Pareto Securities

RISKS ASSOCIATED WITH INVESTING IN PROJECT FINANCE STRUCTURES

1. INTRODUCTION

It should be emphasised that all investments are associated with risk, to a larger or lesser degree. All investors should be prepared for a situation where an investment results in a loss. For limited companies, such loss will be limited to the amount for which each investor has subscribed (or purchased shares), with the addition of any added investment commitment agreed upon. For investments in general partnerships (including Norwegian ANS), limited partnerships (including Norwegian KS and IS) and other companies subject to partnership taxation, investors may lose more than the invested capital (for KS and IS in case of the company being established with uncalled capital). See below for further details. When an investor subscribes for or purchases shares in a company, he invests in all assets and liabilities of the company. It may turn out that company liabilities exist that are unknown to the issuer and/or seller and/or Pareto Project Finance at the time of purchase. Historical actions may also influence the future tax position of the company, something which is not necessarily obvious at the time of purchase.

Please see information below concerning risk involved in investments in different segments like shipping, offshore, real estate and private equity. Further information about investments in partnerships is also provided.

2. GENERAL REMARKS ON RISK RELATED TO INVESTMENTS IN PROJECT FINANCE INVESTMENTS

2.1 General remarks on risk involved in levered instruments

Individual projects may be leveraged up to 80-90 per cent. Such leverage enables the funds or companies to make larger investments than otherwise possible, and increases potential returns. At the same time, leverage increases risk related to the invested capital, as the effect of falling values in underlying projects will increase. As an example, a leverage of 50 % will magnify the effect of a value increase or decrease on the invested capital by a factor or two (i.e. double the effect). In addition, leverage introduces risk associated with changes in the lender's margin for the duration of the loan, and risk related to refinancing situations at loan's maturity.

2.2 Tax risk

The information on the target or target-company will be based on tax regulations as they appear at the time of investment. Changes in tax legislation, rules and regulations may lead to changed conditions for the investors, including reduced profitability in the project. Special rules apply for companies subject to partnership taxation – please see section 6, third paragraph.

2.3 Second-hand trading

No established market place exists for the trade of shares in shipping, offshore and real estate projects or funds. The liquidity in the secondary market is subject to large variations, and differs from project to projects. During some periods, it may be difficult to trade shares at all in the secondary market.

2.4 AIFM risk

The Alternative Investment Fund Managers Directive is recent, and there are still some unresolved/unclear issues. For each projects Pareto consider whether the company falls outside of the scope of the AIFMD due to its industrial purpose, i.e. because the company shall generate returns through its operations and not necessarily by divesting the assets owned by the company, or whether it is to be considered an AIF. There is a risk that a company deemed a non-AIF may be considered an AIF, which would among other result in additional costs to a depositary and a manager.

3. INVESTMENTS IN SHIPPING AND OFFSHORE

Any shipping project carries with it certain elements of risk. If you do not understand the underlying risk in a project, we strongly recommend you not to invest in it. Below is a list of the most important risk elements tied to shipping/offshore projects, which we recommend anyone who evaluates a possible investment in a project to read carefully. The order in which the individual risks are presented below is not intended to provide an indication of the likelihood of their occurrence nor of the severity or significance of individual risks. In addition to the following

risks, other risks of which the respective project company is currently unaware, or which it does not currently consider to be material, may materialize and have adverse effects on the project's business, prospects, financial condition or results of operations. If any of these risks materializes, the price of the respective project's shares may decline, and investors could lose all or part of their invested and committed capital.

3.1 Currency risk

Operating revenues and operation costs – including but not limited to interest costs – will often be denominated in currencies other than NOK, generally USD or EUR. The reference currency for the underlying company's operating assets will typically be USD or EUR, and corporate funding will generally have the same denomination. Currency fluctuations can affect the posted and net asset value of a vessel or project when expressed in or converted to NOK, and thus also the yield to the investor and equity value of shares in any given project.

3.2 Counterparty risk

The return calculations in any project depends heavily on the charterers/counterparty's ability to honour their obligations under the charter party and/or other agreements (where applicable), including honouring any put option/purchase obligations at the end of the charter party. Should the counterparty default on its obligations, this may have adverse consequences on the investment.

