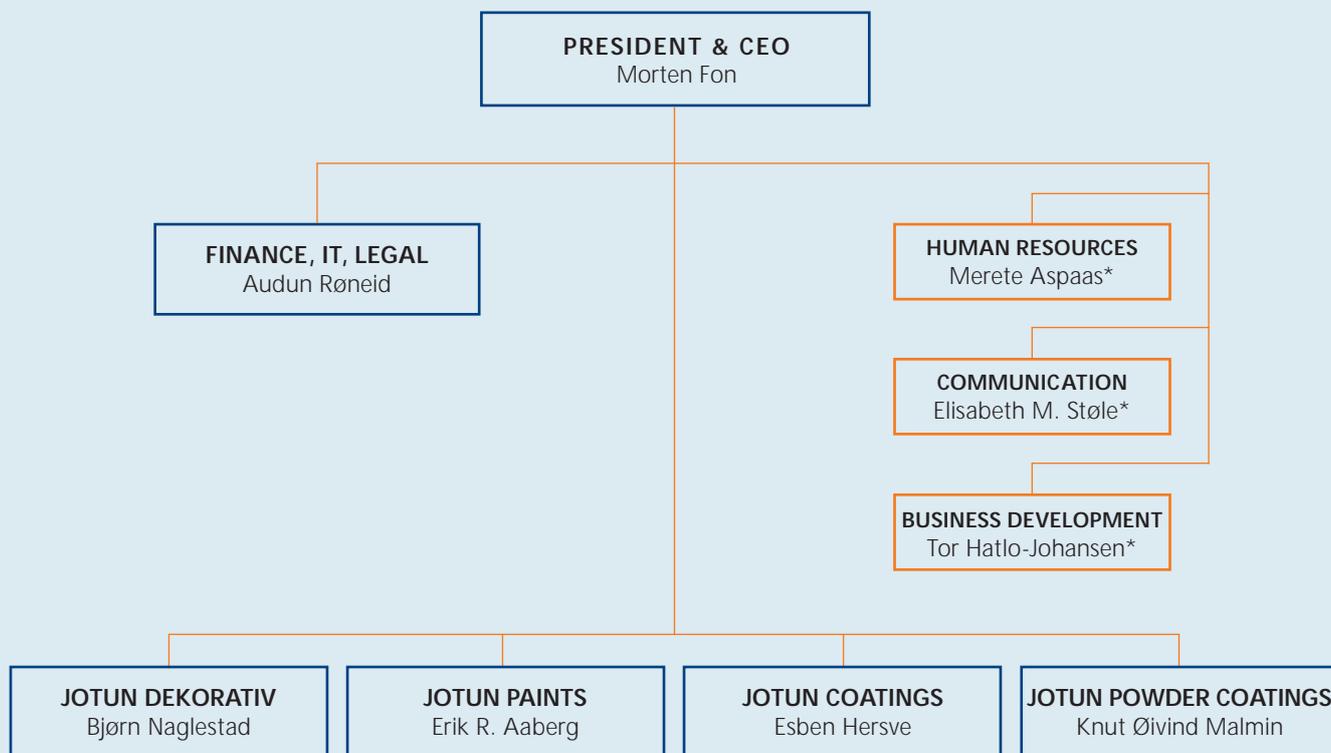




## Annual Report 2006



# The Jotun Group

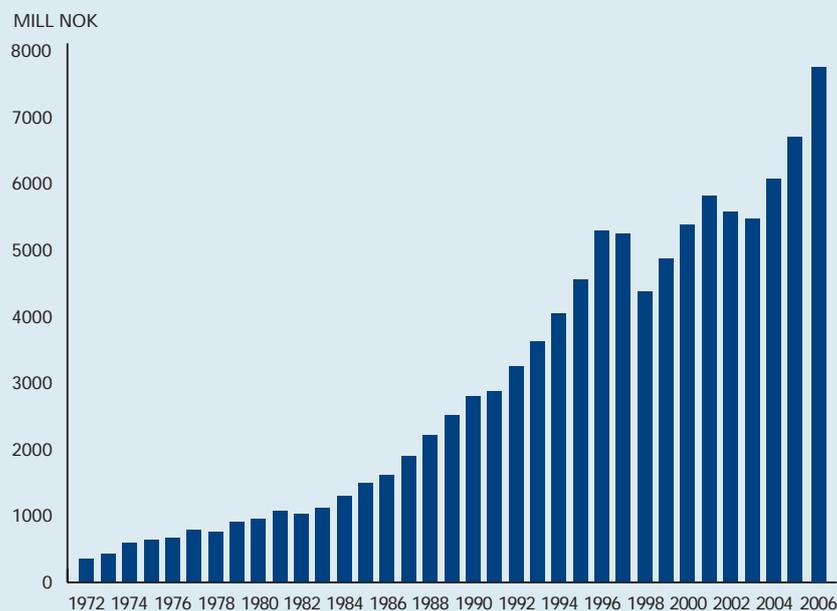


- BOARD OF DIRECTORS**
- Odd Gleditsch d.y., Chairman
  - Einar Abrahamsen
  - Richard Arnesen
  - Terje V. Arnesen
  - Nicolai A. Eger
  - Thore Kristiansen
  - Torkild Nordberg
  - Dag J. Opedal

