2012 was in many ways a good year for Aker

We work hard and focused at Aker, and we're now reaping the benefits of years of systematic work. We got a few things right, which created shareholder value in 2012:

- The share price rose 37 per cent, from NOK 155 to NOK 212.
- Dividends rose from NOK 10 to NOK 11 per share.
- We achieved a total shareholder return of 44 per cent.
- Aker's net asset value rose from NOK 269 to NOK 321 per share, a 25 per cent gain including dividends.
- The discount – the difference between net asset value and the share price – narrowed from 42 per cent at the end of 2011 to 34 per cent at the end of 2012.

I think most clearly when I have figures in front of me. My partner, Aker's President and CEO Øyvind Eriksen, looks straight through all my numbers, and shakes his head.

He's analytical. Øyvind focuses on the people working for Aker and Aker-owned companies, the changing markets, the positioning of our competitors, looming risks and potential opportunities. In short, he focuses on how our group can succeed through role models and motivated employees with the right attitudes.

Øyvind puts his words into action. What he says is 100 per cent consistent with what he does. He's quite simply a good partner.

The figures tell of progress on many fronts, although there is still room for improvement. Aker's progress is due to skill, a bit of luck, and, most of all, good game plans for the growing markets in oil and gas services, solid leadership in most of Aker's businesses, and impressive efforts of employees all over the world. Aker-owned companies employ almost 40 000 people – permanent employees and external consultants included – in over 30 countries, on all continents. This requires active ownership and leadership.

Aker Solutions is, and will continue to be, the largest and most complex company in our portfolio.

With Øyvind as Executive Chairman of Aker Solutions, Aker has worked even more closely with, and gained valuable insight into, the company. It took a lawyer like Øyvind. Hundreds of managers and thousands of engineers help make Aker Solutions the shining jewel in Aker's crown.

Øyvind has charted a clear course since taking over as Executive Chairman in June 2010. He and his team at Aker Solutions have managed to tackle Newton's first law, the law of inertia. This states that an object will remain stationary or maintain a constant speed unless a force is applied to it, or the sum total of the applied forces is zero. A company governed by Newton's first law will oppose any change of direction, or renewal.

The cooperation between Aker Solutions and Aker as an active owner is seamless and based on mutual trust. The absence of internal politics and differing agendas gives us energy and direction to achieve common goals. We share the joy of progress and the

lessons of adversity in a manner that inspires and builds the organisation.

Aker Solutions puts the customer first. Customer satisfaction is as important as financial results. This policy is imparted by top management to every individual in the company. Aker Solutions' customer focus influences both its tender work and its handling of situations that arise during project execution. When Aker Solutions is at its best, it's always when it's in sync with the client.

Statoil has been the single most important customer for Aker Solutions' development. Together, the two companies have been able to perform tasks offshore that few others can match. The most recent example is the Åsgard "subsea compression" project, which is being closely watched by the entire oil and gas industry. The project has already won prestigious awards for innovation. Statoil deserves recognition for its leading technological role and the ripple effects this has had on the supplier industry. The importance that Statoil has for Aker Solutions cannot be overstated.

As part of streamlining Aker Solutions, Kvaerner has been demerged, and business areas considered non-core have been sold off. Aker Solutions is being developed into a global supplier of products, systems and services to the oil and gas industry. In 2012, the company's stock was a winner among oil service companies globally.

Aker Solutions' progress is being noticed and applauded in the stock market. The company plans to double revenues from 2012 to 2017, which means achieving a turnover of NOK 90 billion in current business areas, an EBITDA margin of 15 per cent and an EBIT margin of 12 per cent.

Growth will for the most part be organic. Aker Solutions' five-year plan envisages only smaller, complementary acquisitions. Aker Oilfield Services will be sold or spun off to shareholders. If the plan comes off and the market remains strong, Aker Solutions will be rock solid, with zero net interest-bearing debt in 2018.

The plan is ambitious, but it's doable. It has support from the bottom-up, and has been checked and approved from the top down. Every part of the organisation has taken ownership of the plan.

Clearly, this plan won't show steady, linear progress in revenue growth and profits from month to month. Some operations and business areas will exceed expectations, while others will provide disappointments. Progress should not be measured from one quarter to the next, but rather how the long term trend looks.

Some analysts felt Aker Solutions' results were disappointing in the third quarter of 2012, and even more so in the fourth quarter, I look at the year as a whole and what the trends indicate for the company overall and for the key subsea area in particular. I feel there are many at Aker Solutions who deserve recognition for the job they have done and continue to do. This bodes well for the shareholders.

The Greek philosopher and naturalist Aristotle once aptly stated that, *"We are what we repeatedly do. Excellence, then, is not an act but a habit."*

Aker Solutions is on the right track.

Kvaerner's order intake was strong in 2012, but some important EPC contracts were lost.

The Norwegian continental shelf is the world's largest offshore market, and will continue to be so for many years. Competition revolves around price, quality, capacity and project execution.

We are forced to adapt. Kvaerner needs to take a new look at what it should work with and how we can improve.

Shell awarded Kvaerner an expanded long-term framework contract for modification and upgrade works on the Ormen Lange/Nyhamna onshore facility. Lundin awarded Kvaerner the EPC contract for the Edvard Grieg field, even though the yard work was more expensive than Asian competitors. Swedish-owned Lundin chose an integrated Norwegian execution, based on Kvaerner's record of on-time and on-budget delivery. In the concrete construction segment, Kvaerner has consolidated its position as the world's leading supplier by winning a new contract with ExxonMobil for the Hebron field off the coast of Canada. In China, Kvaerner has established a partnership with the COOEC yard for collaboration on future projects.

