

Executive summary of the Financial Statement for 2016

General

The consolidated financial statement consists of Jotun A/S and 53 subsidiaries, three joint ventures in China and Korea and six associated companies in UAE and Saudi Arabia. Subsidiaries are fully consolidated independent of shareholding, while joint ventures and associates are accounted for based on the equity method and share of profit reported in the income statement based on actual shareholding.

The Jotun Group's consolidated financial statement has been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations as adopted by the International Accounting Standards Board (IASB) and approved by the European Union (EU).

Revenue

Operating revenue for the Group was NOK 15 785 million, down 3 per cent compared to 2015. While the Decorative Paints and Powder Coatings segments reported solid growth, lower demand in the shipping and offshore markets led to reduced sales in the Marine and Protective Coatings segments. In addition, sales in some regions were impacted by political unrest and economic turmoil in key markets. Total sales volume, however, continued to grow, showing an increase of 10% in 2016.

Operating profit

Operating profit in 2016 decreased by 15 per cent to NOK 1 763 million compared to 2015, yielding an operating margin of 11 per cent (2015: 13 per cent). The reduction in profit is attributable to other operating expenses higher than normal due to product claims, currency losses due to the sharp devaluation of the Egyptian pound and bad debt primarily tied to a few large customers. Jotun Group's share of net result after tax in associates and joint ventures totalled NOK 690 million compared to NOK 562 million in 2015. The increase is mainly attributable to continued good growth for the Decorative Paints segment in the Middle East.

Profit for the year

The profit for the year amounted to NOK 1 132 million, a reduction of NOK 284 million from 2015. Net financing charges increased from 2015 mainly due to currency losses in Egypt, and net financial items for the year ended at NOK 169 million (2015: NOK 146 million).

Investments

Total purchase of property, plant and equipment (PP&E) and intangible assets amounted to NOK 1 133 million for the Group in 2016 (2015: NOK 922 million), representing seven per cent of operating revenue (2015: 6 per cent). Including investment activity in associates and joint ventures, total investment in PP&E for production of Jotun-branded products was NOK 1 226 million. The largest investments relate to new production facilities in Oman, the Philippines, Myanmar and Malaysia, in addition to a new R&D centre and office buildings in Sandefjord, Norway.

Jotun Group's share of total equity in associates and joint ventures amounts to NOK 1 766 million (2015: NOK 1 840 million), and is reported as non-current assets in the balance sheet.

Working Capital

Working capital fell to NOK 4 852 million as of 31 December 2016 from NOK 5 253 million the previous year. The reduction is tied to the decrease in Group sales, particularly within the Marine Coatings segment. Currency translation effects also contribute to the lower working capital figure at year end.

Net interest bearing debt

The net interest bearing debt for the Group was NOK 1 523 million at year-end 2016 compared to NOK 1 591 million as of 31 December 2015, and net interest bearing debt relative to the operating profit before amortisation and depreciation (EBITDA) was 0.7 (2014:0.6). The Group's main source of financing is bilateral loans from the Group's relationship banks and loans in the Norwegian bond market. At year-end 2016, Jotun A/S had NOK 1 000 million in bonds, of which all were long term, and NOK 1 036 million in non-current USD bank debt outstanding. External borrowing in the subsidiaries is primarily short-term and through local banks.

Jotun A/S has NOK 800 million of long term credit lines. This committed funding serves as a back stop for certificate loans as well as a strategic reserve for short-term financing of the Group. At year end these credit lines, in addition to a short-term credit line of NOK 100 million, were all unused.

Shareholder equity

Total equity including non-controlling interests amounted to NOK 8 035 million (2015: NOK 7 932 million). The increase in total equity is due to the net effect of profit for the year of NOK 1 132 million, other comprehensive income of NOK -479 million mainly relating to currency translation effects, and dividend payments of in total NOK 551 million. The equity ratio has increased one percentage point from 2015 to a solid 53 per cent.

The proposed dividend for Jotun A/S for 2016 amounting to NOK 513 million will not be recognised in equity until finally declared in 2017.

Cash flow

Operating activities in 2016 resulted in a net cash flow of NOK 2 027 million (2015: NOK 1 500 million). The increase from 2015 is mainly due to a reduction in working capital and higher dividends received from associates. The strong net cash flow from operating activities funded cash outflows related to dividend payments, investments in non-current assets and reduction in net interest bearing debt.

Workforce

In 2016, Jotun Group had on average 6 909 full-time equivalents related to its on-going business in Jotun A/S and its subsidiaries (2015: 6 794 average full-time equivalents). Including employees in joint ventures and associates, Jotun had in total 9 819 employees at year end 2016 (2015: 9 842 employees).