk of all.

2018 in a nutshell

• OSEBX	-1.8%
• S&P 500 return	-4.4%
• MSCI World net (USD)	-8.7%
• 3-month NIBOR	from 0.81 to 1.27 %
• 3-month STIBOR	from -0.47 to -0.13 %
• 10-year Norwegian Treasury	from 1.65 to 1.79%
• 10-year Swedish Treasury	from 0.78 to 0.47%
• 10-year US Treasury	from 2.41 to 2.68%
• Brent Blend	from USD 66.87 to USD 53.81
• USD/NOK	from 8.21 to 8.69
• EUR/NOK	from 9.84 to 9.95
• GDP growth, global	3.7%
• GDP growth, Norway	1.4%
• GDP growth, Sweden	2.3%
• GDP growth, Mainland Norway	2.2%

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

Pareto Securities AS

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

With 16 offices in eleven countries, Pareto Securities raises equity and bond products for a wide range of industries in the international capital markets. In the shipping, seafood, energy and oil service industries the company has become a major global player. Pareto Securities is also leading in project financing and the syndication of real assets in the Nordics.

Brokerage and investment banking services backed up by in-depth research

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

The personnel in all of our departments have first-hand knowledge of the industries and companies with which we work.

An international presence

Pareto Securities has offices in Norway, Sweden, Finland, Denmark, the United Kingdom, Germany, Switzerland, France, the United States, Australia and Singapore. The international presence secures our proximity both to the major capital centres of the world and to issuers within our core areas of expertise.

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

Equity and bond brokerage services

We provide equity and bond broking services from offices in Oslo, Stavanger, Stockholm, Malmø, Helsinki, Copenhagen, London, Frankfurt, Singapore and New York.

We offer investors a combination of:

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

We also operate an efficient online trading system and provide securities financing.

Case-based research products

The bedrock of our research is thorough and detailed knowledge of and a long-term commitment to the industries we cover. Because of this approach, our research products have become

valued by an international community of investors, on both the equity and the debt side.

Our equities research team consists of research analysts in Norway, Germany and the UK. Our ability to service our clients depends upon the research team having a thorough understanding of the industries in which they specialise. The findings of our research team are available to all of Pareto Securities' departments and all clients.

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

Our credit research team is present in Norway and Sweden. This team monitors the Norwegian and Swedish credit markets and the international credit market for oil services and energy and compiles credit reports on issuers.

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

The research department also serves as a recruitment and training unit in which young talent is schooled in corporate research and finance. After a period of research work these recruits are given the opportunity to transfer to other departments in the same country or to spend time working in an office abroad.

Conferences and roadshows

An important aspect of our research work is arranging seminars and field trips for our investors. Every autumn, Pareto Securities hosts a two-day oil and offshore seminar in Oslo. This event is one of Europe's leading investment forums for oil and energy-related companies. The 2018 seminar attracted 1600 attendees – primarily international investors and representatives of the 120 companies making presentations.

Other events in 2018 included an energy seminar in Oslo that attracted over 350 attendees, the North Atlantic Seafood Forum in Bergen attended by 900 industry representatives, an E&P seminar in London that attracted 200 attendees and a Nordic bond seminar in Stockholm that attracted 500 attendees.

We regularly take issuer representatives to meet our clients in the United States, Asia and Europe. In addition, our research analysts frequently travel to clients to discuss new investment opportunities. Pareto Securities organised a total of 330 road shows in 2018.

A comprehensive range of investment banking services

Our investment banking department with a presence in Oslo, Stockholm, Helsinki, Copenhagen, London, Frankfurt, Zürich, Paris, New York, Houston, Perth and Singapore advises clients on raising equity and debt capital, exchange listings, equity placements, mergers/demergers, valuations and acquisitions/sales of businesses or companies.

The investment banking department is made up of people with broad management experience drawn from the industries we cover, consultancy businesses and the capital markets.

In the area of mergers, acquisitions and sales of businesses (M&A), our experienced advisors provide valuation, advisory and negotiating services to buyers and vendors alike. As in previous years, these services were much in demand in 2018, and a number of sales and acquisitions were consummated.

Shipping and Offshore

The Project Finance department has long experience of and extensive expertise in syndicating and managing shipping and offshore investment projects. Through our subsidiaries Pareto Business Management AS and Pareto Maritime Services AS, we manage a maritime portfolio worth approximately NOK 8.2 billion. Our primary focus is on projects involving long-term charters and charterers of high repute, although we also arrange asset play projects.

In recent years, we have been the biggest operator in the Norwegian market for project financing in the shipping and offshore sectors, with a market share of 46 per cent in 2018.

Real estate

With over 25 years of experience, we are a leading financial operator in the Nordic real estate market. We have extensive experience of providing corporate finance services and advice on major real estate transactions, including IPOs, purchases and syndications of real estate both in Norway and internationally. The department has established a major presence in the Swedish market. In 2018 we also completed a number of successful transactions in Denmark. The total value of the real estate portfolio is approximately NOK 45 billion.

Pareto Business Management

Our subsidiary Pareto Business Management AS (PBM) manages the operational and accounting functions of our real estate and shipping/offshore projects. Swedish and Danish subsidiaries

provide corresponding services to project companies in their respective markets. PBM in Norway, Sweden and Denmark have management responsibilities for some 120 investment companies with a combined value of NOK 57 billion. PBM's team is made up of experienced professionals with expertise in the areas of accountancy, financing, taxation, corporate law and technical management.

Pareto Offshore AS

Our subsidiary Pareto Offshore provides brokerage and advisory services to the global rig and drilling industry. The firm also undertakes valuations and market updates.

Currency operations

Currency operations form an integral part of our investment services.

Staff growth and recruitment

At the outset of the year, the personnel count was 408, compared with 478 at the end of the year. Of these, 53 per cent work outside Norway – up from 46 per cent in 2017.

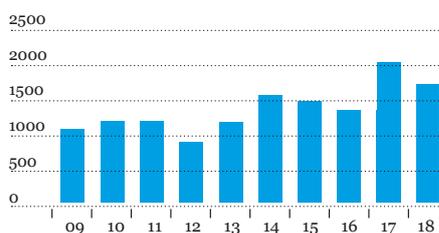
Pareto Securities recruits young talent, mainly through our graduate recruitment program which focuses on students from the best schools. The company offers new recruits a flat organisational structure, attractive incentive schemes and early responsibilities.

–

Pareto Securities AS

Dronning Mauds gate 3
P.O. Box 1411 Vika
OSLO, Norway
Telephone: +47 22 87 87 00
Turnover 2018: NOK 1 730 million
Equity 2018: NOK 588 million
Number of employees: 478
CEO: Ole Henrik Bjørge
ole.henrik.bjorge@paretosec.com
Chairman: Morten Goller
www.paretosec.com
www.paretosec.no

Operating revenues NOK million



Pareto Asset Management AS

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

During 2018, Pareto Asset Management strengthened its international presence through its recently established Frankfurt branch (which was granted a licence in January) and by staffing up at the Stockholm branch, in addition to stepping up international sales activities in general. Nordic corporate bonds in particular attracted the attention of clients in Continental Europe.

In September, Pareto Global Corporate Bond became the first fixed income fund in Norway, Sweden and Finland to receive the Nordic Swan Ecolabel. In order to receive this label, the fund must comply with a number of requirements relating to sustainability / environmental, social and governance factors.

In October, the company launched a new fund, Pareto Nordic Equity, representing a continuation of the successful equity management in the hybrid fund Pareto Nordic Return.