3.3 Market risk and residual value

The projects involve assets operating in a competitive environment together with a number of other players. The demand for, and the pricing of, any project and assets before and after delivery are impossible to control. On the supply side there are uncertainties tied to, amongst other things, the ordering of new vessels and the scope of future scrapping. The actual residual value of a vessel might be lower than in our estimates.

3.4 Economic life, technical risk and redelivery

The possibility for rational operation greatly influences a vessel's economic life, which depends on the running maintenance of the vessel. Technical risk will always be present, even if the vessel is on a bareboat charter.

3.5 Secondary market

The liquidity for the shares of a project in the secondary market varies greatly over time and from project to project. As such it can prove difficult to trade the shares in the secondary market.

3.6 Tax risk

Changes in laws and regulations with regards to topics including, but not limited to, taxation can lead to different conditions for investors, including reduced profitability on a project. The liquidity for the shares of a project in the secondary market varies greatly over time and from project to project. As such it can prove difficult to trade the shares in the secondary market.

3.7 Financial risk

Any changes in the underlying interest rate would affect the returns on a project with floating rate bank financing directly. Indirectly, the interest rate levels can also affect the value of a vessel at the point of sale. In projects with bank debt, the underlying interest rate may or may not be fixed/swapped. The issue will normally be addressed by the board in each single purpose company.

Lenders to projects/banks will impose covenants on the project, and may impose certain penalties if these are not met, such as an extraordinary repayment of the loan if the company is in a breach of these covenants.

For projects in which there is a debt which matures before the end of the charterparty in particular, and for debt financing in general, there is a risk associated with the respective company's ability to refinance the loan. Terms of such refinancing, if secured, may be better or worse than the terms of the existing loan arrangements. Additionally, there may be additional costs and risks associated with the refinancing of debt.

3.8 Pollution

All shipping and offshore activities involve the transportation of cargoes and other activities that can potentially harm the environment, which in turn may give grounds for compensation claims, fines and suchlike. Therefore, owing a commercial shipping or offshore venture involves a level of pollution risk.

3.9 Regulatory risk / Legislative changes

Over the past 20 years the shipping and offshore industry has been subject to a range of changes in the laws and regulations affecting the industry. There is always a chance that the new legislation or regulations will be proposed and passed. Such changes can impact the industry and make serious changes to the economic lifetime and earnings potential of ships and offshore assets.

3.10 Execution risk

There is always a possibility that any described transaction might not conclude due to various execution risks related to, but not limited to, documentation, vessel inspections and/or class records and/or due diligence. Thus there might be some costs, including to external and third parties, that are not refundable.

3.11 Yard risk

Some projects involve newbuilding(s) rather than acquiring second-hand tonnage. In these projects the yard's ability to deliver the vessel(s) according to specifications and on time may be potential risk factor. The instalments paid to the yard will normally be guaranteed by a refund guarantee from the yard or a financial institution. Their ability to honour this obligation in a default scenario is a potential risk, and may have adverse consequences on the investment.

3.12 Political risk

Shipping and offshore vessels operate globally and may be exposed to political risk, local content requirements, risk of privacy, risk of corruption, etc.

3.13 Operational versus financial lease

Tax authorities may classify a project as a financial lease or an operational lease. This may have implications for amongst other things the tax treatment of the investors. Additional, if a project is deemed to be a financial lease, the partnership shares are considered to be a disqualifying asset for companies under the Norwegian tonnage tax regime (and certain other tonnage tax regimes depending on the individual regulations).

INVESTMENTS IN REAL ESTATE

4.1 Market risk

The risk involved in real estate investments is mainly determined by the uncertainty inherent in the value of the property. This risk can thus be broken down based on the main factors influencing real estate values. The two most important factors are the supply-demand balance for commercial property, and the yields (required returns) of investors when purchasing real estate. Real estate values are also affected by the available capacity in the market at the end of a property's lease contract(s), and the demand for the type of premises that the company owns. During certain periods, competition may be fierce for a small number targets, and it may be difficult to obtain desired targets at a desired price. Conversely, in other periods, it may prove difficult to sell properties or companies at the targeted price.