- CORPORATE ASSEMBLY**
- Olav Christensen, Chairman
  - Birger Amundsen
  - Fredrikke Eger
  - Bjørn Ole Gleditsch
  - Thomas Gleditsch
  - Odd Inge Høyland
  - John Jørgensen
  - Rune Molteberg
  - Hilde Myrberg
  - Britt Paulsen
  - Kristin Olstad Schea
  - Erling Fredrik Sørhaug

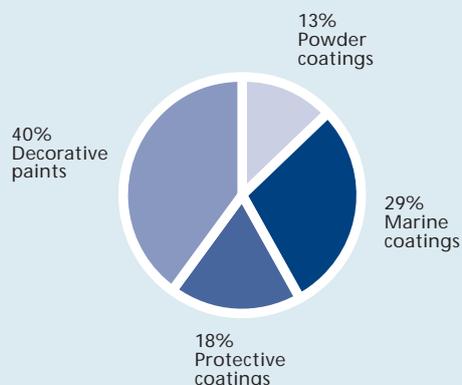
\* Member of extended group management

## Sales



(Figures include shares in joint ventures)

## Business segments



## Group key figures

(Figures include shares in joint ventures and are in USD million)

	2006	2005	2004	2003	2002
<b>SALES</b>					
Sales and other operating income	1 249	1 042	901	817	705
Export ratio (per cent)	76	74	73	73	69
<b>PROFIT</b>					
Operating profit	104	83	73	64	58
Profit on ordinary activities before taxation	98	79	70	62	58
Net cash flow from operating activities	67	29	71	47	111
<b>PROFITABILITY</b>					
Return on assets (per cent) 1)	12.8	12.0	12.5	12.0	13.2
Return on capital employed (per cent) 2)	18.4	16.9	17.1	17.3	18.7
Operating margin (per cent) 3)	8.3	8.0	8.1	7.7	8.3
Return on equity (per cent) 4)	13.0	12.6	12.9	9.6	11.9
<b>YEAR-END FINANCIAL POSITION</b>					
Total assets	901	760	747	610	570
Capital expenditure	69	64	31	29	37
Equity (incl. minority interests)	479	417	424	374	324
Equity/assets ratio (per cent)	53.2	54.9	56.8	61.4	56.9
Average number of employees in group, including shares in joint ventures					
	4 754	4 437	4 080	3 934	3 913
Number of employees in group, including 100 per cent in joint ventures per 31.12.					
	5 331	5 009	4 738	4 481	4 363

### DEFINITIONS OF KEY FIGURES

1) Return of assets % =  $\frac{\text{Profit on ordinary activities before taxation} + \text{financial costs}}{\text{Average total assets}} \times 100$

2) Return on capital employed % =  $\frac{\text{Profit on ordinary activities before taxation} + \text{financial costs}}{\text{Average total assets} - \text{non-interest-bearing liabilities}} \times 100$

3) Operating margin % =  $\frac{\text{Operating profit}}{\text{Sales and other operating income}} \times 100$

4) Return on equity % =  $\frac{\text{Profit on ordinary activities}}{\text{Average equity}} \times 100$

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# Adaptability

**For more than 80 years, Jotun has built a strong reputation for innovative products and superior customer service. Yet what makes Jotun unique has been its ability to embrace diversity and adapt quickly to new markets, new technologies and new ways of thinking.**

As a group with 67 companies, 40 production facilities, and agents, branch offices and distributors in more than 70 different countries, Jotun is truly a multinational giant in the global coatings market. However, Jotun's success has less to do with its size or global reach than the group's ability to adapt to change.