Still, there are warning lights blinking. Kvaerner lost seven EPC contracts in the Norwegian domestic market between December 2012 and February 2013. Kvaerner Stord won none of its four topside bids. Kvaerner Verdal was unsuccessful in its bids for three jackets.

Customer feedback shows that the biggest price difference lies in the fabrication stage. In other areas, Kvaerner was more competitive.

Kvaerner and Aker have been working closely with our customers to deliver top quality for 40 years. Our companies have been involved in almost 90 per cent of all field developments on the Norwegian continental shelf. Kvaerner is losing out to Asian yards, which currently have excess capacity due to low shipbuilding activity. This merits some reflection.

Also worth noting is that Norwegian construction yards have not been able to make a profit in the past four decades. Offshore yards have made profits on some contracts, but there have been too many loss-making projects. Lack of profit has limited the ability to invest in our yards and infrastructure in order to increase our productivity. This has created a downward trend.

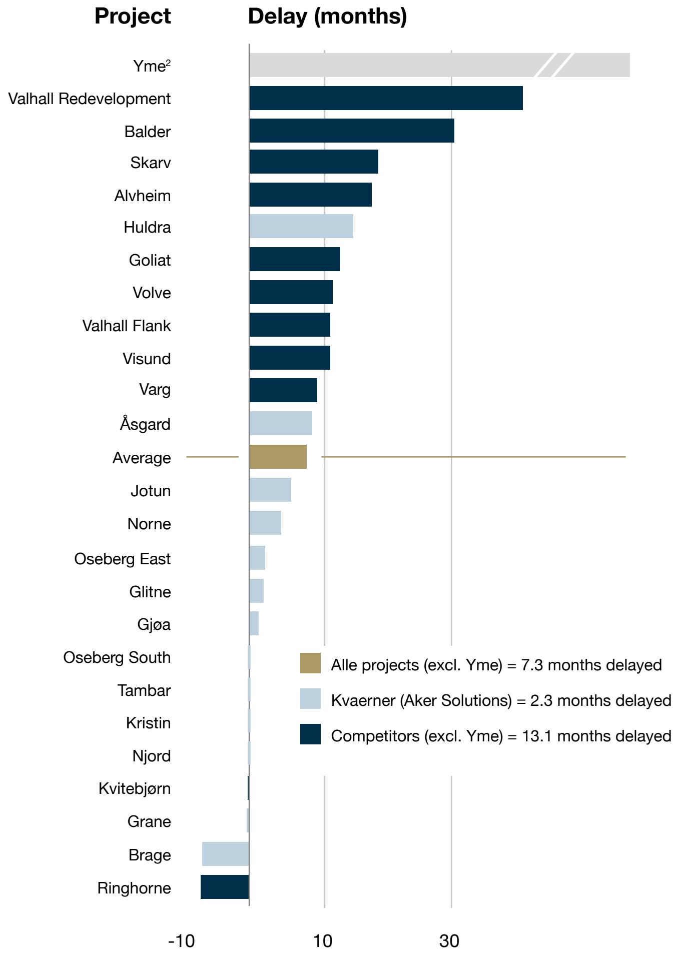
I first learned this lesson right after becoming Aker's largest shareholder in 1996. At that time, I was told that the construction of Njord for Norsk Hydro was a "plus-minus zero project". In the end, this prestigious project caused the Aker shareholders a loss of NOK 1.0 billion.

The words of the late Danish businessman Simon Spies are fitting to Norwegian offshore yards: *"The most difficult thing about doing good business deals is avoiding the bad ones."*

Statistics from Rystad Energy provide a crystal clear picture of field development projects on the Norwegian continental shelf (Figure 1, next page). They show that from 1990 until today the average development suffered delays of 7.3 months compared to the production start date specified in the plan for development and operation (PDO). The average delay on projects for which Kvaerner/Aker Solutions were responsible during this period was 2.3 months. Other projects were completed as much as 13.1 months late.

For more recent projects – fields with production start-up after 2010 – the contrasts are even more apparent. Thus far, the two projects executed by Norwegian yards were delivered on time, in accordance with the planned production start-up date, and only 6 per cent over the cost estimated in the PDO. On the other hand, foreign yards

Figure 1: NCS project delays[1] since the 1990's



[1] Delays calculated from initial planned first oil (at PDO) to actual/currently planned first oil
[2] Yme will be decommissioned

Source: Rystad Energy study, adding Goliat

have on average delivered 2.2 years later than the planned production start-up date, with cost overruns totalling 39 per cent in the same period.

These are facts that should prompt more than just the Norwegian supplier industry to stop and think.

Kvaerner's customers are professional and demanding principals.

The oil companies have large and complex tasks to perform. No two oil fields are the same. Every development requires individual adjustments and special solutions, and the work is typically performed under pressure from both schedules and budgets. The execution of development projects is a demanding exercise for both client and contractor.

Figure 2 on the next page illustrates some of the fundamental challenges inherent in the fabrication of topsides for platforms and field developments on the Norwegian continental shelf. As a rule, development projects have an execution period of about three years from the time the PDO is approved by Parliament until production start, and the field installation needs to take place at a certain limited period of the year. A window opens typically around 1 May, and closes in September. Due to the weather conditions, this window is the only period during which offshore oil and gas installations can be completed.

The figure shows that contracts are awarded before the design is finalised and before final, critical information is received from equipment sub-suppliers. Customer specifications form the basis for the pricing of the tender for the platform, topside, jacket, technologies and equipment. Contracts are awarded based on an early engineering study, called Front End Engineering and Design (FEED). The concept is selected at this point, but detailed engineering remains.

