Pareto Project Finance AS

Pareto Offshoreinvest AS

4th quarter report 2011

Link: www.paretoprojectfinance.no/avdelinger/forvaltning/offshorefond

Executive Summary

NAV NOK 109/share

POI has a portfolio consisting of 10 projects in diversified offshore segments with a solid contract backlog. With a contract backlog of NOK 106m, mainly strong counterparts and modern units, the company seems well rigged to take part in the anticipated growth in oil services in years to come. NAV per share as of 31.12.11 was NOK 109 per share, up 5.6% for the year and 15% since inception.

Market Development

The underlying growth continues to be strong with the oil industry's investment levels for 2012 budgeted 10% up on 2011, which in turn was up 23% on 2010. Since the bottom in 2009, the oil industry's investments have grown by an average of 15%, which is on par with the previous up-cycle in the period 2002-08. Rising global energy needs coupled with scarce energy resources continues to create long term opportunities.

On the other hand, more restrictive banks, higher bond yields and a weaker equity pricing are having a dampening effect on activity growth, the ability to secure adequate project leverage and on transaction volumes. It remains to be seen how long these conditions will persist. In the meantime, however, the presence of financially weak players and depressed asset prices is also creating favorable investment opportunities for those that have kept their powder dry.

Looking inside the offshore oil services sector, the various segments have evolved differently so far in the cycle. The drilling and subsea markets appear to be in solid shape right now, with high activity growth in the coming years and a solid rise in asset prices already behind us. At the other end of the spectrum we find the seismic and supply vessel markets, which are still plagued by a degree of excess capacity, which will take another year to work off. The long term outlook is however strong and looking at the difference between the current asset pricing and the second hand values in the previous peak, the latter segments appear attractive.

«…ample opportunities for those with capital at hand…»

Portfolio

POI focuses on projects with long term cash flows within the global offshore oil services markets. NAV per share as of 31.12.11 was NOK 109 per share, which gives a return of 5.6% for 2011, adjusted for a NOK 6 per share dividend. The return since inception in 2009 is 15%.

Net Asset Value Development

While the turbulent financial markets took its toll on underlying values, solid underlying cash flows and a rising USD produced an increase in NAV of 1.9% for the second half of 2011. For the year as a whole, NAV was up 5.5%, while it is up 15% since inception. The manager is quietly comfortable that the conservative aspects of the portfolio will continue to produce stable returns going forward.

NAV development

The manager is pleased that we can report a positive development, despite very difficult financial markets. NAV as of 31.12.2011 was NOK 109, up 1.9% on the previous NAV as of 30.06.2011 and up 5.5% for the year.

POI makes semi-annual NAV calculations. Accordingly, the next NAV will be published as of 30.06.12 and will be reported to investors in the report for the second quarter 2012.

NAV is up 15% since inception in 2009. This is a solid return considering the fact that the first investment was made as late as Q2'10 due to a lack of deal flow.

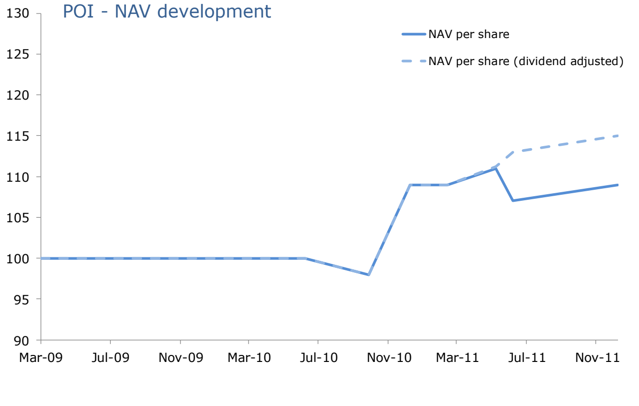
As can be seen in the graph below, the estimated values of the charters, charter free values and cash in the projects constitute NOK 171 per share in POI. The debt in the projects make up NOK 79 per share, leaving a net position in the projects of NOK 92 per share. Cash, tax positions and cost provisions at the holding company net a positive NOK 17 and consequently an NAV per share of NOK 109.