The company has signed an agreement to acquire Swedish asset management company Enter Fonder AB, effective as of January 1st 2019. This acquisition broadens our Nordic presence and expertise, particularly in Swedish stocks and crossover bonds. Enter Fonder has assets under management in excess of SEK 8 billion.

Not counting this acquisition, the company now has 56 employees, including three at our office in Stockholm and one in Germany.

The in-house asset manager

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

At yearend 2018, Pareto Asset Management had assets under management of NOK 33.6 billion. Of this, NOK 14.4 billion was invested in Norwegian-registered UCITS funds, NOK 6.6 billion under discretionary management in equities and fixed-income instruments for individual clients, NOK 12.6 billion in other funds/investment companies. In total, close to NOK 7 billion of the assets under management were held by foreign clients.

Taken as a whole, companies and personnel in the Pareto group constitute our biggest “client”, accounting for some 14 per cent of the assets under management. Our willingness to invest extensively in our own products underscores our faith in our ability to invest wisely, our approach and our asset management philosophy. It also ensures that our interests are aligned with those of our clients.

An efficient asset management philosophy

Our asset management philosophy can be summarised in five bullet points:

- We are active managers. Our aim is to generate an attractive risk-adjusted return. In the case of mandates with benchmark indices, this means outperforming the index. This requires us to make independent choices and to deviate from the index by a wide margin. We are index-independent and have a high active share.
- We are company focused. Our point of departure is always the individual security. Our focus is bottom up, based on the properties of the individual company. In the case of fixed-income instruments, our returns are primarily taken from the credit premium of the company, less so from interest-rate risk.
- Our approach is fundamental. We look at specific aspects of the companies and their markets, such as business model, operations, profitability, return on equity and invested capital, management, strategic challenges and, obviously, pricing.
- Our approach is concentrated. Our portfolio contains a limited number of companies each of which we monitor closely and know well, in sum constituting a sensible portfolio. On the fixed income side, it is important to achieve a more traditional diversification.
- We take a long-term view. We look for value creation over the longer term. Sooner or later, good management will be reflected in the price. From a sufficiently long-term perspective the profitability of the company is more important than key figures at the time of purchase.

Strong long-term excess returns

All our equity products have recorded excess returns relative to their respective benchmark indices or markets since inception or change of manager.

Our very first product, discretionary management of Norwegian equities, now has a historical record of more than 23 years. Over these years, an average annual return of 13.0% has compounded to a total return of 1644%, delivering an excess return of 4.1 percentage points annually and – through the powerful force of compounding – a total excess return of 1004 percentage points.

Collectively, this discretionary management and the related equity fund Pareto Aksje Norge make up a combined portfolio of NOK 9.5 billion, by far our most important product. In 2018, both accounts recorded positive returns, whereas their respective benchmark ended the year in the red.

For our second largest equity fund, Pareto Global, 2018 was far from satisfactory. The present management team can nevertheless point to a positive excess return since taking over at the outset of 2008, despite considerable headwind for value/quality stocks during these years.

In fixed income, sharply increasing credits spread globally provided a demanding environment towards the end of the year. The Pareto Nordic Corporate Bond fund in particular weathered the storm very well, bolstering our efforts to build a position as a Nordic specialist. Buoyed by strong interest from foreign clients, this fund enjoyed the highest net inflow in 2018, taking assets under management to NOK 4 billion.

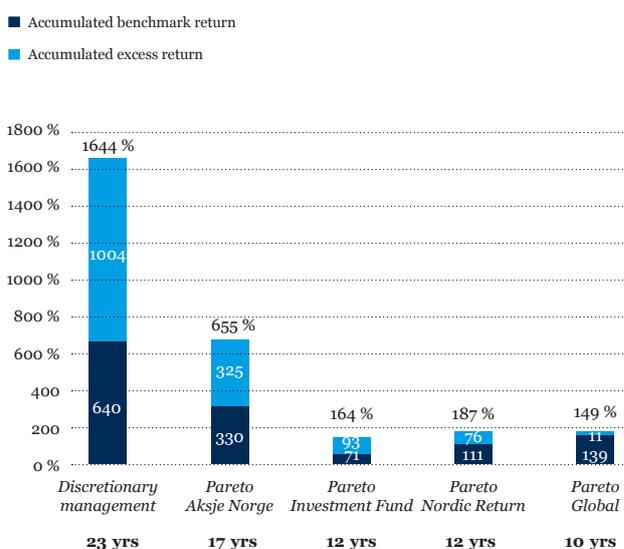
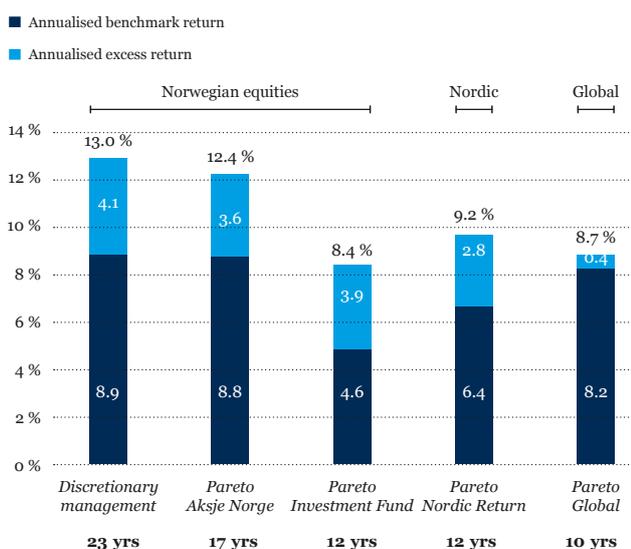
–

Pareto Asset Management AS

Dronning Mauds gate 3
 P.O. Box 1810 Vika
 0123 OSLO, Norway
 Telephone: +47 22 87 87 00
 Turnover 2018: NOK 279 million
 Equity 2018: NOK 56 million
 Number of employees: 52
 CEO: Lasse Ruud
 Lasse.Ruud@paretoam.com
 Chairman: Cathrine Lofterød Fegth
paretoam.com

Pareto Asset Management – our five equity mandates

From inception/change of manager as of 31.12.18



All returns are net calculations based on a 0.5% annual management fee. **Discretionary management** of Norwegian equities from 31.08.95, **Pareto Aksje Norge I** (Norwegian equities) from 05.09.01, **Pareto Investment Fund C** (Norwegian equities) and **Pareto Nordic Return C** (Nordic hybrid fund) from 01.01.07 and **Pareto Global** (global equities) from 01.01.08. **Benchmark indices are OSEBX, OSEFX, OSEFX and MSCI World**. While Pareto Nordic Return is a Nordic hybrid fund that does not have a benchmark, the return is nevertheless compared to the Nordic equity benchmark VINX. Historical returns are no guarantee for future returns.

Pareto Alternative Investment AS

Pareto Alternative Investment AS (PAI) is an independent alternative investments fund manager (AIFM). PAI focuses on illiquid investments in real assets across industries including real estate, infrastructure, shipping, offshore /oil services and renewables. At yearend, PAI had assets under management totalling NOK 13.1 billion.

The company was founded in 2015. Nevertheless, the business conducted by the firm has a long history in the Pareto group. The primary investment goal is to generate attractive returns through long-term and stable cash flows. The products offered by PAI are comprised of either equity or debt investments.

2018 proved to be a satisfactory year for the firm, with an increase in assets under management and good returns in most funds and discretionary mandates. Net revenues recorded by the company in 2018 amounted to NOK 53 million, down from NOK 83 million in 2017. Adjusted for extraordinary success fees booked in 2017, revenues increased by NOK 2 million compared to last year (NOK 51 million in 2017).