4.2 Macro-economic conditions

The market for new constructions and larger real estate projects is dependent on the general economic development. Development in rent levels, inflation and employment are key parameters.

4.3 Financial risk

Fluctuations in the interest rates of a real estate project's financing may have a direct impact on investor returns. The level of real interest rates (interest rates adjusted for inflation) over time is a critical factor in the development of property value and thus also for investor returns. Interest levels also indirectly influence rent levels at renewal

of lease contracts.

Interest cost constitutes a significant cost for leveraged real estate investments. An increase in interest levels, including increases due to increased margins demanded by lenders, may constitute a strain on the company's liquidity. Interest risk may, however, be reduced by entering into interest rate swap agreements. An interest rate swap is a contract between two parties, whereby the parties agree to pay (respectively receive) a fixed interest for a fixed duration of time, against receiving (respectively paying) the floating interest rate in the same currency and for the same period. The fixed interest rate is determined at the same time of signing, and is valid for the entire duration of the swap. In case of a termination of the swap contract before maturity, and if the actual floating interest rate has moved away from the agreed fixed rate, an MTM ("mark-to-market value difference) may have arisen. An MTM represents the market value of the interest swap, and this market value is influenced by the current market interest rates and remaining time to maturity.

An increase in interest rates is often based on expectations of increased inflation, which may contribute positively to the long term value of the real estate and thus increase the value of the fund or company. The value of the real estate investments will be influenced by changes in real interest rate levels.

At maturity of a company's loan(s), it will be required to refinance its outstanding debt. The company's ability to successfully refinance such debt is dependent on the conditions of the financial markets in general at such time. As a result, the company's access to financing sources at a particular time may not be available on favourable terms, or at all. The company's inability to refinance its debt obligation on favourable terms, or at all, could have material adverse effect on the company's business, financial condition and results of operations.

4.4 Technical condition / operational risk

For newly completed buildings in good technical condition, maintenance cost is limited during the first years. Future public rules and regulations may, however, impact operational cost. When investing in older buildings, significant maintenance costs should be anticipated. The magnitude of operational cost will, for the duration of a lease contract, be influenced by the type of lease contract. A distinction is often drawn between "bare house / bareboat" contracts, where tenant generally covers real estate specific operational costs and replacements, and standard contracts, where owner covers all or part of the operational costs and replacement.

4.5 Tenant risk

The tenant's financial strength and ability to fulfil rental obligations will be crucial for the returns of the real estate project.

4.6 Regulation risk

Changes in legislation, rules and regulations (including zoning) may impact future interest for the property, both the property, both from tenants (for the lease of the property) and from potential buyers (for the purchase of the property).

4.7 Liquidity risk

Real estate as an asset class has low liquidity. It will normally take months both to invest in and realise direct investments in real estate. Real estate objects or projects are not listed on any stock exchange or other regulated market place, and the valuation of individual properties will therefore be uncertain. Potentially poor liquidity is one of the most problematic qualities of real estate projects as an asset class in a financial portfolio, but at the same time they may yield potential liquidity bonus which long-term investors may be able to benefit from. There will be uncertainties regarding the liquidity and the values of specific objects and companies, and the liquidity in the specific real estate project. Also the valuation of real estate projects can involve uncertainties.

5 PRIVATE EQUITY INVESTMENTS

5.1 Special risk

The risk associated with investment in private equity is generally higher than for most other equity investments. Investors should normally not invest in private equity projects unless they can afford to lose the entire stake. Risk elements as discussed below can cause major negative impacts on the financial results of the investment object (company), its financial

standing and its future prospects. Indeed, the investors may forfeit all or part of their investment.

5.2 Capital market

The risk that shares in the investment object will decline in value is linked in part to the general health of the capital market. Changes in interest rates, taxes and other charges, business fluctuations in Norway and abroad, and even political changes affecting frameworks and other parameters will potentially compromise the equity capital market.

5.3 Failure to pay on-call capital

Should other investors fail to pay their committed contribution when called, the result may be that the investment object defaults on its obligations, or forfeits an opportunity to invest. The consequences for investors may involve losses.