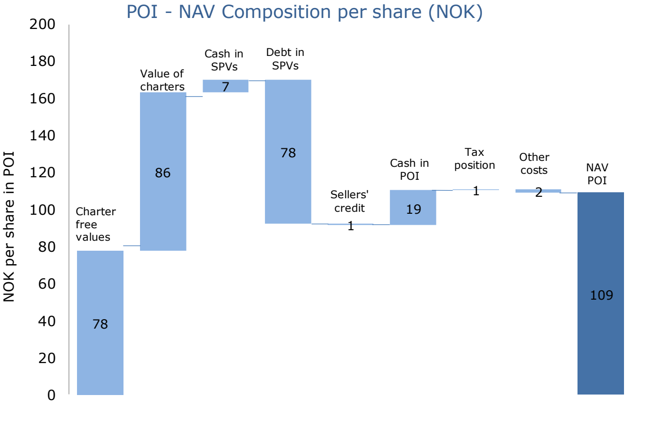
Direct yield

POI has an ambition to make annual payments to its shareholders. Such payments are made within the relevant laws, and may come in the form of ordinary dividends, as well as repayment of capital. The last distribution was done in September 2011 as a NOK 6 per share repayment of capital to shareholders at 30 June 2011.

	Last 6 mths	Last 12 mths	Last 24 mths	Since inception
POI	**1,9%**	**5,5%**	**15,0%**	**15,0 %**
Oslo Stock Exchange	-8,6%	-12,5%	3,6%	65,0%
Offshore Index	4,3%	3,6%	15,5%	142,0%

* Based on OSE101010 Energy Equipment & Service





Portfolio News

POI is invested in 10 offshore projects, which implies an acceptable diversification across different market segments. This section provides an update on the quarter's most important newsflow related to the underlying investments.

MEJU Bond

The jack-up was delivered from the yard in Q4'11 and a contract has been signed to sell the rig to PEMSA, a Mexican rig contractor at an undisclosed price. The transaction is expected to close in February and the bond will be mandatory prepaid at closing. The interest of 15 % p.a. has been paid timely throughout the entire period which has left the bond investors with a solid return at a marginal risk.

Havila Shipping ASA

As earlier described, POI sold the shares in Havila PSV IS with settlement in shares in Havila Shipping ASA. The share price of HAVI has since plummeted from NOK 52,5 to NOK 34,5 at year end. The company is highly leveraged, which at present is not appreciated by the stock market. Be aware that liquidity in the shares is very low as only NOK 9,3m has been traded in the last 6 months. POI still believes this investment will yield adequate returns in the long run.

Deep Sea Bergen Invest AS

DSBI repaid its USD 26.5m bond loan in December through a combination of cash at hand and a new bank loan of USD 10m from Pareto Bank. The bank loan has a term of 4.5 years, equal to the fixed contract term with Statoil on the rig. It is expected that DSBI will be able to make cash distributions to its shareholders from 2013 and onwards.

New investments

The Board and the Manager are actively seeking to optimise the portfolio and are particularly focusing on segments where the outlook is strong, as well as on deals from financially distressed owners. POI is close to fully invested and has invested NOK 11m in Q4'11 in the following two projects:

Offshore Accommodation IS

POI has invested USD 1m in a project which has bought three accommodation barges from Marine Subsea, which folded in 2011. The barges are leased out on 10-year bare-boat charters to African Offshore Services at a competitive equity return. The barges have strong underlying contracts with major oil companies in West Africa. POI has a 2.5% stake.

Songa Offshore SE Bond

POI has invested NOK 5m in an unsecured bond loan to Songa Offshore SE with 5 year maturity and a coupon of NIBOR+10 %. Songa have an attractive rig fleet with high contract coverage, but was forced to issue this high yield bond as they needed financing and a share issue was seen as unattractive at present prices.