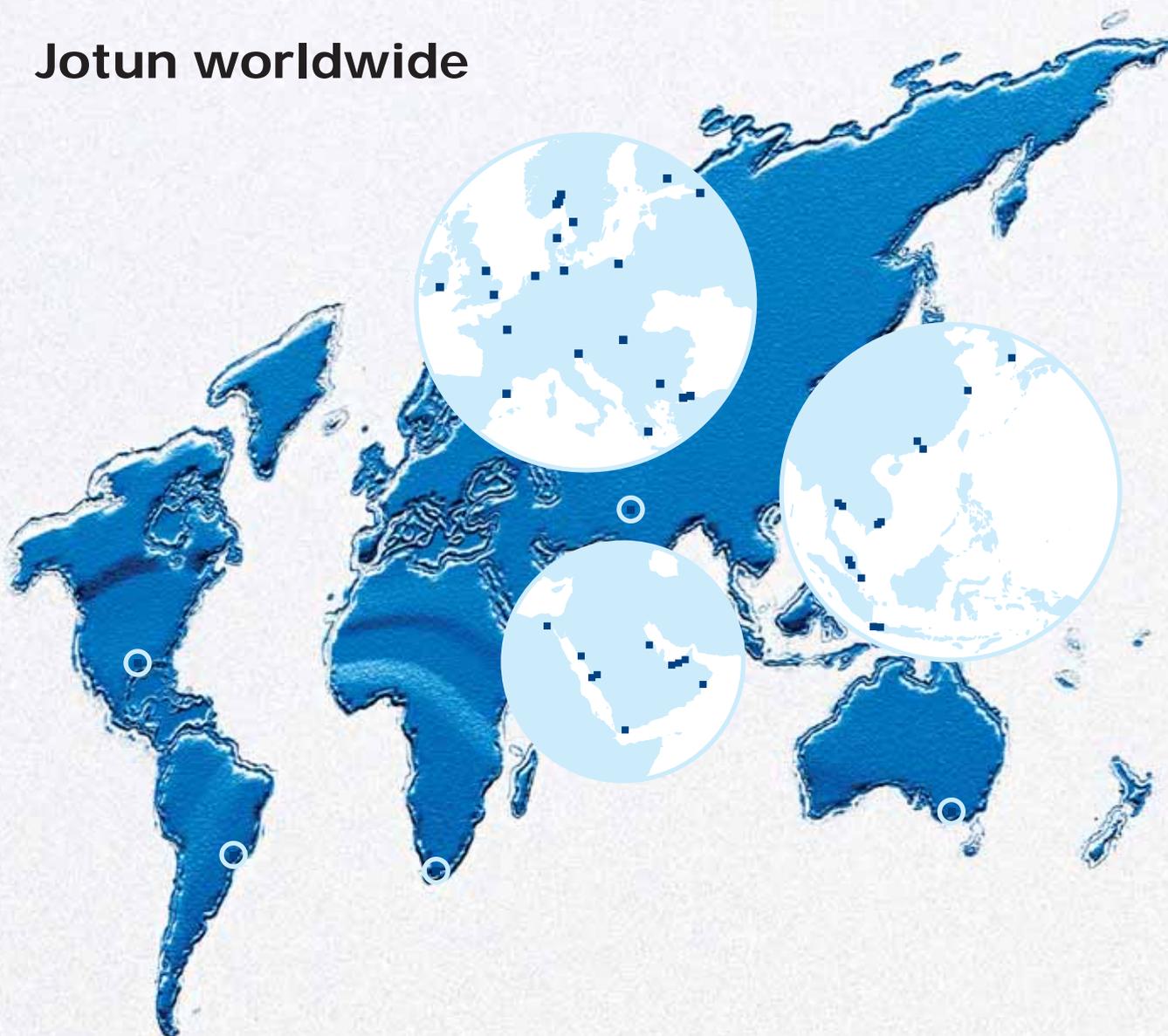
Jotun's remarkable ability to adapt is built on three unique qualities. Firstly, the group's owners have always supported bold growth initiatives and allowed regional managers the freedom to manage the business without excessive interference. Secondly, the group recognises that to be successful in any region, the group must not only establish a local presence; it must also respect the local culture and work to integrate Jotun into the local environment. Thirdly, Jotun recognises that the cultural, ethnic and national diversity of its employees has been an essential factor in building a truly global network.

Jotun demonstrates the same willingness to embrace change in every part of its business. This year, Jotun has moved quickly to adapt to regional and global trends and continues to invest in emerging markets and increase capacity where necessary in markets where the group is established. At the same time, the group's Research & Development department continues to develop new and exciting products to meet the ever-changing demands of customers.

We recognise that Jotun faces many challenges in the future. However, for a group characterised by such diversity, we are joined by a common Jotun culture which unites us all. For this reason, we remain confident that Jotun will continue to find success by working together to adapt to new circumstances, wherever they may occur.



## Jotun worldwide



**Jotun is a global leader in paints and coatings. We have 67 companies and 40 production facilities on all continents. In addition, Jotun has agents, branch offices and distributors in more than 70 countries.**

The Jotun group consists of four divisions, each with specific products, segments and geographical responsibilities.

**Jotun Dekorativ** has segment responsibility for Jotun's decorative paints, stains and varnish deliveries to the trade and Do-It-Yourself (DIY) markets in Scandinavia.

**Jotun Paints** has segment responsibility for decorative paints in all markets outside Scandinavia. This responsibility includes marine and protective coatings for markets in the Middle East and South East Asia.

**Jotun Coatings** has global segment responsibility for marine and protective coatings. This responsibility includes decorative paints in local markets in Europe and selected markets in Asia.

**Jotun Powder Coatings** has global segment responsibility for powder coatings. The product portfolio caters for the architectural, functional and industrial market segments to both protect metal surfaces from corrosion and add colour and style to their appearance.