5.4 Liquidity risk and second-hand trading

Investors must recognise that an investment in private equity can be a long-term affair. The market for sale of shares is likely to be limited. Since the investments are far from liquid, it will also be difficult to value the shares for trading.
The timing of any payments to investors will largely depend on factors that cannot be predicted. It is unlikely that disbursements will be made during the first years of the investment period.

5.5 Management risk and investment risk

The success of a private equity project will often depend on the fund manager's acumen in identifying sound investment projects. Major personnel changes in a private equity fund may affect the yield in a negative way. A risk of a private equity fund is that the manager makes decisions about investments and realisations in portfolio companies that later turn out to be poor relative to the prediction, and which drag down the fund's yield. An ultimate consequence may be that one or several of the investments that the private equity fund has made are lost due to insolvencies in the underlying portfolio companies.

5.6 Strong investment competition

The work of a private equity fund to identify and carry out investments is a process that is vigorously competitive which generally tends to foster uncertainty.

6. INVESTMENTS IN PARTNERSHIPS TAXED AT PARTNER'S HAND

A Norwegian KS, a limited partnership, is one type of general partnership, in which at least one partner has unlimited liability for the firm's obligations (general partner), and at least one other partner has a limited, fixed-sum liability for the firm's obligations (limited partner). The investor will invest as a limited partner, although it is also possible to invest as the general partner. All limited partnerships are required to have a certain amount of committed capital, and normally the commitment is called in from the investors gradually as the need arises. Accordingly, an investor may have a payment obligation even after paying the subscription capital, and there are risks associated with non-payment of these capital calls. The partnership and the partners (investors) are regulated by the Partnership Act of 1985.

A Norwegian ANS is another type of general partnership in which the partners have an unlimited personal liability for the firm's total obligations, either undivided, or for subdivisions that collectively match the firm's total obligations, and who act as such towards third parties.

A Norwegian IS, or internal partnership, is unlike other partnership structures in that it does not present itself to third parties as a legal entity. The legal ramifications, including the investor's liability for called-up capital, and the risks associated with non-payment of capital, are in most cases the same as for a limited partnership. However, the Partnership Act is silent regarding any committed capital requirement in a Silent Partnership. Both the ANS and IS are regulated by the same Partnership Act of 1985, although in the case of the IS the Principal

Partner (the company that fronts the business and is visible to the outside world) is subject to the rules of the Limited Liability Companies Act (which regulates limited liability companies).

A partnership that is taxed at the partner's hand is not a separate taxpayer, and each partner (investor) is therefore taxed on his prorated part of the profit or loss, determined as if the partnership was a separate taxpayer. When valuing these projects, we have not taken into account the type of organisation (type of partnership or company), its tax position, or the taxation that will occur at the partner's hand. For an evaluation of latent taxes, see the Procedure for the Calculation of Net Asset Value, section 2.4 for real estate projects on dry land, and section 4 for shipping and offshore.

EXPLANATION OF PROCEDURE

1. PROCEDURE FOR THE CALCULATION OF NET ASSET VALUE OF REAL ESTATE PROJECTS

Each individual property is subject to a detailed review of the key elements that in sum form the basis for the valuation of the property. Company specific factors potentially impacting net asset value (NAV) are also considered. This could be special clauses in lease contracts, financing structure, tax issues etc. NAV is then calculated based on the valuation of the property combined with market values of the company's other assets, which in turn are based on the company's last public balance and the last available MTM values. Then, adjustments are made for net cash flow and payments to or from investors (if any) from the date of the last financial statements until the valuation date.

1.1 Valuation of real estate

We will here attempt to describe the elements that in sum constitute the basis for the valuation and the assessment of yield (target or required return) for each **individual property**. We employ two yield definitions: net real estate yield and EBITDA yield, where net real estate yield could be considered as current market practice. The main principles are as follows:

Net real estate yield:

Gross rent
- Insurance
- Real estate tax (only applicable in some municipalities)
- Outdoor maintenance
- Technical risk

= Net rent

Net rent/ Real estate value = net real estate yield

Management costs, accounting fees and fees to board members are not considered in the calculation of net rent. These are deducted to arrive at EBITDA yield.