Payments from projects

During Q4'11, POI received NOK 1.4m in payments from projects, including Asian Offshore, Master & Commander and Vestland Seismic.

African Installer (part of the fleet in Offshore Accomodation)

Songa Eclipse (part of the fleet of Songa Offshore)

Portfolio

The portfolio is robust with 79% contract coverage and two newbuilding project, which delivers during 2012 at minimal construction risk. POI will continue to primarily seek cash flow yielding projects.

Investments and capital

POI's portfolio consists of 10 projects that own stakes in 16 units (in addition to Havila Shipping ASA). Its cash position as of 31.12.2011 was NOK 11m of which around NOK 2m was reserved for follow-up investments in existing projects. The remaining capital will be used to make distributions to the shareholders, for potential additional capital requirements in existing projects, as well as to exploit new opportunities that may arise.

POI has a life cycle that expires 30. June 2014. The manager has ambitions to build the company further to be able to participate in the anticipated growth in the offshore business. If this is successful, investments may be initiated with a longer horizon than 2014. This is expected to be concluded during 2012. It is expected that distributions to shareholders will increase during the company's lifetime.

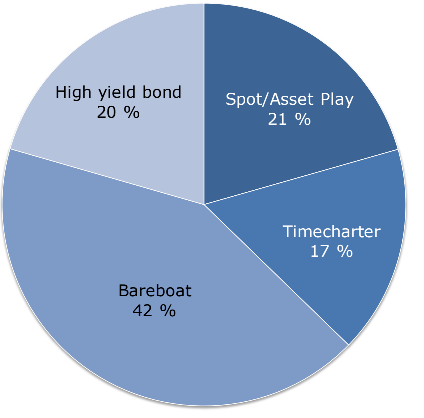
POI's portfolio is constantly evaluated to maximize returns for shareholders, while keeping risks at an adequate level. At present, the contract coverage is 79% (including bonds) and has a gross revenue value of NOK 123m for POI. The average contract length is 3.5 years.

The backlog is spread across several large and solid counterparts and has a balanced exposure between major offshore segments. Contracted revenues per year is also stable and is more than sufficient to cover all debt and operating cost commitments through 2014.

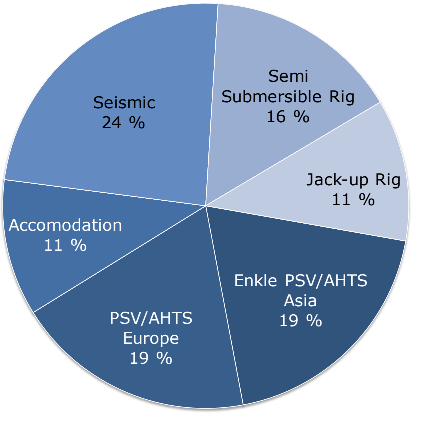
Financing situation in the projects

POI's share of debt in the projects amounts to roughly NOK 47m and newbuilding commitments to NOK 29m , implying an average project leverage around 54%. This is considered healthy, considering the high contract coverage. The repayment schedule is well balanced with the charter structure, and the balloon payments are scheduled in line with project completions and expected asset sales.