This phase requires close coordination and communication between client and contractor. It takes almost two years from the contract is awarded to the design is complete, i.e. at milestone M3A in the figure.

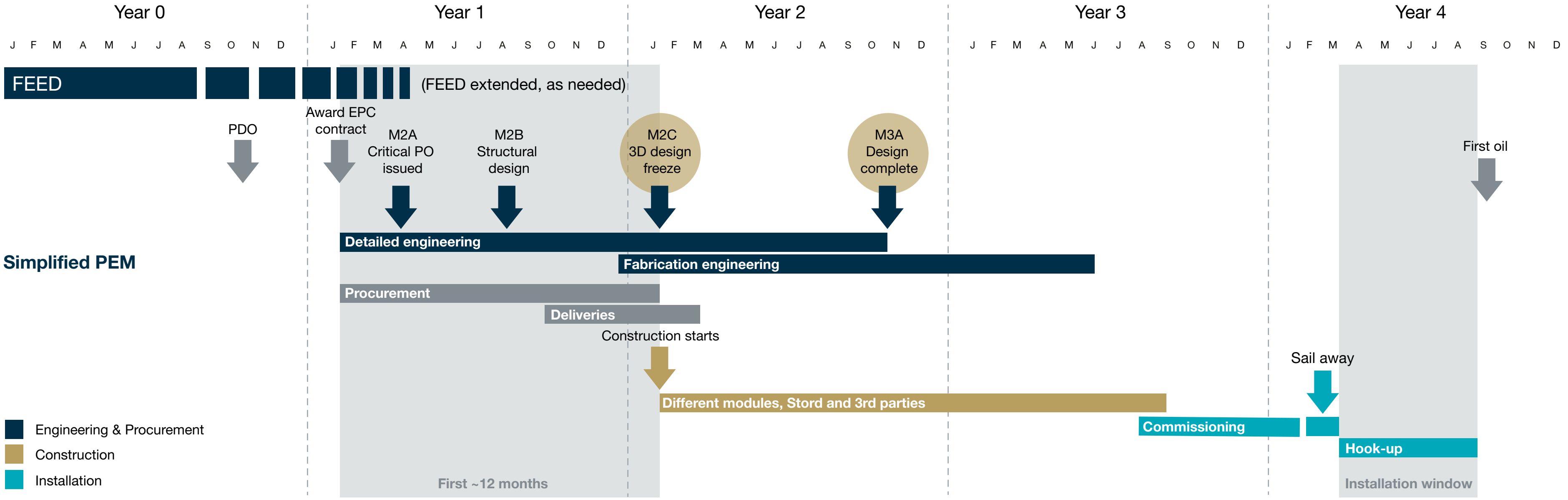
The most important milestone for assessing whether a project will be completed on time and at the agreed price is the completion of M2C. This normally occurs 12 to 13 months after the signing of the contract. The customer is entitled to make changes throughout the project period. The yard is obliged to perform the work and make the changes requested by the customer, and price discussions normally take place afterwards.

This contractual regime results in suppliers and clients having to negotiate payments on increased work scope and changed orders. It is therefore not unusual that the final price of the project is only determined once the installation produces its first oil.

This process can be illustrated on a smaller scale by a situation familiar to many: building a house or cabin. Once the architect is finished, the design is settled and the construction drawings are complete, the risk of cost overruns and delays is reduced. The easiest and most predictable option is to choose a pre-fabricated house or standard cabin delivered with the key in the door.

Kvaerner has collaborated closely with its customers to develop an optimal turnkey execution model for complex field developments. In recent years, the oil companies have generally been able to take

Figure 2: Success determined early in the first 12 months


Year 0
Year 1
Year 2
Year 3
Year 4
J F M A M J J A S O N D
FEED
(FEED extended, as needed)
PDO
Award EPC contract
M2A Critical PO issued
M2B Structural design
M2C 3D design freeze
M3A Design complete
First oil
Simplified PEM
Detailed engineering
Fabrication engineering
Procurement
Deliveries
Construction starts
Sail away
Different modules, Stord and 3rd parties
Commissioning
Hook-up
Installation window
First ~12 months
Engineering & Procurement
Construction
Installation

delivery of their projects on time and on budget, but Norwegian offshore yards have not made money.

Some will argue that the industry has brought this upon itself. Some will quite rightly point out that the H6 rigs were an economic disaster for Aker and resulted in significant delays for our clients, Statoil included. Both we and the client learnt the hard way that restructurings are demanding and complicated. Stord specialises in topsides and integrated platforms, and the H6 rigs were the yard's first attempt at building rigs for many years. The project went several billions over budget. But leaving the H6 project aside, Norwegian offshore yards have in sum lost money.

I take the liberty to think aloud for a moment and make a bold assertion: foreign yards account for the bulk of the cost overruns on the Norwegian continental shelf.

Thus far, the Skarv, Goliat, Yme and Valhall projects have reported cost overruns totalling NOK 48 billion, according to PDO figures in the government budget. While the original contract values totalled NOK 97 billion, estimated costs now amount to NOK 145 billion. In addition, delays to "first oil" will result in huge losses in production revenues.

A common denominator for these projects is that they are using foreign yards and suppliers. The four most recent development projects delivered by foreign yards have been delayed by an average of 26 months compared to the planned production start-up date.

One by one, yards in South Korea, Abu Dhabi and The Netherlands are encountering difficulties when building to the Norwegian Norsok standard. In March 2013, it became clear that the Yme platform had to be scrapped, sealing the fate of an unmitigated disaster project.

Think about it: the Norwegian State is in reality paying 93 per cent of the cost overruns on these four projects, due to the tax system for offshore developments. In other words, the Norwegian taxpayer is funding the international supplier industry to the tune of NOK 40 billion in connection with their work on the Norwegian continental shelf.