The company had a total of ten employees at yearend, one of whom works in the company's branch office in Stockholm.

Customers and sales

PAI has maintained its focus on Norwegian institutional investors in recent years. In total, this group of clients accounts for almost 90 per cent of the equity managed by the firm. Typical customers include public and private pension funds, life assurance and insurance companies. All funds and mandates are sold directly by the firm's managers. PAI's ambition is to expand its client base over the coming years, not only by growing the individual client segments but also by expanding its presence in the other Nordic countries.

Returns

Expected returns will depend to a considerable degree on the investment profiles of the fund/mandate and accordingly returns vary widely from product to product. PAI manages funds that invest in both leveraged and unleveraged project companies, as well as more conservative debt mandates. In recent years, returns on investments have been good, especially within real estate, PAI's most important sector.

In 2018, Pareto Eiendomsinvest Nordic AS, which invests in leveraged real estate companies, delivered a return of 10.8 per cent, whereas the unleveraged real estate funds Pareto Eiendomsfelleskap IS and Pareto Eiendomsfelleskap II IS delivered returns of 7.5 per cent and 7.1 per cent, respectively.

–

Pareto Alternative Investments AS

Dronning Mauds gate 3

P.O. Box 1396 Vika

0114 OSLO, Norway

Telephone: +47 22 87 87 00

Turnover 2018: NOK 58 million

Equity 2018: NOK 20 million

Number of employees: 10

CEO: Johan Anker-Rasch

johan.anker-rasch@pareto.no

Chairman: Sigurd Opedal

www.paretoai.no

Pareto Wealth Management AS

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

Steering a steady course

Over a period of several years, Pareto Wealth Management AS has matured into a bigger, more clearly defined operator with even greater expertise in its area of business. Our primary product is providing investment advice on the selection and composition of mutual fund portfolios.

2018 was a challenging year in the stock market, especially the fourth quarter. Despite net sales of approximately NOK 300 million, our clients' equity portfolio recorded an aggregate decline of 4% year on year.

Net sales for all investment products were approximately NOK 700 million. Overall the firm's total portfolio of client funds ended up more or less unchanged from the beginning of the year.

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

Strategy

Pareto Wealth Management remains true to its strategy of building solid and long-term portfolios for its clients. In addition, the firm offers individual products and projects to a smaller selection of clients more involved in managing their own portfolios. The company's recurring portfolio revenues account for close to 95 per cent of overall income, covering all fixed expenses. This approach ensures that the long-term interests of the clients and the company are closely aligned.

A substantial portion of our clients' capital is placed in Norwegian and international mutual funds through the firm's carefully selected strategic portfolios or in the form of independent fund solutions. The company also tailors products to suit the needs of larger investors.

We offer a wide range of investment products from external suppliers, both in and outside Norway. We also work with other Pareto companies in order to take full advantage of the group's expertise, products and steadily expanding network. This enables

building a well balanced investment portfolio for each client, ensuring that Pareto's own products are benchmarked to the competition. Our goal is that the client should always receive the best products available, irrespective of supplier.

The watchwords on the personnel side are expertise and focus. Our employees should be known for having professional expertise in their individual fields, building the loyalty and trust of our clients from the sound investment advice and expertise that we provide. Achieving this requires more than just skilled people: systems and solutions facilitating prudent decisions for the benefit of the client must also be in place.

Our efforts will always be directed at enhancing the quality of our advice and products. Our aim is that the quality of the advisory services and products offered will enhance returns on client funds, thus providing higher earnings for the company.

—

Pareto Wealth Management AS

Dronning Mauds gate 1

P.O. Box 1418 Vika

0115 OSLO, Norway

Telephone: +47 23 23 99 00

Turnover 2018: NOK 61 million

Equity 2018: NOK 22 million

Number of employees: 29

CEO: Rune Wassum

rune.wassum@pareto.no

Chairman: Åsmund Skår

pwm.pareto.no

Enter Fonder AB

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

20 years of distinctly active management

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

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

2018 proved to be a more demanding year for Swedish equities as various economic uncertainties increasingly came to put pressure on stocks. Industrials that offer an attractive growth story long term were the most affected, contributing to some of the underperformance in our large cap portfolios. Small caps were less affected and performed better. The low risk strategies in Enter's fixed income funds played out comparatively well during the general market turbulence towards the end of 2019.

Clients and sales

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

Since its inception in 1999, Enter has opted to focus its resources on managing and developing products rather than handling and advising private investors. Our strategy is based on making Enter's products known and attractive to advisers in banks, insurance brokers and private banking businesses and reaching the private market via these intermediaries. Competition for the

funds of savers is increasing and we therefore work intensively with advisers and brokers throughout Sweden through our distribution collaboration.

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

Returns and sustainable development

For many years Enter has integrated sustainability factors into its investments in bonds and shares. In 2017, we adopted ethical guidelines governing all investments and funds. This approach goes hand in hand with our dedication to delivering high returns through active investment decisions.

Enter Fonder AB

Berzelii Park 9
P.O. Box 7415
103 91 Stockholm, Sweden
Telephone: +46 08-790 57 00
Turnover 2018: NOK 69 million
Equity 2018: NOK 22 million
Number of employees: 12
CEO: Henrik Lindquist
Henrik.Lindquist@enterfonder.se
Chairman: Peter Sundgren, Attorney at Law
www.enterfonder.se

Pareto Shipbrokers AS

Pareto Shipbrokers AS (PSAS) offers brokerage services, primarily to the offshore and renewable energy sectors. The firm's team represents deep knowledge and experience in the company's market segments.

PSAS' history dates back to 1912, when the firm started out in the lumber and shipbroking business. The company played a central role in establishing and building up many of Southern Norway's shipping companies in the late 1920s and 1930s. Until as recently as around 1980, the company remained the exclusive broker for many shipping companies in Southern Norway for chartering, contracting newbuilds, and buying and selling tonnage. The company has an unbroken history of shipbroking extending back 107 years. In 2006, the company joined the Pareto group.

The offshore department was formed in the mid-1970s, when the supply vessel sector started to expand. Over the years, the business focused increasingly and then entirely on offshore brokerage and today PSAS is a market leader in this sector.

Our business includes arranging long-term contracts between the owners of supply vessels and the operators /oil companies, securing charter of the vessels for extended periods of time, ranging from a few months to several years. In the spot market, the brokers arrange shorter-term contracts for supply vessels to carry cargoes and supplies to drilling and production rigs and other offshore installations. The firm is also involved in contracts for anchor-handling vessels and tugs, for example for towing offshore oilrigs. Furthermore, PSAS is active in the renewable energy market. Contracting of newbuilds, especially in the special purposes tonnage sector, has formed a major part of PSAS's business since the millennium.

PSAS also arranges charters and purchase and sales of rigs as well as valuation of ships and fleets.

The company is represented in the UK by Pareto Shipbrokers Ltd, a wholly owned subsidiary which is headquartered in Guildford outside of London and has an office in Aberdeen. The UK business primarily comprises the broking of offshore units for the oil and gas industry and for the renewable energy sector. Acquisitions and sales of tonnage and equipment of all types within our primary area of business also make up an important part of our business concept.

Over the years, the company has developed in-depth expertise in specification analysis and design of future supply ships and special units for offshore operations. Working in collaboration with marine architects, designers and shipowners, PSAS has developed a range of new ship projects and contracted for a number of newbuilds. 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.