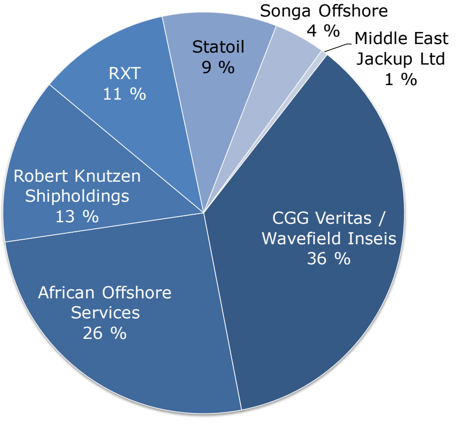
Charterparty Distribution based on NAV



Segment Distribution based on NAV

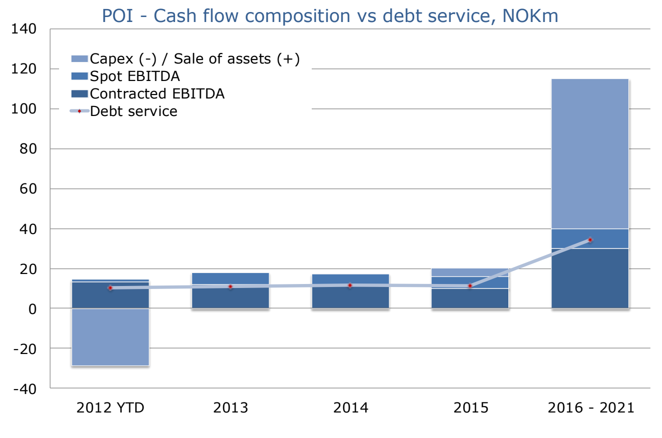


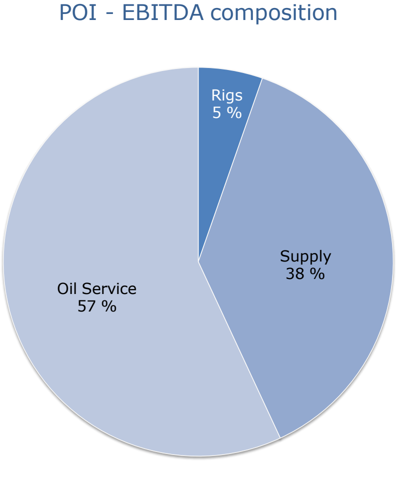
Charter hire backlog by counterpart

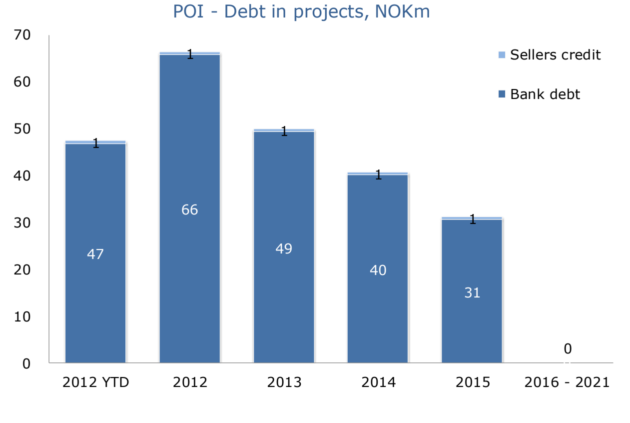


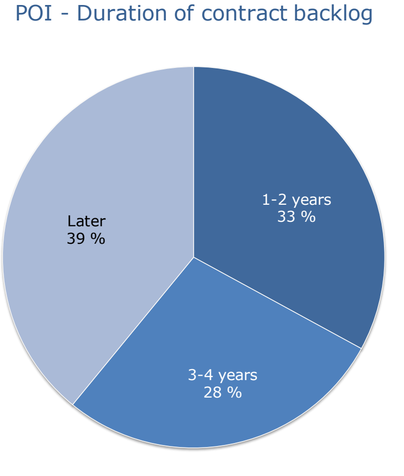
Portfolio (continued)

Project / company	Contract	Charterparty	Charterer	Proportion of NAV
Vestland Seismic IS	Nov-18	Bareboat	Albatross Shipping (RXT)	5,6 %
Asian Offshore IS	Oct-18	Bareboat	Robert Knutzen Shipholdings Ltd.	7,4 %
Master and Commander IS	May-16	Bareboat	Wavefield Inseis ASA / CGG Veritas	18,3 %
Middle East Jackup Ltd (high yield bond)	Apr-12	High yield bond	N/A	11,3 %
Deep Sea Bergen Invest AS	Jun-16	Timecharter	Statoil	6,3 %
PSV Invest II IS		Spot/Asset play		8,7 %
Asian Offshore IV		Spot/Asset play		11,9 %
Havila Shipping ASA		Timecharter		10,4 %
Offshore Accomodation IS	Dec-21	Bareboat	African Offshore Services AS	10,9 %
Songa Offshore SE 2011/2016 FRN	Nov-16	High yield bond	Songa Offshore SE	9,2 %