*Group Mangement, from left to right: Morten Fon, Esben Hersve, Audun Røneid and Bjørn Naglestad. In front: Erik R. Aaberg and Knut Øivind Malmin.*

## Securing our future through organic growth

**With so much good news to report from 2006, it is tempting to look back and celebrate our achievements. However, in an industry characterised by rapid change, we cannot afford to rest on our successes.**

The Jotun Group can look back on 2006 secure in the knowledge that the group continues to move in the right direction. Positive developments in all business areas have helped the group not only to post strong financial results, but also to strengthen its market position. In addition, we continue to make significant capital investment in new products, new facilities and in the development of both existing and potential markets throughout the world.

Jotun must continue to build on our strengths. As a global player, we face many challenges – from the relative scarcity of raw materials and a competitive recruitment market, to increasingly strict environmental regulations and relatively unpredictable currency fluctuations. In addition, the global trend toward consolidation is likely to create increased competition and change how Jotun interacts with customers. While we recognise the significance of this trend, Jotun will continue to pursue a strategy of organic growth.

**“Jotun has developed into a bigger, stronger and more unified entity, creating value for shareholders, employees, customers and stakeholders.”**

Morten Fon, President & CEO,  
Jotun Group

Jotun’s ability to adapt to changing market forces, new business segments and new regions has been a core feature of the group’s growth for most of its history. As a leading provider of marine coatings to the Norwegian shipping industry, Jotun has always had an international perspective, and ever since the opening of the first production facility in Libya in 1962, Jotun has continued to seek opportunities in international markets.

As a result, Jotun has developed a strong global network, extensive local knowledge and an entrepreneurial spirit to successfully pursue an organic growth strategy. We understand that developing our business in both mature and emerging markets takes courage, patience, a long-term perspective and the ability to adapt – qualities which are expressed in Jotun’s values – Loyalty, Respect, Care and Boldness – and strengthened by the cultural diversity of our employees. These values create opportunities for the group, especially in international markets.



President & CEO Morten Fon

However, to capture these opportunities, we must exploit the cultural diversity and expertise throughout our organisation. This year, we have launched a number of exciting new initiatives to capitalise on our global strength. These include the Jotun Academy, which will provide more structured skills-training and management development programmes, the Business Development Department, tasked with sourcing expertise throughout the organisation to support new business initiatives, and a more ambitious recruitment programme to bring more talented people into our organisation. We are also sourcing our global expertise into Key Account Management teams to help manage some of our larger customers in the marine and protective segments and provide single source solutions for our customers.

We are confident that these initiatives will strengthen our organisation, but they do not represent any significant change in our business model. Our traditions, values and the quality of our people have allowed Jotun the luxury of being able to remain true to the vision of our founders, and allow us to do what we do best – adapt to change.

#### Jotun Dekorativ: Adapting to regional change

While Jotun Dekorativ has a strong position in Scandinavia, we operate in a mature, highly competitive market. Improving earnings requires constant innovation combined with a fresh approach to both internal management systems and external sales and marketing efforts. In an industry characterised by increasing consolidation among our larger customers and changing consumer trends, Jotun Dekorativ continues to adapt to change.

**“We remain determined to build on our strong market position in Scandinavia, and are confident our re-energised approach to efficiency and customer service will secure future growth.”**

Bjørn Naglestad, Group Executive Vice President, Jotun Dekorativ

To meet the changing demands of consumers, we re-launched Lady 10, a high quality interior paint with superior covering power and offered it to the market at more affordable prices. This highly successful product resulted in a major increase in volume and market share in the interior paint segment. To prevent regional cost inconsistencies, we have harmonised prices in Norway, Sweden and Denmark.

To meet the changing demands of consumers, we re-launched Lady 10, a high quality interior paint with superior covering power and offered it to the market at more affordable prices. This highly successful product resulted in a major increase in volume and market share in the interior paint segment. To prevent regional cost inconsistencies, we have harmonised prices in Norway, Sweden and Denmark.

We have also taken steps to improve our internal operations. After successfully introducing our new enterprise resource management system (ERP), we have introduced Lean principles – a systematic long-term approach to increase customer value and reduce waste. Our primary objective is to create a more efficient and more adaptable organisation. We have already seen that our efforts have resulted in better stock management and gradually increased our supply service level. Lean will help to improve our performance and strengthen our strategic relations with the trade and consumers.

#### THE JOTUN VALUES

We conduct our business with loyalty, care, respect and boldness, in the interest of customers, employees, owners and others with whom Jotun has relationships. By **loyalty**, we mean that we are reliable, trustworthy and committed. When we **care**, we help and support others, display trust and empathy and protect the environment. We show **respect** by valuing the differences in people, being honest and fair and treating others the way they expect to be treated. Finally, we demonstrate **boldness** when we take initiatives to create the future, and support change and communicate openly.