EBITDA yield:

Net rent
- Management cost
- Accounting fees
- Board fees

= EBITDA rent

EBITDA rent/ Real estate value = EBITDA yield

To evaluate the appropriate yield for each individual property, four main aspects of the project are considered:

1) The Property
2) Lease contract and tenant
3) Financing structure
4) Required return (yield)

In the following, we will go through each of these elements in more detail.

1.1.1 The property

a) The type of property and its location
b) The size, access, exposure, parking, communication etc. of the property
c) The technical standard of the property, including technical installations for ventilation and cooling (capacity and improvement potential), electrical systems, IT systems, electricity, elevators, etc.
d) The general condition of the property, including facade, roof, doors, windows, ports, ramps etc.
e) Utility value, potential adjustment of lots, area efficiency, flexibility of floor plans (ceilings, substructures, duct penetration)
f) Utilisation factor, development potential, restrictions, zoning plans, public decrees
g) Normal operational cost and operational risk over an extended period (5 – 10 years)
h) Price per sqm, relative to area type and site cost
i) Current building cost for a similar property
j) The liquidity of the property, also in case of more challenging times

1.1.2 Lease contract and tenant

a) Review of all lease contracts for each property, including:
- Duration of contract
- Renewal clauses
- Regulations/zoning
- Terms (price per sqm) versus current market rent
- Distribution of costs (owner's cost/ tenant costs), including allocation of common costs
- Security for the fulfilment of the lease contract, including evaluation of the solidity of each tenant

b) Tenant structure in each property, also considering potential future use of the area
c) Vacancy risk
d) Evaluation of overall tenant structure seen in relation to property size, location, operations, business cycle, industry development etc.

1.1.3 Financing structure

The company's financing structure is evaluated based on interest rates, general terms, amortisation plan and the size and leverage of the loan.

1.1.4 Required return (yield)

The above mentioned factors combine to form the basis for a subjective evaluation of the inherent risk of the property, which in turn forms the basis for the assessment of yield.

1.2 Calculation of net asset value (value-adjusted equity)

1.2.1 Market value of the property

The market value of the property is determined as the net rent divided by the required return, or yield.

1.2.1.1 Net rent

Net rent is defined as gross annual rent minus annual real estate related owner's cost. Management cost, board fees and accounting fees are not deducted based on the definition

of net real estate yield. They are, however, subtracted to arrive at the EBITDA yield.

1.2.1.2 Operational owner's cost

The actual operational costs of a property owner, including normalised annual maintenance, may vary depending on the wording of the lease contract. In "standard" contracts, the owner's costs normally comprise property insurance, real estate tax and outdoor maintenance of facade, roof and windows. In addition, it is usually the owner's responsibility to replace technical installations that no longer can maintain their function with a reasonable level of maintenance and service. The owner normally also covers common costs on vacant areas.

1.2.1.3 Common costs/ tenant costs

Normally, the tenant pays for indoor maintenance, heating/cooling costs, maintenance on technical installations, janitor services, snow clearance etc.

1.2.2 Bank debt incl. accrued int.

Bank debt is total bank debt included accrued interest on the last available balance sheet, i.e. per 31.12 and 30.06, respectively.

1.2.3 Working capital

Working capital consist of net current assets, i.e. total bank deposits, accounts receivable etc. minus short term debt

1.2.4 Added value (or discount) from lease contract

For some of the projects presented in this Market Report, rental income is assumed to lie above or below current market rent for the relevant area. We have attempted to make adjustments for this in the Market Report. To the degree that the rental level is above market rent, the "added rent" is discounted over the remaining lease period (the discount rate reflecting the remaining duration and the solidity of the tenant). In the cases where the rent level lies below current market rent, this is to a certain degree included in the net factor being employed (the risk premium is reduced)

1.2.5 Adjustments for differences in tax values and the basis for depreciation

The current tax regime, where profits from share sales in companies subject to partnership taxation is close to tax free, has led to share sale (as opposed to direct property sale) being the dominant transaction model. In a share sale, the current (and already depreciated) tax values are carried forward unchanged. Future tax depreciation amounts are thus different in a share sale scenario and a property sale scenario. When assessing the value of the shares, the net present value of this difference must thus be taken into account.