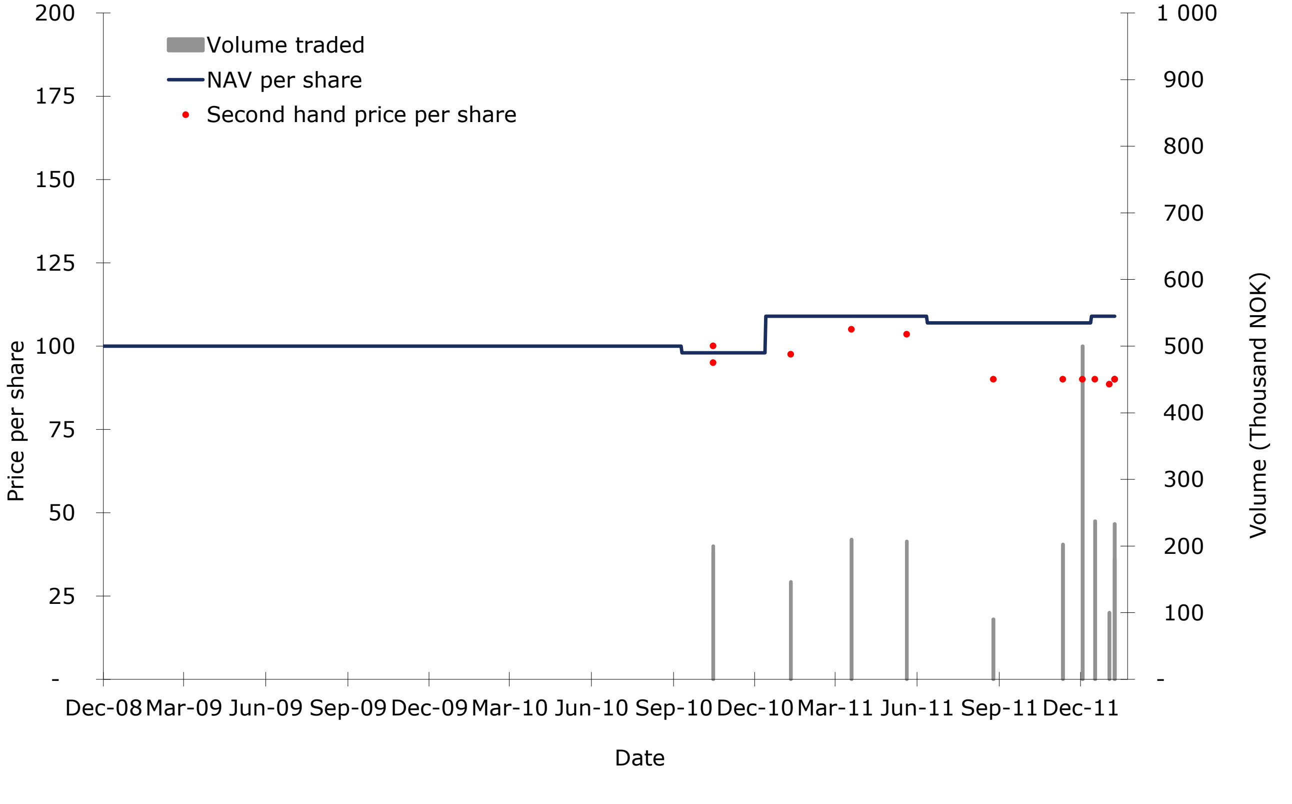
Second Hand Market and Liquidity

As of 31.12.2011 POI had 602,499 shares outstanding. Pareto Project Finance AS (”PPF”) endavours to facilitate an active second hand market for shares. The last trading price was NOK 90 per share. Investors who wish to buy or sell shares should contact their advisors or alternatively PPF directly.