Collaboration

As part of the Pareto group, collaborating with other subsidiaries, PSAS is able to offer package solutions that include buying and selling ships, full financing of equity and debt, as well as securing employment for ships and rigs.

The combined strengths of the PSAS companies make it a significant player in the offshore broking business.

–

Pareto Shipbrokers AS

Dronningens gate 3
4610 Kristiansand, Norway
Telephone: +47 38 12 31 11
Turnover 2018: NOK 55 million
Equity 2018: NOK 25 million
Number of employees: 24
CEO: Karsten Christensen
karsten@paretoship.no
Chairman: John G. Bernander
www.paretoship.com

Pareto Bassøe Shipbrokers AS

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

P.F. Bassøe AS

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

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

In addition to standard chartering services we undertake project-oriented work on long-term charters and freight contracts, as well as customising solutions to the specific requirements of individual clients.

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

Pareto Dry Cargo AS

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

P.F. Bassøe AS

Dronning Mauds gate 3
P.O. Box 1723 Vika
0121 Oslo, Norway
Telephone: +47 24 02 81 80
Turnover 2018: NOK 8 million
Equity 2018: NOK 4 million
Number of employees: 3
CEO: Bjørn Erik Løkken
crude@pfbassoe.no
Chairman: Åsmund Skår
www.pareto.no

Pareto Dry Cargo AS

Dronning Mauds gate 3
P.O. Box 1411 Vika
0115 Oslo, Norway
Telephone: +47 24 02 81 90
Turnover 2018: NOK 27 million
Equity 2018: NOK 3 million
Number of employees: 7
CEO: Morten Lie
dry@pareto.no
Chairman: Åsmund Skår
www.pareto.no

Pareto Forsikringsmegling AS

Pareto Forsikringsmegling AS is an independent advisor and insurance broker offering bespoke non-life, life and pension insurance solutions and general insurance advice. Annually, we purchase insurance cover worth over NOK 1.9 billion on behalf of our clients.

Insurance brokerage and advisory services

Pareto Forsikringsmegling offers brokerage and advisory services within non-marine insurance. Our clients are large and medium-sized enterprises in the private and public sectors. In addition, we offer group cover products (affinity) for non-profit organisations, as well as product insurance for the products and services offered by companies.

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

At the reporting date, the company has 32 employees: 25 in Oslo and 7 in Kristiansand. All our personnel have extensive experience and a high level of expertise in their respective specialist fields. Pareto Forsikringsmegling is a member of the GBN World-wide network of independent insurance brokers.

Non-life insurance

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

The primary concern of our non-life department is that our clients should have the appropriate level of cover. We use risk and vulnerability analyses to alert our clients and make them aware of areas of risk to their property, vehicles, liability and consequential loss. The insurance cover taken out by our brokers on behalf of clients is largely provided by A-rated insurers. As a result, our clients can be confident that the insurers will have the willingness and ability to meet their obligations should a claim be made.

Pension and life insurance

The life and pension department arranges group pension and personnel cover in collaboration with our clients and their employees. The market continues to be characterised by stiff competition between suppliers, making it possible to secure favourable terms for our clients. A number of semi-public organisations still have defined benefit pension schemes in place,

but there are now fewer projects to change pension schemes into defined contribution.

Our strategy of offering both traditional insurance brokerage (all inclusive) and what we refer to as module-based services remains in place.

Our modules include:

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

Damage prevention

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

Pareto Forsikringsmegling AS

Dronning Mauds gate 3
P.O. Box 1527 Vika
0117 Oslo, Norway
Telephone: +47 22 87 87 00
Turnover 2018: NOK 70 million
Equity 2018: NOK 26 million
Number of employees: 32
CEO: Vegard Mjelva Finsæther
vmf@pareto.no
Chairman: Petter W. Borg
www.pareto.no

Eiendomsmegler Krogsveen AS

Real estate broker Krogsveen AS (Krogsveen) has, since its founding in 1975, primarily operated as an intermediary of residential real estate in the Norwegian market. In recent years, Krogsveen has sold between 7 000 and 8 000 homes and vacation homes annually for values of NOK 30 to 35 billion. In 2018, Pareto AS acquired the company from Danske Bank.

History

Krogsveen has a history that can be traced back to 1975, when Gunnar Krogsveen established his first agent office in Bærum. In 2005, Danske Bank acquired the company from key employees. After more than twelve years of growth and healthy economic development as part of the Danske Bank Group, the company was acquired by Pareto AS in the first quarter of 2018.

Krogsveen has been a leading innovator in the Norwegian real estate market. Consumers associate Krogsveen with security and trust. Brand surveys rate the company highly for "strong experience and expertise" and indicate the company is perceived as the real estate specialist. The green Krogsveen color has great brand recognition value, and the market surveys indicate that the company has attractive housing ads.

Krogsveen has always given priority to providing unique experiences to its customers. Over the past two years the company has ranked highest in customer satisfaction among real estate agents in the Norwegian Customer Barometer. Through the company's focus on sound advice and personal service for people who are in market for housing – right from the very first inquiry for a new home through to handing over the keys – a valued relationship is created based on mutual trust. The Krogsveen housing search engine has been an important service that has differentiated the company from its competitors.

Business today

The company currently has 339 employees, most of whom work at one of the company's 52 brokerage offices. The organisation has separate departments for settlement, finance, market, trade and IT, all located in the company's headquarters at Fornebu in Bærum county.

Krogsveen's primary geographic market is Eastern Norway with 40 offices, 15 of which are located in Oslo. Additionally, the company has strong market positions in Western Norway, including the three largest cities Bergen, Stavanger and Ålesund. Furthermore, a brokerage office was established in Trondheim

at the end of 2018. Krogsveen has a 7.5 per cent share of all sales in the residential resale market. The company ranks the fourth largest broker chain in Norway.

The main business is brokerage of resale homes and leisure properties. Krogsveen facilitates sales of new developments of single family homes and condominiums.

In recent years, the company has expanded its service range to include rentals which operates through a separate company – Utleiemegler Krogsveen AS. This operates from four offices co-located with the sales brokerage business.

—

Eiendomsmegler Krogsveen

Martin Linges vei 17
P.O.Box 1,
1330 Fornebu, Norway
Telephone: +47 67 52 95 50
Turnover 2018: NOK 518 million
Equity 2018: NOK 185 million
Number of employees: 339
CEO: Leif J. Laugen
leif.laugen@krogsveen.no
Chairman: Jørgen Haugli
www.krogsveen.no

Pareto Bank ASA

Norway's leading project bank

Pareto Bank's core business is the financing of real estate projects. The bank is a significant player in Oslo and the southeastern region of Norway. In addition, the bank finances commercial property projects for both transaction-based customers and customers with longer perspectives.

Within corporate financing we offer a variety of financing solutions to medium-sized companies with specific capital requirements for a transaction or a project.

Shipping and offshore financing has been one of the bank's core businesses since 2011. Pareto Bank contributes to the development of this industry by offering bespoke financing solutions. Criteria include a close Norwegian connection and current and efficient tonnage.

Outlook

Pareto Bank delivered its highest profits to date in 2018. Profitability is good, with a post-tax return on equity of 15.0 per cent. The bank has the best possible position to deliver high profitability and growth in its core areas in the year to come.

Market rates increased in December 2018. That will lead to somewhat higher interest rate costs on issued market debt in the first quarter of 2019. The Norwegian central bank is expected to hike rates twice in the course of 2019, and the first hike is likely to come in March. The bank is continuously evaluating the need to adjust rates on lending and deposits.