The consolidation of retail chains represents an emerging opportunity for Jotun Dekorativ. The major retail chains operate stores in different countries and move a lot of products. These strong partners can offer us higher market penetration and access to new markets. We have also stepped up our efforts to provide not only new and improved products, but also superior service. We remain committed to building a strong dialogue with all our customers.

The emergence of private labels has become a complex challenge. These brands are sold, marketed and owned by our retail customers, placing them in direct competition with Jotun products. Our task is to prove the superior quality of Jotun paint and our services. To demonstrate this quality, we must improve the customer’s experience and share the results of third party tests that show Jotun paints as a preferred product. We continue to put a lot of effort into marketing and building closer relationships with the trade and professional painters.

Looking ahead, Jotun Dekorativ should be able to maintain the strong position in Norway, with significant market opportunities in Sweden and Denmark. In addition, Russia has the potential to produce genuine opportunities – opportunities we will explore in cooperation with Jotun Coatings and Jotun Powder Coatings. We remain determined to

## the management team

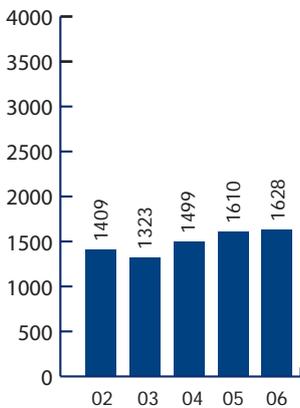
### JOTUN DEKORATIV

Employees per 31.12.06: 640

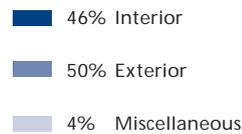
Production facilities:  
Norway

#### SALES

MILL NOK



#### SEGMENTS



### JOTUN PAINTS

Employees per 31.12.06: 2080

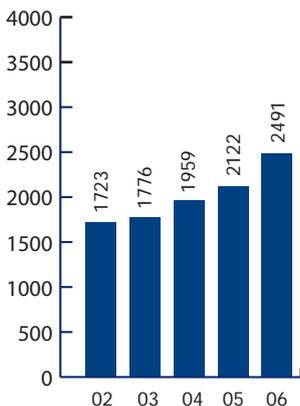
Production facilities:

Egypt	Saudi Arabia	Yemen
Indonesia	Thailand	
Malaysia	United Arab Emirates	
Oman	Vietnam	

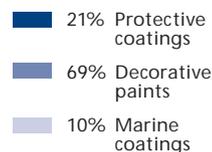
#### SALES

Total sales mill NOK incl. 100% in joint ventures

MILL NOK



#### SEGMENTS



build on our strong market position in Scandinavia, and are confident our re-energised approach to efficient customer service will secure future growth.

### Jotun Paints: Sustaining rapid growth

In the past five years, growth in Jotun Paints has doubled, a pace that has been driven both by major industrial projects and rising consumer demand in both the Middle East and the South East Asian markets. In the Middle East, increased oil revenues have created rapid economic expansion, fuelling a construction boom and increased consumer spending on interior design, driving our value growth up about 18 per cent in the last year.

Because Jotun has been established in the Middle East and South East Asia for decades, we have been in an excellent position to capitalise on this economic growth. On the consumer side, we continue to build on our success with our Jotun Multicolor stores and Jotun Inspiration Centres which are equipped with Multicolor systems, colour proposals, colour scanners and web-enabled design kiosks.

On the industrial side, we have been successful with our protective coatings systems for the oil and gas industry, as well as various infrastructure projects, such as highways and bridges. In addition, the group has sourced coating solutions from three divisions including Jotun Paints to provide complete coating solutions. Known as the Single Source Solution concept, Jotun is one of the few coating companies in the world which can provide fully integrated protective, decorative and powder coating solutions. Jotun provides a single source solution for offshore and land-based commercial and residential projects, offering decorative paints, and protective and powder coatings.

**“Since Jotun Paints was established three years ago, it has experienced substantial growth. This has been driven both by major industrial projects and rising consumer demand in both South East Asia and the Middle East.”**

Erik R. Aaberg, Group Executive Vice President, Jotun Paints

Generating a significant percentage of Jotun’s total profits in marine coatings, Jotun Paints remains an important part of the Jotun’s global marine network. We serve Dubai Dry Docks, one of the most important facilities in Jotun’s worldwide marine network. We have experienced good growth in marine sales both in South East Asia and the Middle East.

We are pleased with our results for 2006, but we recognise that the pace of our expansion has created a fresh challenge – finding sufficient qualified personnel, especially in new and emerging markets, with the skills and experience to sustain our dynamic growth rate. With plans to strengthen our position in existing markets and seek new opportunities, we are also working hard to recruit, train

and retain the skilled personnel necessary to sustain our long-term success and benefit long-term from the market opportunities we see around us.

### Jotun Coatings: Finding value in our global network

Jotun Coatings' success in 2006 was driven in part by the continued expansion in the global maritime industry, increased activity in the oil and gas sector and the launch of several new initiatives to leverage our global network and improve efficiency.