I am amazed that these cost overruns, spearheaded by foreign yards, do not feature more prominently on the Norwegian political agenda. NOK 40 billion equals three times the State's annual revenue from the much discussed Norwegian wealth tax. It is apparently simpler to discuss ideology than it is to grapple with real industrial challenges. As an industrial and knowledge-based society we are also dependent on building things in this country. The two are interlinked and they create values.

Given these facts, what will the answer be?

I fully appreciate and understand that oil companies go to the yards they believe offer the best solutions at the lowest price. I am grateful for all of the work Kvaerner has been awarded over the years, and we accept the challenge that we need to improve. In the past 40 years, nobody has invested more in yards – shipbuilding and offshore – along the Norwegian coast than Aker and Aker-owned companies. Our competitors to the East often have larger, better construction facilities than Norwegian offshore yards. Kvaerner has invested in improving capacity and productivity. At Stord, for example, NOK 350 million was recently invested in a larger crane to further streamline the production process. I still believe that Norwegian offshore yards will continue to be important partners for oil companies operating on the Norwegian continental shelf, but we all have to learn from our losses.

Our offshore yards have much to learn from Norwegian shipyards. They are profitable in building relatively simple work boats for the oil companies and advanced offshore vessels, while competing with Asian shipyards. Norwegian offshore yards must develop a more competitive delivery model in cooperation with fabrication yards in low-cost countries. The alternative is to concede defeat. Norwegian shipyards have proven that competitiveness is about more than just lower wages for skilled workers in Norway. It can also be about solid and predictable interplay between customer and supplier.

In any event, Kvaerner lost the most recent EPC contract awards and as chairman of the company's board, I have a large, personal responsibility in this. Perhaps we were too eager and didn't assess the market or the competitors correctly. Clearly, we failed to communicate our track record of on-time, on-budget execution, which is so crucial to "first oil".

The Edvard Grieg project will be an important point of reference, not just for Kvaerner but for all EPC contracts recently awarded on the Norwegian continental shelf. So far, the project execution is proceeding according to schedule. The platform is scheduled to start production in the Fall of 2015. At that point we'll have the answer to whether, as the Rema supermarket slogan goes: *"It's the sum of the parts that counts."*

True to form, the elephant discovery Johan Sverdrup in 2012 reinforced the sentiment among Det norske's shareholders that exciting times lie ahead. What lies ahead for Ivar Aasen is less certain.

The departing CEO of Det norske, Erik Haugane, founded the company (then called Pertra) in 2001. As the company's leader, he has created great value for all shareholders. Erik has been responsible for a considerable portion of Aker's shareholder value since 2009. At 60, Erik is now retiring in accordance with his employment contract. On behalf of all of the shareholders, I would like to thank Erik for his efforts and everything he has done for Det norske.

We've entered a new era. The Johan Sverdrup field will generate major revenue for the Norwegian State and billions for the partners over the coming decades.

Analysts and experts have differing opinions on world economic trends, the importance of shale gas, the consequences of shale oil and future oil prices. Though I know we'll experience some volatility, I believe that oil prices will remain at current levels in the longer term. In my opinion, owning oil directly is a solid investment and a good future hedge.

Regardless of one's own view on crude prices, Johan Sverdrup is well-equipped to meet oil price fluctuations. While field capex investments are sizeable in nominal terms, they are relatively low in terms of per barrel of oil. Opex costs over the life of the field will also be relatively reasonable. Johan Sverdrup is truly a "company maker" for Det norske.

Det norske's first operatorship is the Jette development, a subsea installation with two satellite wells linked to Jotun B. The drilling operations have proven to be more complex than expected. Det norske booked a write-down of NOK 1.9 billion for the Jette field in 2012. Not a good start for Det norske as operator.

The next field development for Det norske as operator is Ivar Aasen. The plan for development and operation was submitted in December 2012. Originally, contracts were to be awarded in 2012, but the decision was delayed until 2013. Det norske has awarded the construction of the Ivar Aasen topside to Asia.

Det norske and the partners in the Ivar Aasen licence, Statoil and Bayerngas, chose the SMOE yard in Singapore and engineering partner Mustang, not Kvaerner, with Aker Solutions as engineering services partner. The contract was awarded to a novice in the construction of topsides for the Norwegian continental shelf, rather than to companies with over 40 years of experience from field developments offshore Norway.

The total development costs for the Ivar Aasen field are currently estimated at NOK 25 billion, with a pre-"first oil" investment cost of NOK 18 billion. Det norske owns 35 per cent.

I am convinced that the development of Ivar Aasen will be more expensive than budgeted, and that production of first oil will occur later than planned. I probably should keep quiet, but I can't.

My contention is based on long industry experience, particularly on the Norwegian continental shelf. It's not often I hope to be proven wrong, but in this case I do.

My concern for cost overruns and delays is grounded in rational analysis of the facts. Nobody knows the Norwegian continental shelf better than Kvaerner and Aker Solutions, and I have been involved as the principal shareholder for the past 17 years.

My argument is not intended as a defence of Kvaerner, but I do want Det norske to limit its risks and increase shareholder value. Det norske has previously awarded subsea contracts (for the Jette development) to a competitor of Aker Solutions, while the Ivar Aasen jacket went to Italy.

It was Det norske that qualified one of Aker Solutions' competitors, the third subsea supplier on the Norwegian continental shelf. This was right for Det norske, and therefore right for us. Det norske awarded the contract to construct the jacket for Ivar Aasen to an Italian yard that had never previously built a jacket for the Norwegian continental shelf, rather than to Kvaerner Verdal. I can accept this decision, even though it pushes the boundaries of my comfort zone. The yard is located in Sardinia, one of my favourite sailing destinations. I never imagined, however, that a company in which Aker owns 50 per cent would risk building a jacket at a yard that has been closed down in recent times.