The bank is actively engaged in marketing its products to the shipping and offshore sectors, focusing primarily on Norwegian companies and owners with modern tonnage and structures with low debt to value ratios. Corporate financing activity continues to be high, and the bank expects lending to increase in this area. Pareto bank is working towards increasing market awareness of its offering among Norwegian SME's. The bank offers a wide range of financing solutions, including a digital solution which allows corporations quick and easy access to working capital. Real estate project activity continues to be considerable. The housing market seems to be balanced, with a stable price development in the Oslo area. The bank has a pipeline of potential and granted commitments that indicates further growth in the coming quarter. Order flow is increasing in commercial real estate, and a cooperation with real estate financier Eiendomskreditt AS gives the bank a competitive advantage. This business area is primarily concentrated within southeastern Norway. Commercial real estate lending has somewhat longer maturities than development projects, contributing to a diversification of the bank's portfolio.

Lending growth was strong in the fourth quarter of 2018. At the beginning of the new year customer activity is high and growth is expected to continue, especially in real estate financing. Profitable deals are in the bank's pipeline and the bank has both capital

and capacity for future growth. It is, however, difficult to predict growth precisely in real estate financing. Lending volumes will vary from quarter to quarter due to Pareto Bank's role as a project bank. The bank's ambition for 2019 is to achieve a lending growth of NOK 1.0 – 2.0 billion and a post-tax return on equity of 15 per cent.

Record profits and high lending growth in 2018

Pareto Bank's post-tax profits in 2018 amounted to NOK 330.8 million (NOK 312.6 million in 2017). Strong lending growth contributed to a high net interest income. Return on equity after taxes came to 15.0 per cent (16.0 per cent), in line with the bank's profitability target.

As at the end of 2018 the bank held total assets of NOK 15.6 billion (NOK 13.1 billion). Lending grew by NOK 2.2 billion (NOK 0.7 billion), primarily in real estate, to NOK 11.7 billion (NOK 9.4 billion) at yearend. Deposits increased from NOK 7.1 billion in 2017 to NOK 7.6 billion in 2018.

Write-downs and losses were low in 2018, amounting to NOK 4.6 million. Write-downs and losses made up 0.04% of net lending by the end of the year.

The common equity Tier 1 capital ratio at yearend 2018 was 16.1 per cent (17.7 per cent). The Board proposes a dividend for 2018 of NOK 0.70 per share, equivalent to a dividend payout ratio of 12.6 per cent.

Pareto Bank ASA is listed on the Oslo Stock Exchange.

The largest shareholders of Pareto Bank as of 31 December 2018:

Name	Stake
Pareto AS	16.5%
Pecunia Forvaltning AS	11.1%
AF Capital Management AS	8.6%
K11 Investor AS	3.7%
Rune Bentsen AS	3.7%

Senior staff of Pareto Bank ASA hold a total of 1.1 per cent of the shares.

Pareto Bank ASA

Dronning Mauds gate 3
P.O. Box 1823 Vika
0123 OSLO, Norway
Telephone: +47 24 02 81 20
Total assets 2018: NOK 15 607 million
Equity 2018: NOK 2 508 million
Number of employees: 37
CEO: Tiril Haug Villum
tiril.villum@paretobank.no
Chairman: Åsmund Skår
www.paretobank.no

Financial Statements 2018

<i>Directors' Report</i>	31
<i>Income Statement</i>	33
<i>Balance Sheet</i>	34
<i>Statement of cash flows</i>	36
<i>Notes to the accounts</i>	37
<i>Auditor's report</i>	43

The Directors' report

Our business objectives

We want to further develop and strengthen Pareto as a financially sound and profitable group of highly focused and independent business units. Our work shall be based on high ethical standards and professionalism, respect and trust of the company's employees, clients, competitors and the public authorities.

Operations

The company's business comprises financial advisory services, brokerage in the field of securities, ships, rigs, real estate and insurance, as well as project financing and asset management. The group's business activities are primarily conducted through operating companies Pareto Securities AS and its subsidiaries, Pareto Asset Management AS, Pareto Alternative Investments AS, Pareto Wealth Management AS, Enter Fonder AB, Pareto Shipbrokers AS, Pareto Bassøe Shipbrokers AS, Pareto Forsikringsmegling AS and Eiendomsmegler Krogsveen AS. Pareto AS is the parent company of the group. Pareto's head office is located in Oslo and the subsidiaries have offices in Stavanger, Trondheim, Kristiansand, Stockholm, Malmö, Helsinki, Copenhagen, London, Aberdeen, Frankfurt, Hamburg, Zürich, Paris, Singapore, Perth, New York and Houston.

Earnings

Developments in the securities markets have a significant impact, directly and indirectly, on Pareto's income statement. The market swings through 2018 gave very mixed impulses to the operations of the group. In light of this, the performance must be described as very satisfactory, both for the group as a whole and for the majority of its business activities. Pareto's decentralised operating model once again played its part in fostering engagement and commitment among our partners and employees, and in ensuring that attention was focused on maintaining high client activities, sensible cost levels and low risk.

For many years, the parent company of the group has invested surplus liquidity in the securities market, building up a relatively substantial portfolio of securities. In order to more clearly distinguish operations from pure financial investments, the financial portfolio was demerged into the newly formed company, Pareto Invest AS. The demerger took effect on 1 September 2018. The portfolio – much of which is placed in the group's own investment products – will still be managed by the group's investment teams.

In the beginning of 2018 the parent company acquired Eiendomsmegler Krogsveen AS. Going forward, the parent company will continue to invest distributions received from the subsidiaries in the development of new ventures under the group's own umbrella or invest in other well-run companies, primarily in the form of equities.

Group operating revenues in 2018 amounted to NOK 2 857 million, compared with NOK 2 719 million in 2017. Operating profit was NOK 674 million, as against NOK 866 million in 2017. Pre-tax profits totalled NOK 923 million, compared with NOK 1 295 million in 2017. The financial strength and liquidity of the group are good. Book equity at yearend stood at NOK 1 433 million. Bank deposits totalled NOK 1 831 million. The group has very little interest-bearing debt.

The Directors are very satisfied with the performance of the subsidiaries and will continue the long-term investment strategy of the group.

Pareto's strategy

Pareto's strategy is to be a leading, independent Nordic investment company in which the individual subsidiary has a decentralised and focused strategy.

Although priority is given to organic growth and the development of in-house expertise, acquisitions and mergers will be considered if they serve to develop and complement the company and extend the product range. Pareto will cooperate with other players wherever appropriate and whenever doing so will offer our clients the best product.

Pareto's aim is to be a preferred provider of financial services, reflecting the company's thorough and detailed knowledge of social conditions, industries and individual companies. The Directors believe that, based on the group's proven ability to adapt and change, Pareto still has considerable potential for improvement and growth. One example of this is provided by the way in which Pareto has used its core expertise in selected industries as a platform for international expansion.

Outlook

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

Pareto has a modest cost structure and a sound balance sheet and as a consequence is well equipped to tackle challenges in the market.

Growth in the Nordic economies is expected to be solid, whereas growth in the global economy is estimated to ease off slightly in 2019. The uncertainty and political unrest attached to Brexit and trade war developments has somewhat muted the willingness to invest. Still, experience has shown that, such factors notwithstanding, well-run companies are able to produce satisfactory results.