Last 5 trades in second hand market

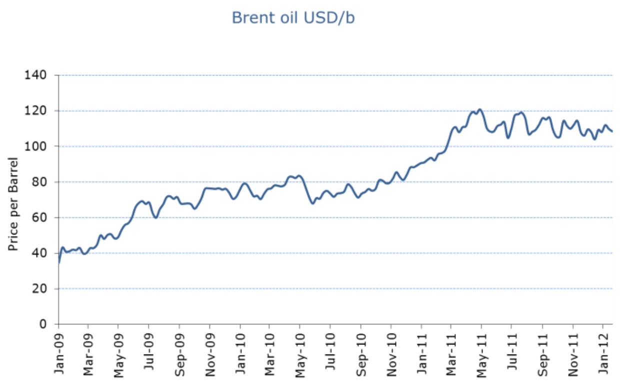
Date	Share price	No. of shares	Volume (NOK)
21.12.11	90	5 556	500 040
04.01.12	90	2 639	237 510
20.01.12	89	1 130	100 005
26.01.12	90	2 000	180 000
26.01.12	90	2 592	233 280

Number of trades since establishment	15
Number of shares traded since establishment	26 667
Volume traded since establishment (NOK)	2 496 585
Average volume per trade (NOK)	166 439

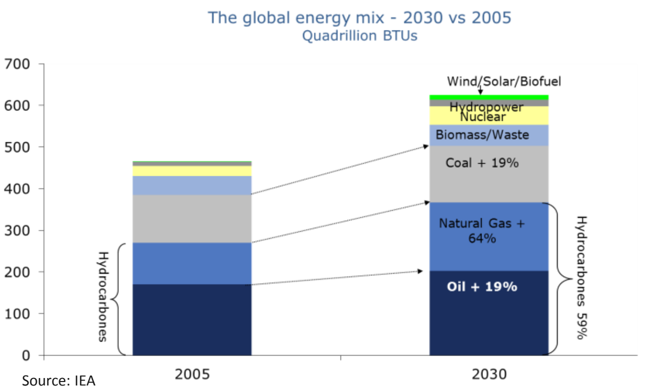


The offshore oil services market

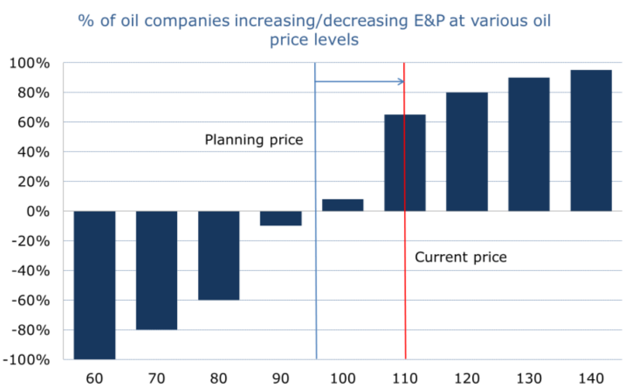
The outlook is positive with an oil price that has stabilised above USD 100/b and E&P spending budgets for 2012 showing 10% growth world wide over 2010. While the financial turmoil is having a dampening effect on growth, there's no denying the strong underlying momentum, which reflects the longer term energy needs of the world. This market is definitely part of a long term growth trend.