Jotun's marine coatings business has reasserted itself in 2006 among both shipowners and shipyards to become one of the world's largest suppliers, in spite of increased competition, a more demanding regulatory environment and the rising cost of raw materials, such as copper and zinc. Most of Jotun's marine businesses have reported significant growth, driven by maritime activity in Asia and China in particular.

**"We believe future growth will be determined not only by the quality of our products, but also by our ability to support and build stronger relationships with our customers."**

Esben Hersve, Group Executive Vice President, Jotun Coatings

While we may see more consolidation in the marine coatings industry in the future and remain concerned about the costs of raw materials, our marine coatings business has been strengthened by the division's efforts to leverage our global reach. In 2006, we assembled Key Account Management teams responsible for providing our largest customers with improved and more responsive cross-border services and have sought to strengthen our relationships with shipyards and dry-dock facilities. We have also launched Albatross, an information management system which we are confident will provide us with a comprehensive overview of our performance in the marine segment.

Driven by increased activity in the oil and gas sector, sales of Jotun anti-corrosion protective coatings have been robust. At the same time, we have been successful in marketing our protective services to onshore industry, such as power plants and major infrastructure projects. Jotun is one of the few companies in the world which can offer complete coatings solutions – from anti-corrosion coatings to decorative paints – to provide customers with a single source for their coating needs. We are also in a strong position to utilise our global network to provide leading multinational companies with comprehensive protective coatings services, wherever they operate.

Jotun Coatings' decorative paints business has also performed well, due in part to increased consumer interest in interior design and our efforts to supply contractors with decorative paints on major construction projects. We anticipate growth to increase as we pursue a

## JOTUN COATINGS

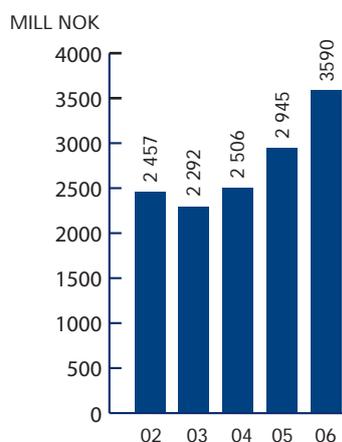
Employees per 31.12.06: 1790

Production facilities:

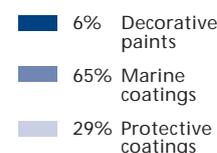
Australia	Singapore	Turkey
China	South Africa	United Kingdom
Finland	South Korea	USA
Italy	Spain	

### SALES

Total sales mill NOK incl. 100% in joint ventures



### SEGMENTS



## JOTUN POWDER COATINGS

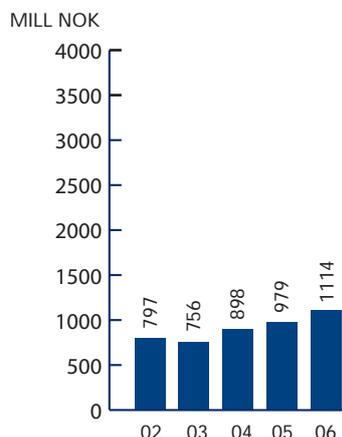
Employees per 31.12.06: 743

Production facilities:

Czech Republic	Norway	Turkey
India	Pakistan	United Arab Emirates
Indonesia	Saudi Arabia	Vietnam
Malaysia	Thailand	