Historically, the Pareto group has focused on petroleum and offshore-related industries and the group's exposure to these industries remains substantial. At the end of 2018 the oil price is still considerably lower than before the downturn started in 2014. Accordingly, even though the group has built sources of income that offer a greater level of stability and has expanded internationally, we remain vulnerable to major, long-term fluctuations in the oil price and, above all, to a drop in the oil price to a low level that persists over the long term. This remains the case not least because the petroleum industry is also an essential driver of growth in the Norwegian mainland economy.

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

Distribution of profits and other matters

The group is exposed to market-related risks in respect of own account holdings in securities, counterparty risk, settlement risk and foreign currency risk. 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, the Securities Funds Act and the Risk Management and Internal Control Regulations issued by Finanstilsynet (The Financial Supervisory Authority of Norway).

The working environment in the companies of the group is good and it has not been necessary to put in place special measures

of any kind. The level of absence due to sickness in the group is low and no injuries or accidents were reported during the reporting year. The group practises equality of opportunity between men and women. In its recruitment policy the company makes a deliberate effort to attract the ablest candidates without discriminating on the basis of gender, ethnicity or other factors.

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

The group's profit after tax cost totals NOK 662 million. The parent company's after-tax profit is NOK 493 million. The Directors propose that the profit after taxes be transferred in its entirety to Other Equity.

At yearend, equity in the parent company amounts to NOK 1 118 million. Consolidated group book equity stands at NOK 1 433 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, 11 April 2019

sign.
Bjørn Gabriel Reed (Chairman)

sign.
Ole Henrik Bjørge

sign.
Svein Støle

sign.
Karsten Christensen

sign.
Lasse Ruud

sign.
Trine C. Høgås-Ellingsen (CEO)

Income Statement

Parent company (NOK '000)

Group (NOK '000)

2017	2018		Notes	2018	2017
		Operating revenues			
0	975	Operating revenues	2	2 856 747	2 719 159
0	975	Total operating revenues		2 856 747	2 719 159
		Operating expenses			
-6 797	-6 316	Personnel costs	3	-1 448 037	-1 322 875
-3 025	-3 246	Sundry other operating costs		-652 331	-478 753
-285	-288	Ordinary depreciation & amortisation	4	-82 872	-52 004
-10 106	-9 850	Total operating expenses		-2 183 241	-1 853 632
-10 106	-8 875	Operating profit/loss		673 506	865 527
		Financial income/expenses			
154 631	107 110	Financial income		116 633	211 094
441 591	499 645	Share dividends		235 218	191 294
0	0	Adjustments, securities	10	-7 375	140 824
8 393	2 153	Share of associated companies	5	2 153	8 393
0	0	Interest paid		-15 380	-8 748
-34 531	-10 439	Other financial expenses		-82 254	-113 784
570 083	598 469	Total financial income/expenses		248 995	429 073
559 977	589 594	Income before tax		922 501	1 294 600
-20 058	-96 897	Tax expense	13	-260 428	-223 339
539 919	492 697	Profit for year		662 072	1 071 261
		Allocations:			
0	0	- Minority's share of profit		-21 920	-485
0	0	- Provision for dividend		-121 814	-200 077
-539 919	-492 697	- Transferred to other equity		-518 339	-870 699
-539 919	-492 697	Net		-662 072	-1 071 261

Balance Sheet - Assets

Parent company (NOK '000)

Group (NOK '000)

31.12.2017	31.12.2018	Fixed assets	Notes	31.12.2018	31.12.2017
		Intangible assets			
		Goodwill acquired	4	80 905	22 712
0	0	Deferred tax assets	13	37 200	22 984
0	0	Total intangible assets		118 106	45 696
		Property, plant & equipment			
1 090	830	Fixtures, fittings, machinery etc.	4	57 757	49 901
		Financial fixed assets			
1 171 119	656 045	Shares in subsidiaries	5	0	0
35 686	37 619	Shares in associated companies	5	37 619	35 686
117 255	144 602	Other securities	6	165 355	134 013
0	19 216	Loans to group companies	9	0	0
5 429	11 493	Other non-current receivables	7	13 550	5 439
136	81	Premium fund	8	406	467
1 329 625	869 056	Total financial fixed assets		216 929	175 605
1 330 715	869 886	Total fixed assets		392 792	271 202
		Current assets			
		Receivables			
0	617	Trade receivables		1 306 614	848 747
45 963	332 219	Other receivables	9	519 079	545 909
45 963	332 836	Total receivables		1 825 693	1 394 655
		Investments			
4 734 269	0	Securities	10	318 573	6 315 117
4 734 269	0	Total investments		318 573	6 315 117
39 246	29 701	Bank deposits	11	1 830 744	2 320 040
4 819 477	362 537	Total current assets		3 975 010	10 029 812
6 150 192	1 232 423	Total assets		4 367 802	10 301 014

Balance Sheet - Equity and Liabilities

Parent company (NOK '000)

Group (NOK '000)

31.12.2017	31.12.2018	Equity	Notes	31.12.18	31.12.17
		Paid-in capital			
19 000	6 394	Share capital		6 394	19 000
24 301	7 096	Share premium reserve		0	0
0	103 464	Other paid-in equity		103 464	0
43 301	116 954	Total paid-in capital		109 858	19 000
		Retained earnings			
6 065 572	1 000 848	Other equity		1 100 319	7 110 227
6 065 572	1 000 848	Total retained earnings		1 100 319	7 110 227
		Minority interests		222 606	204 872
6 108 873	1 117 802	Total equity	12	1 432 784	7 334 100
		Liabilities			
		Provision for commitments			
0	0	Pension liabilities	8	2 287	2 740
27	12	Deferred tax	13	606	584
27	12	Total provision for commitments		2 893	3 324
		Non-current liabilities			
0	0	Other non-current liabilities		61 400	262 730
0	0	Deposits from silent partners		34 388	12 958
0	0	Total non-current liabilities		95 788	275 688
		Current liabilities			
21 002	14 094	Other current liabilities	9	2 372 367	2 241 262
20 059	100 282	Tax payable	13	241 711	195 269
0	0	Dividends		141 388	200 457
231	233	Government charges and special taxes payable		80 871	50 914
41 292	114 609	Total current liabilities		2 836 337	2 687 902
41 319	114 621	Total liabilities		2 935 018	2 966 914
6 150 192	1 232 423	Total liabilities and equity		4 367 802	10 301 014

Oslo, 11 April 2019

sign.

Bjørn Gabriel Reed (Chairman)

sign.

Ole Henrik Bjørge

sign.

Svein Støle

sign.

Karsten Christensen

sign.

Lasse Ruud

sign.