Over the last years, a market practice for the valuation of such tax positions has emerged, and is being employed by most players in the market. In our Market Report, we assume that the difference between market values and depreciated tax value leads to a corresponding adjustment in net asset value (NAV). For office buildings and retail properties (properties with a 2 % depreciation rate), the adjustment is typically 7 – 10 % of the difference, while for storage, logistics and production properties (buildings with a 4 % depreciation rate), the adjustment constitutes 11 – 13 % of the difference. With effect from (and including) 2009, fixed technical installations shall be separated into a new asset group (asset group (j) and depreciated at a separate depreciation rate of 10 %. This separation happened as a one-off event at the tax assessment for fiscal year 2009. For buildings completed prior to 31.12.2008, and where technical installations are not insignificant, 40 % of the tax value of the building is allocated to the new asset group (j). For buildings completed post 2008, the tax value shall be based on actual building cost. This change in tax regime would normally lead to higher annual tax depreciation. Thus, theoretically, this should impact the valuation of tax positions as described above. To align with current market practice, we have changed the method of valuing the plot in office-properties and thus the deduction of deferred tax. For properties in

Oslo, Bergen, Stavanger and Trondheim, the plots are currently valued at 20 % of the property value. In other large cities, the plots are valued at 10-15 % of the property value. That being the basis, the deduction rate is set at 8 % for properties with a 2 % tax depreciation rate. For buildings with a 4 % tax depreciation rate, there is still used 11 % as adjustment for contingent (latent) tax liability.

1.2.6 Value of loss carried forward

In real estate project organised as limited liability companies, where a loss carried forward is present, 12.5 % (reduced from 13.5 % as this is 50 % of the assumed tax rate from 2016: 25 %) of loss carried forward (according to the last available financial statements) is normally added to the net asset value. Still, individual evaluations will be made, and the adjustment rate may vary from project to project, dependent (among other things) on the size of the loss carried forward and the overall tax position of the company. The loss carried forward can only be utilised at a later point in time, and the adjustment rate to be employed will reflect an assessment of this future value.

1.2.7 MTM of interest rate swaps

For each individual project, recent MTM values are collected from the company's lenders at the time of valuation. This is done to assess the value of the company's interest rate swaps, which may be negative or positive. At a potential termination of the interest rate swaps, with a corresponding realisation of the value of the swap, the company will be liable for 25% tax (assumed tax rate from 2016) on a potential added value, and will benefit from a corresponding tax deduction in case of a negative value. The MTM values received from banks are adjusted for tax with 12.5 % (reduced from 13.5 % as this is 50 % of the assumed tax rate from 2016: 25%), as an estimate of the future value of the tax effect. In the prognosis the future value of the MTM values are estimated by linear depreciation of todays value, towards the expiration of each interest rate swap.

1.2.8 Net Asset Value (NAV)

The final valuation of the equity (Net asset value, or value adjusted equity) is based on the following simplified calculation:

Market value of the property(ies)
- Bank dept incl. accrued int. (as per last available financial statements)
+ Working capital
+/- Added value/value discount of lease contact
+ Net cash flow since the date of the last financial statements
- Dividends or similar disbursements or payments since the date of the last financial statements
- Discount for contingent tax liability
+ Value of loss carried forward
+/- MTM value of interest rate swaps
= Net Asset Value (NAV) / Value Adjusted Equity

Some of the projects also involve shareholder loans or loans from participants. This is regarded as part of the investors' capital and is thus presented as "Sum of net asset value and shareholder/ participant loans". For projects suffering from a significant value decrease, shareholder/ participant loans are not written down – and the result may be that net asset value appears as negative. In these cases, the sum of net asset value and shareholder loans constitutes total investor capital in the project.

In the overview of each individual project, the valuation appears on the lower left side of the page. Here, a "realistic" or base case assessment is presented in the middle column. To illustrate how net yield influences equity, two alternative scenarios (higher and lower yield) are presented on each side of the "realistic" value. In addition, the valuation excluding MTM values is shown.