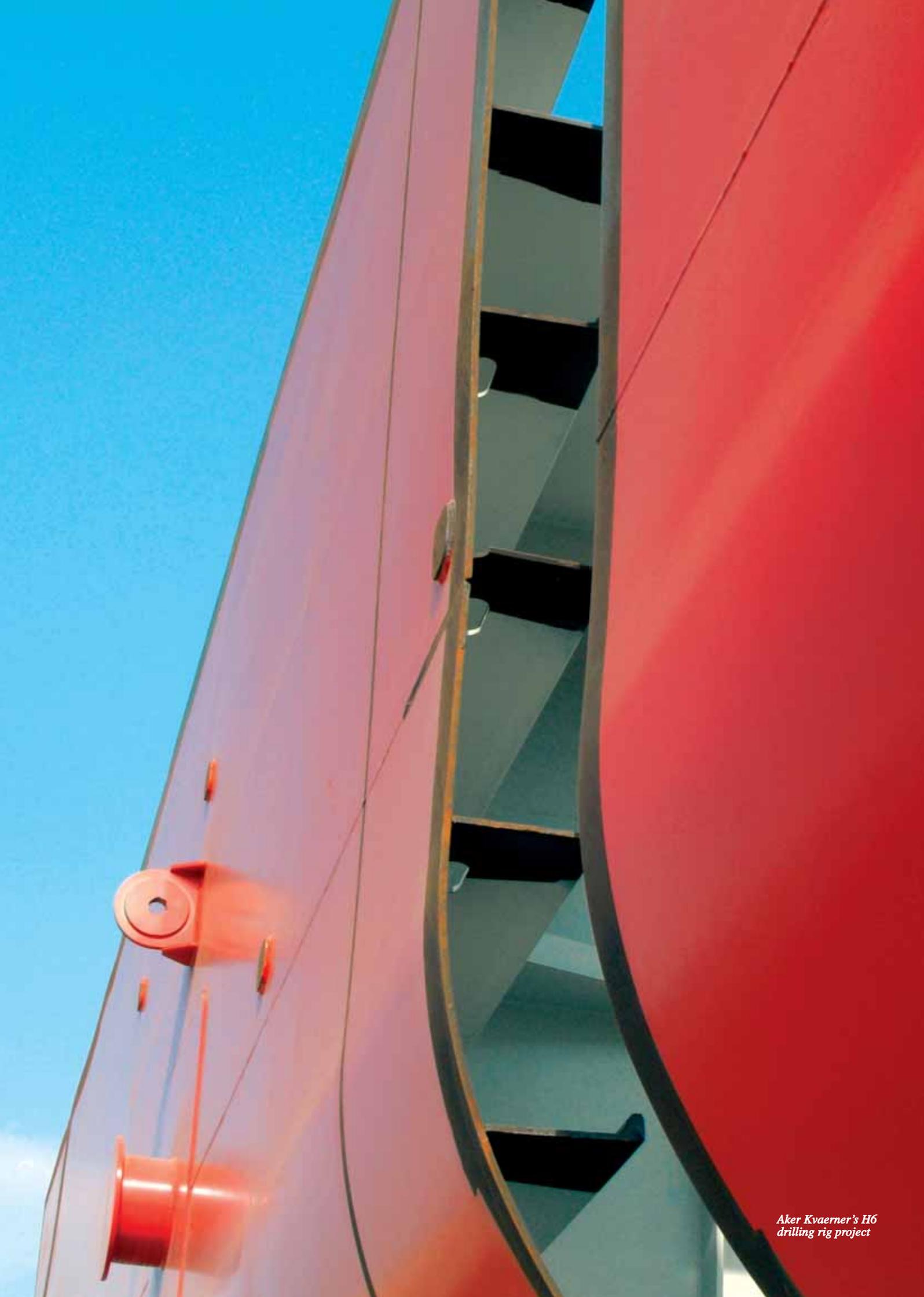
### SALES

Total sales mill NOK incl. 100% in joint ventures



### SEGMENTS





strategic focus on the distribution of Multicolor centres and increased activity in countries such as China and India.

### Jotun Powder Coatings: A vital part of Jotun

In 2006 Jotun Powder Coatings strengthened its position as the number four global powder coatings supplier. Our 14 companies, working in close cooperation with agents and distributors around the world, generated sales growth of more than 11 per cent this year, supported by especially strong results in Turkey, the United Arab Emirates, Saudi Arabia and the Czech Republic. While part of our success is due to a general increase in the global demand for powder coatings, our growth rate far exceeds the industry average of about five to six per cent.

Perhaps more importantly, 2006 saw Jotun Powder Coatings become a more pivotal part of the Penguin family. Today, Jotun Powder

**“Our expanded role within the Jotun Group has re-energised our division and allowed us the freedom, support and flexibility to grow.”**

Knut Øivind Malmin,  
Group Executive Vice President,  
Jotun Powder Coatings

Coatings is a vital part of Jotun’s Single Source Solution concept, coordinating with Jotun Coatings and Jotun Paints to provide large customers with a full range of coating solutions for offshore and land-based industrial and architectural projects.

We believe that providing powder coatings solutions to architects and contractors on major commercial or residential

development projects represents a significant business opportunity. To ensure Jotun Powder Coatings are specified by these large customers, we continue to invest heavily in research and development to bring new products to both functional and architectural markets. Our market share for industrial powder coatings, which makes up a significant part of our business, will also have high priority in the innovation process, and we have also approved and implemented an initiative to upgrade and replace old production equipment.

We also took steps to give our local companies far more freedom to generate new business opportunities in the markets they know best. This has enabled our country managers to be more responsive to market changes and improve local customer service, which has helped to stimulate growth and improve our earnings. We have also prioritised both internal and external training programmes to further develop our technical and commercial competence.

While Jotun Powder Coatings’ market share has been increasingly threatened by local competitors in some markets and we have seen margins impacted by the rising costs of raw materials, we are confident that the changes we have put in place in 2006 will continue to release our untapped potential. In addition, our expanded and more visible role within the Jotun Group has re-energised our division and allowed us the freedom, support and flexibility to grow.