My greatest concern is that the topside for the Ivar Aasen platform is to be built in the Far East. That is well outside my comfort zone.

The value of Aker's shares in Det norske is seven to eight times that of Aker's shares in Kvaerner. The market value of Aker's shares in Kvaerner is around NOK 800 million, while its stake in Det norske is currently valued at about NOK 6.0 billion. I view Det norske as a major value generator and a potential future dividend machine for Aker, but the company must avoid getting lost along the way.

Before the tender process started, Aker strongly advised Det norske to choose a familiar development concept and suppliers with experience from similar projects on the Norwegian continental shelf. We did so because we believed that this would be the best solution for Det norske's shareholders and the Ivar Aasen partners – the solution that carries the lowest risk of cost overruns and delays.

Of the three yards that Det norske selected for final negotiations, only Kvaerner met these criteria. The board of Det norske appointed board members to a special committee that reviewed the Ivar Aasen tenders in cooperation with management. The committee recommended Kvaerner and supported management in its wishes to award the contract to Kvaerner. Still the Ivar Aasen licensees chose to go East for the building of the topside.

Yes, there was a price difference. However, in Aker's view, the difference was not large enough to assume the risk of building at a yard in Singapore. We have no problems in understanding Statoil's decision to go to Asia for its topsides. Statoil has a highly qualified and seasoned organisation, with sufficient resources to perform its own thorough follow-up.

While Det norske employs many skilled people, following up the Ivar Aasen project will require that the young oil company put together a new team. Everything is new. Project follow-up will be conducted by a team of around 150 to 200 recently hired external consultants and employees. The team is playing away from its home field. The arena is an eastern yard that has never previously delivered a topside for the Norwegian continental shelf. The task is complex and communication will be challenging. Moreover, I fear the chosen partners will use the Ivar Aasen development to "learn on the job".

I ask, "Will Det norske be able to outperform the average for the Norwegian continental shelf as regards cost overruns and delays?"

Cost overruns will be heavy to bear, and delays will have an even greater financial impact on Det norske than overruns alone. Late start-up of oil production at the Ivar Aasen field may have significant consequences for the funding of the Johan Sverdrup development.

The rules of algebra state that the order of factors is irrelevant, but this is not the case here. If Johan Sverdrup were ahead of Ivar Aasen in time, I would not be so concerned. The distinctive Norwegian tax system compounds the problem for Det norske. The company will have insufficient oil production against which to offset budget overruns.

My scepticism is not due to a lack of confidence in the people working on the Ivar Aasen development. Some people at Det norske will probably be frustrated at my communicating my views in this way. At the same time, I hope that those responsible for implementing the project will be motivated to prove me thoroughly wrong. I know the team is strongly motivated to do a good job.

In Naked Truth and Veiled Illusions, the American author Minna Antrim wrote: *"Experience is a great teacher, but she sends in terrific bills."*

If I am proven wrong, I deserve to be reminded of it in no uncertain terms.

Ocean Yield is generating profits from day one. Aker will already receive dividends totalling USD 40 million from the new venture this year.

Aker established Ocean Yield as a wholly-owned subsidiary in 2012 and brought Lars Solbakken on board as the CEO. Few people in the world know the oil service and industrial shipping markets better than him.

I have known Lars since he was a young, promising and demanding banker in Seattle in the 1990s. At that time, I was a fisherman who needed financing. Together with two colleagues, Lars has now built up a super-efficient organisation that manages marine assets worth NOK 9.5 billion.

A dividend machine has to keep operating costs extremely low. All ships in the portfolio are on long-term charters, typically bareboat agreements for terms of five to 12 years. The customers enjoy attractive financing terms, and the return on Ocean Yield's capital is reasonably predictable and satisfies Aker's return requirements.

The risks we assume concern the counterparty's ability to continue to pay its charter hire, the residual value of the ship once the lease period expires and the market for the ship at that time. These issues are extremely important to Ocean Yield.

At the beginning of 2013, Ocean Yield had an order reserve that will generate total EBITDA of over NOK 10 billion. The average remaining charter period for the ships in the portfolio is 7.2 years. Aker will make active use of the capital markets to further develop Ocean Yield.

Aker BioMarine was delisted in January 2013.

I didn't like it, but we had no choice. Aker BioMarine's second largest shareholder for several years wished to sell its stake in the biotechnology company.

The result of our discussions was a merger between Aker BioMarine and Aker. None of Aker BioMarine's shareholders voted against the merger.

Aker BioMarine has lost money every year since it was founded in 2006. Losses are decreasing every year. I can accept losing money when I really understand why. This facilitates good decision-making that lays the foundation for developing profitable, healthy businesses.

Opinions about Aker BioMarine differ within Aker. Some believe that the company will succeed, while others are more sceptical. Even though it has taken us longer to develop Aker BioMarine than planned, I remain confident that the company will create substantial shareholder value and that Aker BioMarine will in the end become a "game changer" for Aker.

In saying so, I have reserved the right to break one of Aker's "10 commandments" that I put in my letter to the shareholders two years ago, that is, commandment number 10 which states: we never say ”I told you so!”.

I have left the Aker BioMarine board because it is now a wholly-owned and unlisted subsidiary, but I will spend even more time on the business in future.

Aker BioMarine puts me in a good mood. There are many challenges, but the company has vitality and pride. Management staff comprises 39 highly competent employees from nine different countries. The two krill-harvesting vessels are crewed by a total of 330 hardy fishermen and seamen.