Trine C. Høgås-Ellingsen (CEO)

Cash Flow Statement

Parent company (NOK '000)

Group (NOK '000)

2017	2018		2018	2017
		Cash flow from operating activities		
559 977	589 594	Ordinary profit before tax expense	922 501	1 294 600
-9 818	-16 696	Tax paid in period	-233 201	-133 333
285	288	Ordinary depreciation and amortisation	27 556	19 447
0	0	Securities adjustments	7 375	-140 824
52	55	Net change in pensions without cash effect	-392	-388
0	0	Other items without cash effect	-63 380	48 656
-8 393	-2 153	Share of profits of associated company	-2 153	-8 393
-24 575	-286 873	Change in receivables	-431 038	-415 762
15 866	-6 906	Change in other liability items	149 748	157 529
533 393	277 308	Net cash flow from operating activities	377 015	821 533
		Cash flow from investment activities		
-20	-28	Payments for purchases of tangible assets	-35 412	-23 753
0	-119 157	Net cash transferred in demerger	-138 462	0
-496 699	-323 579	Net cash flow, short-term investments	-502 899	-625 132
-81 265	-328 642	Payments for purchases of financial fixed assets	-39 452	-22 154
995	484 553	Net cash flow, financial fixed assets	-2 252	995
-576 989	-286 852	Net cash flow from investment activities	-718 476	-670 044
		Cash flow from financing activities		
0	0	Dividend paid	-200 457	-77 544
0	0	Payment purchase of treasury shares	0	0
0	0	Change non-current commitments and liabilities	33 584	67 808
0	0	Payments of equity to/from minority interests	19 039	60 499
0	0	Net cash flow from financing activities	-147 835	50 764
-43 596	-9 545	Net change in bank deposits	-489 296	202 253
82 842	39 246	Bank deposits in hand at 1 Jan.	2 320 040	2 117 787
39 246	29 701	Bank deposits in hand at 31 Dec.	1 830 744	2 320 040

Notes to the Accounts

Note 1 Group structure

Pareto AS owns 66.7% of Pareto Securities AS, 87.8% of Pareto Asset management AS, 100% of Pareto Bassøe Shipbrokers AS, 100% of Pareto Shipbrokers AS, 100% of Pareto Wealth Management AS, 100% of Pareto Forsikringsmegling AS, 100% of Pareto Invest AB, 100% of Pareto Alternative Investments AS and 100 % of Pareto Bolig AS.

Pareto Securities AS owns 100% of Pareto Securities Pte Ltd, 100% of Pareto Securities Inc., 87.27% of Pareto Securities AB, 100% of Pareto Securities Oy, 100% of Pareto Securities Ltd, 100% of Pareto Securities Pty Ltd, 100% of Pareto Securities AG, 87.01% of Pareto Offshore AS, 75% of North Atlantic Seafood Forum AS, 100 per cent of Pareto Business Management AS, 100% of Pareto Business Management AB, 100% of Pareto Business Management A/S, 100% of Pareto Maritime Services AS, 100% of Pareto Eiendom AS and 100% of Pareto Investorservice AS.

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

Pareto Forsikringsmegling AS owns 100% of Pareto Forsikringsrådgivning AS.

Pareto Shipbrokers AS owns 100% of Pareto Shipbrokers Ltd.

Pareto Bolig AS owns 100% of Eiendomsmegler Krogsveen AS (Krogsveen). Krogsveen owns 100% of Utleiemegler Krogsveen AS, 100% of Boligkjøpsrådgiver Krogsveen AS, 100% of Krogsveen Trøndelag AS and 70% og Krogsveen Moss AS.

Pareto Invest AB owns 100% of Enter Asset Management AB (EAM) and EAM owns 100% of Enter Fonder AB.

General info

Pareto AS has been granted an exemption from the provisions in the Norwegian Accounting Act § 3-4 in preparing financial statements and annual report in the Norwegian language.

Consolidation principles

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

Accounting policies

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

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

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

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

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

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

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

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

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

Notes to the Accounts

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

The companies in the group put in place a defined contribution pension scheme in 2006. Contribution plans are accrued according to the matching principle. balance sheet date. Shares are valued in accordance with the policies for valuing portfolios.

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

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

Note 2 Operating revenues, consolidated

(NOK '000)

	2018	2017
Brokerage/Corporate finance	2 312 621	2 151 215
Management/Business management	544 126	567 944
Total operating revenues	2 856 747	2 719 159

Note 3 Salaries, number of employees, remuneration etc.

(NOK '000)

	<i>Parent company</i>		<i>Consolidated</i>	
	2018	2017	2018	2017
Salaries, holiday pay, nat. insurance	6 093	6 608	1 365 636	1 244 935
Pensions and other personnel costs	223	189	82 401	77 939
Total	6 316	6 797	1 448 037	1 322 875
Number of man-years	3	4	919	587

Remuneration to the CEO in 2018 amounted to NOK 2 347. A provision of NOK 350 has been made for fees for the directors of the parent company. A provision of NOK 2 498 has been made for fees for the directors of the group.

Deloitte AS received fees of NOK 168 for auditing the parent company and NOK 3 548 for the group. Payment for other assurance engagements totalled NOK 148 for the parent company and NOK 4 108 for the group. Payments to other auditors to the group amount to NOK 71.

Payments to Deloitte Advokatfirma DA for legal services amount to NOK 0 for the parent company and NOK 103 for the group. These figures are exclusive of VAT.

Note 4 Tangible fixed assets

(NOK '000)

	<i>Parent company</i>		<i>Group</i>
	Fixtures and fittings, IT	Fixtures and fittings, IT	Goodwill
Procurement cost 01.01	1 794	248 331	118 195
Additions in year	28	39 447	113 511
Disposals/sale	0	13 982	0
Procurement cost 31.12.	1 822	273 796	231 706
Acc. depreciation 01.01.	704	196 897	95 483
Disposals/sale	0	8 415	0
Depreciation this year	288	27 556	55 318
Acc. depreciation 31.12.	992	216 039	150 800
Book value 31.12.	830	57 757	80 905
Economic life	3-6 years	2-7 years	3-5 years
Depreciation plan	Straight-line	Straight-line	Straight-line

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

Notes to the Accounts

Note 5 Shares in subsidiaries

(NOK '000)

Subsidiary	Office	% stake and votes	Book value 31.12.
Pareto Securities AS	Oslo	66.7%	69 318
Pareto Asset Management AS	Oslo	87.8%	24 398
Pareto Bassøe Shipbrokers AS	Oslo	100%	40 600
Pareto Shipbrokers AS	Kristiansand	100%	108 500
Pareto Wealth Management AS	Oslo	100%	64 739
Pareto Forsikringsmegling AS	Oslo	100%	20 423
Pareto Alternative Investments AS	Oslo	100%	75 429
Pareto Invest AB	Stockholm	100%	76 724
Pareto Bolig	Oslo	100%	175 914
			656 045

Shares in associated companies

Company Office in Pareto's stake	Fondsforvaltning Oslo 35.0%	Odin Marine New York 27/50%	Total associated comps.
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.	7 555	28 130	35 686
Share of year's profit	1 297	856	2 153
Dividends received	-1 186	0	-1 186
Aquisition	0	966	966
Closing balance 31 Dec.	7 666	29 953	37 619

Note 6 Other shares/bonds

(NOK '000)

Other securities, parent company	Number	Cost price	Book value
Pareto Bank ASA	9 675 873	144 602	144 602
Total other securities, parent company		144 602	144 602

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

Other securities, subsidiaries	18 787	20 752
Total other securities, group	163 390	165 355

Note 7

(NOK '000)

The parent company has granted employees/partners of the subsidiaries interest-bearing loans on which the outstanding balance as of 31 December 2018 is NOK 11 493.

Note 8 Pensions

(NOK '000)

The group has a defined contribution pension scheme as required under the Act concerning Mandatory Occupational Pensions. Premium paid in 2018 totalled NOK 55 for the parent company and NOK 11 646 for the group.

One subsidiary has two unfunded pension plans for which an obligation is recorded in the balance sheet as of 31 December 2018 at NOK 2 287 as a result of actuarial valuation based on commonly used assumptions within insurance.

Notes to the Accounts

Note 9

(NOK '000)

Receivables from group companies amounted to NOK 332 219 as at 31 December 2018.
Other current liabilities to group companies as at 31 December 2018 amounted to NOK 300.
Loans to group companies amounted to NOK 19 216 as at 31 December 2018.