2. PROCEDURE FOR CALCULATION OF NET ASSET VALUE OF SHIPPING AND OFFSHORE PROJECTS

The net asset value of shipping and offshore projects varies more than land-based real estate for natural reasons. The projected yield and underlying risk are often also higher. When valuing shipping and offshore projects we take into consideration a number of variables, including but not limited to the underlying charter free value of the vessel the cash flow going forward. The estimated residual value of the asset, the financial solidity of the charterer and the projected future return on equity to the investor.

2.1 Vessel's value

Generally speaking we utilise two different concept for ship values. One is linear depreciation from current and historical cost until the present, where the value depreciates to an estimate scrap value by a fixed sum each year over a predicted economic lifetime. The second approach is a brokers' assessment, for which we invite estimates from ship brokers. These estimates are usually provided on a charter free basis. The estimated market value is then adjusted for the premium or discount value of the charter party (depending on the charter rate relative to the market as well as the project structure) to obtain a vessel's adjusted value that reflects both the value of the charter free vessel and the value (positive or negative) of the charter party.

2.2 Net debt

The net debt (ND) is obtained by taking the overall debt less the net current assets (current assets less current liabilities not included in the overall debt). At specific balance sheet dates these values are reported, and between such dates we calculate the net debt by looking at the vessel's estimated cash flow in the interim period.

2.3 Net asset value

The equity is a function of the vessel's adjusted value less net debt and is calculated in the denomination of the project, generally USD, but occasionally also EUR or NOK. The total net asset value is divided by 100 to find the price for a 1 % stake.

2.4 Tax issues

The Investor should be particularly aware of any latent taxes associated with partnership shares when buying or selling such shares.

97 % of net tax-free share income remains tax-free, provided that the owner is a limited company (“AS”) or partnership assessed on a prorated basis at the partners' hand (“deltakerlignende selskap”). Losses are non-deductible. Dividend paid from partner-assessed firms to an exempted firm remains untaxed (tax exemption model).

Unlike the real estate market, most shipping transactions are not conducted as sales of shares, but as sales of the underlying vessel. When the owner no longer owns any vessels, the company is normally wound up promptly. In such a situation, tax positions, including the differences between sales values and taxable balances will fall due for taxation at the time of winding-up. When estimating the net asset value after taxes, investors in the second-hand market should therefore include an estimated net present value of the tax position.

Our calculation of latent tax liabilities and latent tax benefits for vessels and debts discloses a nominal difference between taxable value and real value of the vessel and the debt at the last new year, assuming a constant currency exchange rate. The value of the vessel is here taken as the charter-party adjusted vessel's value at the time of the assessment. Thus, we do not attempt to consider the net present value of future tax obligations.

Pareto Securities

PROCEDURE FOR TRADING OF SHARES

We urge all our investors to contact our sales desk by telephone on +47 22 01 58 99, or contact the business- or project manager for the particular company you are interested in should you wish to buy or sell shares or units.

Trades in shares in limited partnerships normally require the approval of the partnership's board and lender(s). Pareto looks after the communication with the board and the lender in such situations once adequate details have been obtained from the buyer. Normally it takes about seven days to settle trades in partnership shares. By contrast, trades in shares in private limited companies (No: aksjeselskap) are not normally subject to the approval of the company's board or lender(s). Here, too, it normally takes about seven days to settle.

For trades in the second-hand market for real estate, shipping and offshore asset projects - regardless of whether the firm is a partnership or a company - the seller and buyer are normally charged a commission/ brokerage fee of roughly 1.0 % each, based on the gross value of the asset or vessel charged on a pro-rata basis. For trades of shares in investment funds and investment firms, the buyer is normally charged a commission/ brokerage fee of up to 2.5 % of the price at which the share sells, and the seller is likewise charged a commission/ brokerage fee of up to 2.5 % of the price at which the share sells. For internal transfers of shares between companies in the same group where Pareto was not involved as a broker, there is a handling charge of NOK 3 000. This is intended to cover the costs of obtaining the approval of the board and lender(s) and preparing the tax reporting forms, update notice to the Register of Business Enterprises, and other formalities.