The harvesting vessels Saga Sea and Antarctic Sea compete every day to be the best vessel. They operate in a sustainable and environmentally friendly manner in the challenging but beautiful Southern Ocean.

Every day, 3.5 million consumers use Superba Krill™, and I believe that sales can be multiplied many times over. I monitor catch volumes and sales trends on a daily basis. There are major growth opportunities for krill-based products and applications.

Aker BioMarine’s largest customer is the American company Schiff Nutrition International. Schiff’s most important product is MegaRed, which contains Superba Krill™. MegaRed is the most-sold dietary supplement in the US. In 2012, the giant Reckitt Benckiser Group Plc bought Schiff for USD 1.4 billion, and both the price and statements by the new owner communicate great faith in Aker BioMarine’s primary product. The Reckitt Benckiser Group has high growth ambitions and has the potential to give new impetus to Aker BioMarine and Superba sales.

Following many years of focused efforts, it is motivating that we can now start seeing returns on our investments. I am inspired by the prospects of future success with ingredients, products and solutions in the pharmaceutical and drugs segments. I would not rule out the possibility of this happening more quickly than many believe. I want to say “I told you so.”

Aker’s investment in Aker Seafoods and Norway Seafoods should have gotten me a “red card.”

I was confident that the Norwegian white fish industry could be structured in a sensible manner, but this has proven to be impossible. Cod, saithe and haddock have been a disaster for Aker and Aker Seafoods’ shareholders.

In 1996, our ambition was to invest in the modernisation of the filleting industry and the trawler fleet. We have done so. Aker has invested almost NOK 2.0 billion in the harvesting company Aker Seafoods and the processing company Norway Seafoods. In sum we have made substantial losses. Many of our competitors have closed their factories. Three out of four jobs in the filleting industry have been lost, but Aker has continued to invest.

I have pushed for this investment. Since I fished for cod for the first time in June 1977, 90 out of 100 filleting factories have closed their doors. Aker Seafoods, which will now assume the time honoured name of Havfisk, currently owns seven of the remaining factories, and has not closed a single filleting plant. The Norwegian filleting industry has lost money for many years.

I have had a long-term focus. Some have tried to make me the symbol of an industry in decline, and some have claimed that Aker is the actual problem.

Aker Seafoods and Norway Seafoods have spent much time meeting public officials and travelled up and down Norway to listen, learn and share knowledge about what is needed to ensure profitability at all stages. The aim is to build a sustainable whitefish industry. Ideas to improve industry profitability has been noticeably absent, particularly in the coastal areas themselves.

Instead, local media headlines have focused on potential factory closures in Hammerfest and Melbu. Opinions differ. I value engagement and local loyalty, but it is important to accept the reality that onshore factories are losing money. Overall, the results achieved by the fleet and onshore plants are much weaker than what is needed to modernise the fleet, upgrade the plants and invest in new technology and marketing.

Many will fail to understand, and there is a good quote from the Russian author Fyodor M. Dostoyevsky for this situation: *“I made up my mind long ago not to understand. If I try to understand anything, I shall be false to the fact, and I have determined to stick to the fact.”*

As part of the public debate, I ventured to give some input to the government’s white paper on seafood, on how Norway can become the world’s leading seafood nation.

I pointed out some opportunities for creating profitable, safe jobs throughout the value chain.

We have committed some unintentional breaches of our delivery obligations. This caused problems for Mehamn in Finnmark, and I apologise. This will not happen again, but no-one can deny that we have invested and made efforts to generate value from the resources available in Norway. We have paid for quotas and invested at sea and on land, but have found it impossible to achieve a return that justifies further investment.

Atle Kigen encouraged me to accept an interview with the Norwegian television programme *NRK Brennpunkt* regarding the situation and future of the white fish industry. After 17 years of losses and considerable criticism, I was a loaded and loose cannon placed on deck to reply to allegations and suspicions. I came across as the father of the famous Angry Boy (Sinnataggen) in Oslo’s Vigeland Sculpture Park.

The rational argument is that the white fish industry must adapt to change, just like any other industry and society in general. Access to sufficient volumes of fish is not the issue. The issue is how we can process quality products in an efficient manner, at competitive prices. The current regulatory system preserves an uncompetitive industry structure.

Even though our seven factories represent over 70 per cent of Norwegian fillet exports, they are only operating at around 40 per cent of their capacity. If the solution was as simple as buying and processing more fish, we would do so. But our business cannot exist in a vacuum from the realities of market demand.

Historically, we have lost money on white fish, and the prospects of reasonable future returns are small. I should have realised earlier that it is impossible to achieve profitability on whitefish in the current political climate.

Last autumn, *NRK Brennpunkt* asked me whether Aker would be a larger or a smaller actor in the white fish industry going forward. I replied: “we will be a larger one.” That was wrong - we will be smaller. We will reduce our involvement in a business that accounts for 1 per cent of our assets and a disproportionate part of our losses, and at times 95 per cent of our media coverage.

Investments in the financial portfolio will be sold. The Converto team is delivering.

The Converto Capital Fund gathers several of Aker's financial investments. Since its launch in July 2009, the fund has realised gains totalling NOK 0.5 billion.

Aker Philadelphia Shipyard is one of Converto Capital Fund's investments. The yard has profitably sold two self-financed new buildings, repaid Aker's loan of USD 30 million and severed its guarantee ties to Aker. Two tanker ships are under construction for ExxonMobil, and Aker Philadelphia Shipyard is finally in a position to pay dividends to its shareholders. The ExxonMobil ships will be delivered on time and on budget, and new contracts must be won. Things look good now, and I am cautiously optimistic. Thus far, I am satisfied with the achievements of my son Kristian, his team and the first-class craftsmen in Philadelphia.