Note 10 Securities

(NOK '000)

	Book value
Shares and partnership interests	52 676
Bonds and certificates	58 635
Fixed income funds	150 044
Equity funds	57 219
Total securities, subsidiaries	318 573
Total securities, group	318 573

Note 11 Bank deposits

(NOK '000)

The parent company has a non-distributable deposit of NOK 113 lodged in an account for tax withholdings. The group's bank deposits include NOK 158 817 in non-distributable accounts, of which NOK 24 824 in accounts for tax withholdings.

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

Note 12 Equity

(NOK '000)

	Share capital	Share premium account	Other paid-in equity	Other equity	Total
Parent company					
Equity at 1 Jan.	19 000	24 301		6 065 572	6 108 873
Effect of change in accounting principle				484 333	484 333
Equity at 1 Jan. after change in accounting principle	19 000	24 301	0	6 549 905	6 593 206
Demerger	-13 452	-17 205		-6 041 754	-6 072 412
Share capital increase	846		103 464		104 310
Year's profit				492 697	492 697
Total equity as of 31 Dec.	6 394	7 096	103 464	1 000 848	1 117 802

	Share capital	Other paid-in equity	Other equity	Total
Group				
Equity at 1 Jan.	19 000		7 315 100	7 334 100
Effect of change in accounting principle			-2 472	-2 472
Demerger	-13 452		-6 524 238	-6 537 690
Share capital increase	846	103 464		104 310
Provision for dividends			-141 388	-141 388
Translation differences, subsidiaries			-5 187	-5 187
Net minority interests			19 039	19 039
Year's profit after tax			662 072	662 072
Total equity as of 31 Dec.	6 394	103 464	1 322 926	1 432 784

The share capital as of 31 Dec. is NOK 6 394, divided into 43 795 shares with a nominal value of NOK 146 each.

	Number of shares	Stake and voting %
Parent company		
Svein Støle	35 000	79.9%
Pareto Invest AS / Svein Støle	5 795	13.2%
Svele AS / Svein Støle	3 000	6.9%
	43 795	100.0%

There are three classes of shares. Shares owned by Pareto Invest AS are classified as P-shares and carry a preferential right to dividends. Shares owned by Svele AS are classified as B shares and carry a preferential right to dividends subordinated the P-shares and as determined by the General Meeting.

Notes to the Accounts

Note 13 Taxes

(NOK '000)

<i>Parent company</i>			<i>Group</i>	
2017	2018		2018	2017
559 977	589 594	Profit before income tax	922 501	1 294 600
0	0	Group contribution	0	4 000
-466 126	-464 629	Permanent differences	-108 910	-347 974
45	59	Change in temporary differences	13 146	17 197
0	0	Change in deficits carried forward	34 703	-30 643
93 895	125 024	Year's tax base	861 439	937 181
23 474	31 256	Tax payable	202 024	231 067
0	3 412	Tax payable related to change in accounting principle	3 412	0
0	68 163	Correction previous year(s)	68 163	0
-3 415	-2 548	Tax payable, withholding	-31 887	-35 798
20 059	100 282	Total tax payable	241 711	195 269
Specification of temporary differences				
0	0	Current assets	-2 408	-10 963
147	80	Tangible fixed assets	-14 529	-9 322
-41	-32	Intangible assets	-15 093	-3 204
0	0	Other items	-67 233	-54 178
0	0	Remaining loss for carrying forward	-59 232	-27 165
106	47	Basis for calculating deferred tax benefit/tax	-158 495	-104 832
27	12	22 - 25% deferred tax benefit/tax	-36 594	-22 400
Year's tax expense				
20 059	28 708	Tax payable	206 143	227 319
9	68 204	Tax correction for earlier years	67 238	-219
-10	-15	Change in deferred tax benefit/tax	-12 953	-3 760
20 058	96 897	Tax expense	260 428	223 339
3.6%	16.4%	Effective rate of taxation	28.2%	17.3%
Reconciliation from nominal to true tax expense				
139 994	147 399	Anticipated tax expense at nominal rate	240 260	322 506
-116 532	-116 157	Permanent differences	-38 896	-85 562
2	0	Change in tax rates	-7 351	-6 047
9	68 204	Correction previous year(s)	67 845	-826
-3 415	-2 548	Other items	-1 430	-6 732
20 058	96 897	Tax expense	260 428	223 339

Notes to the Accounts

Note 14 Owed to credit institutions

(NOK '000)

DNB has provided guarantees for Pareto Securities AS in favour of Norges Bank for the company's participation in the Norwegian security settlement scheme in the amount of NOK 100 000. These guarantees are secured through a first priority factoring charge on the company's receivables and a charge on securities held as current assets.

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

Note 15

The group is exposed to market related risks in respect of own account holdings in securities, counterparty risk, settlement risk and foreign currency risk.

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, the Securities Funds Act and the Risk Management and Internal Control Regulations issued by Finanstilsynet (The Financial Supervisory Authority of Norway).

Note 16 Related-party transactions

(NOK '000)

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

Sales of services to other group companies	2 724
Purchases of services from other group companies	2 334

Transactions with related parties are on arm's length prices and terms.
The amounts include costs invoiced by external suppliers passed on between group companies.

Note 17 Demerger

In 2018, Pareto AS carried out a demerger with the transfer of assets and liabilities to Pareto Invest AS. The demerger had accounting effect as of 1 September 2018. Upon completion of the demerger, the shareholders in Pareto AS received a corresponding ownership interest in Pareto Invest AS. The demerger has been carried out with tax continuity.



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

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

To the General Meeting of Pareto AS

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Pareto AS showing a profit of NOK 492 697 000 in the financial statements of the parent company and profit of NOK 662 072 000 in the financial statements of the group. The financial statements comprise:

- The financial statements of the parent company Pareto AS (the Company), which comprise the balance sheet as at 31 December 2018, the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Pareto AS and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2018, the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for Opinion

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

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

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

Deloitte AS and Deloitte Advokatfirma AS are the Norwegian affiliates of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.no for a more detailed description of DTTL and its member firms.

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

© Deloitte AS

Penneo Dokumentnøkkel: LK6L3-ZEB06-EZK7E-5VJCB-QJWZQ-UCEEZ

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Oslo, 11 April 2019
Deloitte AS

Jørn Borchgrevink

State Authorised Public Accountant (Norway)

Signaturene i dette dokumentet er juridisk bindende. Dokument signert med "Penneo™ - sikker digital signatur".
De signerende parter sin identitet er registrert, og er listet nedenfor.

"Med min signatur bekrefter jeg alle datoer og innholdet i dette dokument."

Jørn Olav Borchgrevink

Statsautorisert revisor

Serienummer: 9578-5999-4-949707

IP: 217.173.xxx.xxx

2019-04-12 08:34:42Z



Dokumentet er signert digitalt, med **Penneo.com**. Alle digitale signatur-data i dokumentet er sikret og validert av den datamaskin-utregnede hash-verdien av det opprinnelige dokument. Dokumentet er låst og tids-stemplet med et sertifikat fra en betrodd tredjepart. All kryptografisk bevis er integrert i denne PDF, for fremtidig validering (hvis nødvendig).

Hvordan bekrefter at dette dokumentet er originalen?

Dokumentet er beskyttet av ett Adobe CDS sertifikat. Når du åpner dokumentet i

Adobe Reader, skal du kunne se at dokumentet er sertifisert av **Penneo e-signature service <penneo@penneo.com>**. Dette garanterer at innholdet i dokumentet ikke har blitt endret.

Det er lett å kontrollere de kryptografiske beviser som er lokalisert inne i dokumentet, med Penneo validator - <https://penneo.com/validate>

 Pareto

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