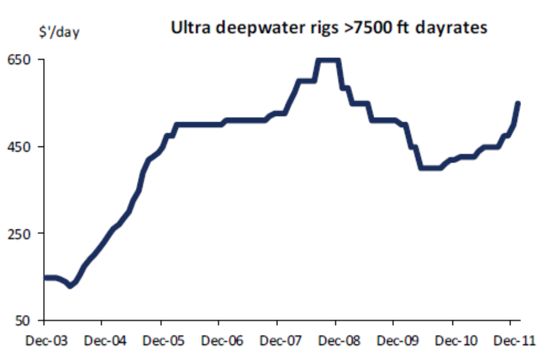
Source: EIA



Source: IEA



Source: Barclays Capital, PGS



Source: ODS-Petrodata, Pareto Securities

The oil market

The oil price (Brent) has stabilised above USD 100/b, despite the negative impact the European debt crisis has had on demand. However, the story of the oil market is not that of declining demand in mature economies, but that of growth in emerging economies. Non-OECD demand is expected to maintain a growth rate of 1.2-1.3 mb/d, despite the financial woes. These economies continue to grow and the energy use per capita is gradually heading towards the level seen in fully industrialised and mature economies.

The natural gas market

Natural gas is the world's second largest energy source, covering 25% of global energy demand. While global energy demand is expected to grow 30% in the next 20 years, natural gas demand is expected to grow twice as fast. The primary driver is electricity demand. A significant part of the global natural gas resources is found offshore, making it another positive driver for offshore oil services in the coming decades.

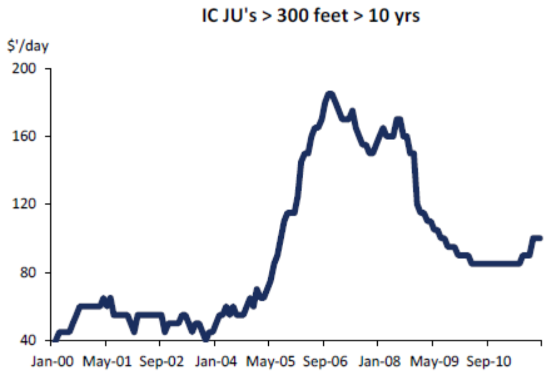
Both oil and natural gas are scarce resources, which are subject to a structural demand growth. Normally, this would dictate that prices should rise, and that is precisely what is happening. Globally, the oil industry expects to invest 10% more in oil and gas exploration and production in 2012 than it did in 2011. Interestingly, the plans are based on an oil price below USD 100/b for Brent. As can be seen to the left, there is upside potential if the oil price stays where it is now.

The market for floating drilling rigs

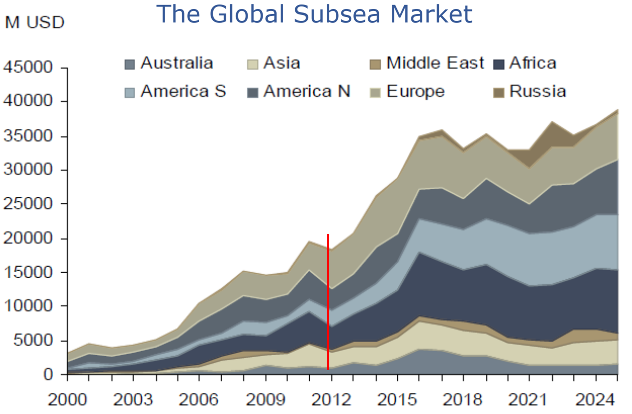
There is particular strength in the ultra deepwater markets, where dayrates have climbed from a low of USD 400k/d to the present level of USD 550k/d. While Brazil has been the talk of the town in the past few years, West Africa is perhaps the most interesting market right now. With 150 deepwater wells planned for each 2012 and 2013, rig demand could easily double in this region. East Africa is another upcoming area, where there have been some very large deepwater natural gas discoveries in recent years.

Finally, the large discoveries in the North and Barents Seas means Norway will be a hot market for high spec rigs in the coming decades. This means more work for the older rigs and a need for new capacity to manage the planned activity growth.