Frank O. Reite and his Converto team are doing a matchless job of tidying up old matters. Over the years, we made some investments "with our head under our arm and our arm in a sling", as Lillebjørn Nilsen wrote in his song. No personal criticism is intended – this is simply how things are.

We have initiated a plan to free up at least NOK 3.0 billion from financial investments. The biggest realisation will come in stages from our real estate investments, but the portfolio also includes investments in oil fields in Gabon, the Navigator ship, shares in funds and technology companies.

Minimum return required on our industrial investments is 12 per cent per year.

My highest priority is generating shareholder value. I am focused on the future. Long into the future, far beyond 2013. If we fail to achieve a 12 per cent return in the foreseeable future, the outcome will be an exit or structural measures.

Aker is a collection of companies. Our priority is overall value creation. This means always having the best people. People come first, then capital allocations. Aker allocates capital to the right people in the right companies.

Aker's dividend policy is fixed. Looking forward, the aim is to increase Aker's dividend in nominal terms.

Dividends will be an important part of future value creation, although the most important element is growth in net asset value. However, Aker's shareholders can be certain that I am working for dividend growth.

The next generations in our family will over time probably develop a dependency on dividends from Aker. Solid performance by Aker's portfolio companies will lay the foundation for value growth and the payment of a steadily increasing dividend in the years ahead.

Our children will inherit shares in TRG, which owns two-thirds of Aker. The children will inherit a small stake of the TRG shares. When the children turn 30, they'll receive their first shares. Kristian reached this age recently. The remaining majority stake of TRG shares will in time be transferred to a charitable foundation.

My family's interests are in line with those of all other Aker shareholders. Aker is making systematic, focused efforts to generate stable, predictable cash flow. As an industrial investment company, Aker depends on such cash flow to justify the payment of dividends over time.

Increased dividends from Aker's operational companies make an important contribution. From 2009 to 2013, dividends paid by Aker-owned companies increased fivefold.

Looking forward, dividends received from Aker's wholly-owned and partly-owned companies will increase Aker's income, and allow the company to continue paying predictable dividends. The total dividends received from Aker's operating companies cover considerably more than Aker's operating expenses, but are insufficient to cover its dividend payments. We are working to ensure that upstream cash received by Aker from wholly-owned subsidiaries, dividends from partly-owned companies and interest income exceeds Aker's operating costs and dividend payments to shareholders.

If Aker's capital inflows are lower than its capital outflows in 2019, we will make changes to the composition of Aker's portfolio. A sustainable, predictable dividend model is holy to Aker.

By May 2013, the shareholders will have received dividends totalling NOK 104 per Aker share since Aker's listing in September 2004 – NOK 7.5 billion in total. The aim for the future is absolute growth in dividends, and for the dividend to total between 2 per cent and 4 per cent of net asset value.

As regards Aker's private jet, I am more than happy to defend it. Now the jet will get even bigger.

Aker has owned a jet aircraft since 2007, and we know how efficient and useful it is to have access to our own aircraft. When we replace our Falcon 900EX in the fourth quarter of 2015, it will be eight years old. We have decided to replace it with a Gulfstream G650.

The aircraft is a workplace, and every trip is necessary to follow up Aker-owned companies in 30 countries, on all the world's continents. Øyvind and I use the aircraft, and we are often accompanied by others when matters have to be considered and discussed.

As Aker's chairman, I am keen to learn about, see and understand Aker's businesses. This means travelling extensively, and I want to fly and travel efficiently.

I try to be a sparring partner for Øyvind and an engaged chairman. I do not receive a salary or remuneration for the work I do for Aker and Aker-owned companies other than ordinary board remuneration, but I travel expensively. That is just the way it is.

Aker's operating expenses amount to 0.9 per cent of the capital it manages. Aker's costs are low compared to capital managers and funds, whether fixed investment trusts, hedge funds or active private equity funds.

Some people believe that we could save considerable amounts by not owning an aircraft, terminating sponsorship agreements and moving into cheaper premises. Our costs could be halved. This is not currently up for discussion, and will never be, so far as I am concerned. Aker is proud to be the main sponsor of Norwegian cross-country skiing. On the other hand, as of January of this year, Aker is no longer invested in Molde Football club, although my former partner Bjørn Rune Gjelsten and I will privately continue to fund the club.

Aker's operating costs will increase in absolute terms, but will fall as a percentage of the assets under management. We operate cost-consciously and efficiently, and pay our staff well.

Kjell Inge Røkke with his childhood friend and partner Bjørn Rune Gjelsten.

I have learned and benefited from my own experiences, but I also take inspiration from the investor Warren Buffett of the Berkshire Hathaway investment company.

His book *Tap Dancing to Work, Warren Buffet on Practically Everything, 1966–2012: a Fortune Magazine Book* is a vivid collection of knowledge, anecdotes and stories from the world's best creator of long-term shareholder value. I have borrowed some of his gems for my letters to the shareholders.

Buffett is a living legend – an 82 year-old active investor with strong opinions, who hails from Omaha, Nebraska, USA. His trademark is long-term investments in first-class companies. In short, Buffett follows two important investment rules. The first rule is to avoid losing money. The second rule is not to forget the first.

Unfortunately, I have to recognise that I have not followed the first rule consistently. That makes it impossible to follow rule number two. Basically, I have been neither disciplined nor smart enough, but it is never too late to learn. We have avoided major mistakes in recent years

I rarely contradict Buffett, however in my experience rule number one is: "Select the right people." Rule number two is: "Do not forget that business is all about people."