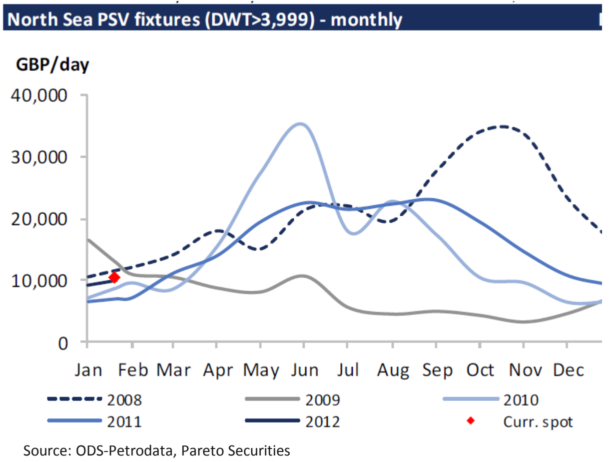
The offshore oil services market



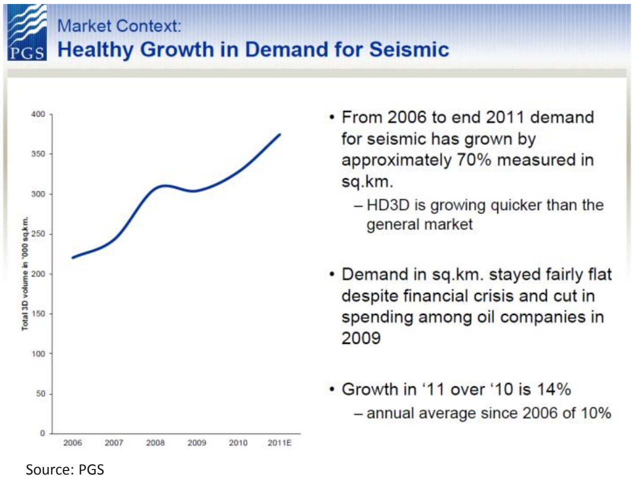
Source: ODS-Petrodata, Pareto Securities



Source: Rystad Energy, ABG Sundal Collier



Source: ODS-Petrodata, Pareto Securities



Source: PGS

Jack-up market

The jack-up markets are also continuing to improve. Perhaps the most interesting feature is that demand and dayrates for older units have staged a remarkable recovery. In some areas the markets are sold out, and we've seen some of the large US rig contractors reactivate stacked units against some very encouraging contracts.

Subsea

Demand in this market is the most visible of all, as it is primarily driven by the oil industry's field development and infrastructure plans, both which are subject to long planning horizons. The overall trend is that of more remote and more complex developments, which means increasing oil service intensity and an over proportional demand growth. The vessel markets have been plagued by the tail end of the previous newbuilding cycle, while demand is only now really set to pick up. We expect 2012 to be flat on 2011, but 2013 to represent a significant step-up.

Supply vessels

Demand is growing along with overall activity levels and is set for another boost when the current rig newbuilding order book starts delivering from 2012 and onwards. The outlook is better for large AHTS vessels due to a very limited order book. For PSVs, the order book is significant, particularly for large vessels, but it seems reasonable to expect a balanced market this year, perhaps with a better North Sea spot market season than last year. In the long term, the Norwegian market looks particularly encouraging on the back of the significant discoveries made last year. Potential tightness in the market will be exacerbated by rising deepwater rig activity, which will demand much the same capacity as that being used in Norway.

Seismic

In this market, too, the tail end of the previous newbuilding cycle has put a damper on utilization and dayrates, while demand has reached record levels. With the Gulf of Mexico now set for a full recovery, things look a lot better, particularly for high end vessels. A surge in exploration activity in Norway is also expected following the recent oil discoveries. Reportedly, dayrates for this year's summer season in the North Sea are showing decent gains. Market participants are also encouraged by a majority of the oil companies planning to raise exploration spending more than overall E&P spending, which is always a bullish signal for this industry. Don't expect 2012 to be a great year, but things definitely look better as we head towards 2013.

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Historic returns and return forecasts do not constitute any guarantee for future returns. Returns may vary as a consequence of fluctuations in currency exchange rates. Investors should be aware that there is significant uncertainty related to valuations in the current volatile market. The valuation process is described in PPF's market report as per September 2011. Risks and costs are further described in the prospectus (information memorandum) produced in relation to share issues in the Company.

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