Over the years, Aker has had many excellent leaders. Skilled business executives do not necessarily make capable leaders for Aker-owned companies. I look for people whose words and actions are directly connected. They put integrity and the interests of the larger group ahead of their own ego, and their professional success comes through the success of the group. In football terms, this is called bleeding for the uniform.

Individuals make the difference, whether positive or negative. Role models lift the team to achieve common goals. Put another way, a single drop of vinegar in a bucket of water determines the taste, whether good or bad. This year, I have yet again been reminded that the road to good investments starts with the right people with the right attitudes.

My lesson is that if we make a mistake, we spend a lot of time correcting it; time that could be spent generating value. This makes it even more important to work ever more systematically to avoid mistakes.

I am fortunate to have worked with skilled, loyal people for many years. They have saved me from driving off a financial cliff on a couple of occasions, and are important premise providers for and drivers of Aker's development.

Time flies. I am already into the fifth year of my plan to double shareholder value from January 2009 to the end of 2013.

My aim was to create NOK 18 billion in value in five years. The starting point on 1 January 2009 was a net asset value of around NOK 250 per Aker share. The objective was to increase shareholder value, including dividends paid during the period, to at least NOK 500 per share by 31 December 2013.

We've been there before, in the spring of 2007, when shareholder value exceeded NOK 500 per share. I knew it would take time to reach that level again, and I was sure that it would happen before New Year's Eve 2013.

Some investments have performed very well during this period. However, total value creation for shareholders has not met our ambitions.

At the end of 2012, net asset value and dividends amounted to NOK 355 per share.

This year, Aker will pay out an additional NOK 12 per share. To reach my target, additional value of NOK 145 per share – more than NOK 10 billion in total – has to be created during the course of 2013.

I hate to admit it, but Aker is a little behind my own schedule, even though the results achieved have exceeded our return targets.

Some 70 per cent of Aker's assets are listed shares. Could Aker sell some of its shareholdings at values exceeding current stock prices? Yes maybe, but the investments that would make a difference are not for sale.

Historically, Aker's long-term strategy has created shareholder value. Since listing in September 2004, Aker shareholders have received an average annual return of 30 per cent, including dividends.

From 1 January 2009 to 31 December 2012, the share price rose from NOK 137 to NOK 212, and dividends totalling NOK 34 were paid. The return averaged 17 per cent per year, equal to the return on the primary Oslo Stock Exchange index (OSEBX) for the same period. It is better than having money in the bank, but no better than passively investing the money in a Norwegian index fund.

The simplest way to achieve one's aims is to set them low and frequently, and for the near term.

This increases the likelihood of achieving a high degree of accuracy.

I chose to arm and aim my crossbow from a greater distance, predicting where the arrow would land. I painted the target on the wall before releasing my arrow.

As things stand, a bull's eye appears unlikely. There are plenty of examples of leaders who choose the easiest way: shooting the arrow at a blank wall and then painting the target around the arrow. By doing so, they ensure that the score satisfies their desired self-image.

As Aker's main shareholder and board chairman, and having consulted Øyvind in his capacity as President and CEO, I have granted myself a privilege.

I talk to whomever I want within the organisation, whenever I want. Some find this frustrating, while others see it as a stimulating means of improving group business.

I am privileged to be able to work so closely with skilled people and numerous businesses. I am profoundly grateful for the efforts made by thousands of employees in the many Aker-owned companies every single day, and would particularly like to thank those with whom I work closely on a daily basis. I challenge them - and fortunately they challenge me back.

I would like to thank Aker's board of directors. Our discussions are varied and direct. Our boardroom allows for diverging opinions, and does not leak. Decisions are made together and with openness. We respect the agreements reached. Working with the employee representatives and shareholder-elected representatives on Aker's board is a pleasure. My thanks go to the board members for their collective contribution to Aker's development.

Atle Tranøy is the Aker group's employee representative and a member of the Aker board. He is a source of inspiration, a wise man with wide-ranging experience accumulated through his work as a full-time Aker employee representative since 1983. We agree on the importance of ensuring that the exploitation of Norway's natural resources, whether it be oil, gas or fish, should create ripple effects in Norway. This has been a central theme in the development of Aker since its establishment in 1841.

At Aker, we will continue to pursue growth and consider how we can expand our businesses. You do not necessarily have to respond to this with unbridled joy. Some of our measures and efforts to achieve growth, often driven by me, have proven to be dismal, and others have been costly fiascos. However, we also have examples of the opposite. With Øyvind at my side, skilled management and solid line-ups, the probability of achieving our long-term goals is increased.

In last year's letter to the shareholders, I acknowledged that I was far behind as regards achieving the 2013 target, but I expressed hope that Aker had the sprinting abilities of the cross-country skier Petter Northug. At this year's Nordic World Ski Championships, the 50km race didn't quite go the way Northug had anticipated, and he was unable to challenge for a medal, finishing far behind world champion Johan Olsson.

Now, I feel like I am on the final lap of a 50km ski race, and I would be lying if I pretended not to dread the steep climb ahead. But I can learn from Northug and his dignified conduct after failing to win the 50km gold medal in Val di Fiemme. He has been successful following the world championship, which gives me hope for what lies beyond 2013 for us.

Have I learnt anything? Yes. I will continue to set targets with the aim of building strong industrial companies and generating shareholder value. I always want to have something to strive for.

We keep at it and hang in there.

Kjell Inge Røkke.
On behalf of the family

PS: As in previous years, I would like to thank my wife and fellow shareholder Anne Grete for her help with the writing, form, content and spelling of this year's letter to the shareholders. ☺

Aker Brygge, 20 March 2013