## HIGHLIGHTS 2006

### Jotun Group

- Continued overall growth for the Jotun Group – sales and EBIT all-time high
- Successful turnaround of the Jotun Powder Coatings division
- Strengthened focus on Jotun’s values and business principles
- New factories in China and Yemen
- Established Business Development Department to enhance organic growth

### Jotun Coatings

- High level of activity in all segments and strong growth in most companies
- Several successful product launches supporting the divisions’ underlying growth
- Global Key Account Management programme for our largest customers

### Jotun Paints

- Strong growth in all markets and regions, securing a profitable business
- Advanced project groups securing mega-projects in the Middle East
- Record number of Multicolor centres

### Jotun Dekorativ

- All-time high sales for the division, securing a continued strong market position in Scandinavia
- Successful re-launch of Lady 10 – a high quality interior paint
- Implementation of Lean Management philosophy; increasing efficiency and improving quality

### Jotun Powder Coatings

- Relying on stronger local focus, with more segment-based divisional support
- Continued growth in volume and operating sales
- Launch of Corro-Coat Durasol – a new level of quality for the architectural range

## Celebrating a culture of diversity

As a global group, Jotun relies on employees from many different nationalities and ethnic backgrounds working together in a global team to get the job done. Jotun's operations in Dubai illustrate the rewards, and challenges, of our multicultural approach to building our business.

One of Jotun's factories in Dubai represents a good example of how Jotun adapts to local markets. The Operational Manager is Trine Finnevolden, a Norwegian chemical engineer who has worked for Jotun for over two decades. In Dubai, she is responsible for 150 employees in an organisation with people who come from 25 countries and different religious faiths.

**Finding common ground** At Jotun-sponsored management courses attended by people from all over the world, Trine learned to complete complex tasks with multicultural resources. She learned that people working in a multicultural atmosphere are not only better listeners but are also more sensitive to each others' differences and willing to find common ground. She also observed that with regard to motivating staff to improve performance, people are the same all over the world.

Professionalism is at the core of Jotun's global team approach, and Dubai is no exception. Trine explains that the majority of her staff are expatriates – mostly from India, Pakistan and Nepal – so they share a common experience working in Dubai. They also all share the same commitment to Jotun and an appreciation for the group's values.

**Words into action** However for Trine, the Jotun value 'Respect' is more than just a word; it must be put into practice. For example, she makes sure somebody translates when discussing in smaller team meetings. Prayer rooms are available for employees and working hours are adjusted to coincide with religious holidays. In the past twenty years, Trine has travelled to two dozen countries and several continents with Jotun. Like many others in Jotun's world team, she has chosen to go abroad and work in a multi-cultural environment where respect and professionalism are crucial. Both Trine and Jotun are better off for it.

### A CITIZEN OF JOTUN

While Jotun's multicultural approach is most visible in its network of international offices, the group's headquarters in Sandefjord have become increasingly international. Ashraf Maged, an Egyptian who was recently recruited to join the Business Development department, moved to Norway last autumn. He says that Jotun has provided him with both the opportunity and the flexibility to learn new skills and take part in exciting new initiatives. He also says that living in Sandefjord has given him a fresh perspective on the "penguin spirit" and helped him to make new friends.

As a business development manager, Ashraf is currently working on analyses and feasibility studies to help various Jotun companies enter new markets, a job which will require more travel in future. Yet like many other Jotun employees, he is looking forward to meeting new people, fresh challenges and learning about new cultures.

**"What makes Jotun special is its ability to adapt to new environments."**

Ashraf Maged, Business Development Manager





With more than 5300 employees worldwide, Jotun is one global company made up of many different cultures.



## An integrated, global approach to customer service

To improve customer service for Jotun's larger customers in the marine and protective segments, Jotun has leveraged its global reach and ability to deliver a broad range of coatings solutions.

Although Jotun's long history of serving the maritime industry has played a significant role in the group's international expansion, Jotun's relationship with many large shipowners has until recently been locally or regionally focused. However, in an increasingly global industry dominated by fewer but larger players, serving major shipowners requires a more global perspective.

**Key Account Management** Today's major shipowners demand a uniform quality of service, ready access to coatings stock, and uniform prices for marine coatings, wherever they are. To meet the demands of these unique, "borderless" customers, Jotun Coatings has assembled Key Account Management teams to ensure that Jotun can respond quickly to their demands and coordinate purchasing, availability of stock and a broad range of coatings-related services on a global basis.

Jotun Coatings' protective business has applied a similar approach to serving its major customers. Jotun's protective business has identified its largest active global customers throughout the world in this programme – companies which expect suppliers to operate in a similar borderless environment. The Key Account Management initiative has not only helped Jotun improve its quality of service; it has also helped the group to become more integrated into its customers' value chain.

**Single Source Solution** Jotun's core strength remains its ability to adapt to local environments, but with a sharp global increase in major construction and infrastructure projects, especially in the Middle East and Asia, the group has sourced coating solutions from three divisions to provide complete coating solutions. Known as the Single Source Solution concept, Jotun can provide fully integrated protective, decorative and powder coatings solutions. To capitalise on this unique service capability, the group has worked hard to market Jotun to international contractors and architects to ensure the group is specified for major construction projects from stadiums to skyscrapers.

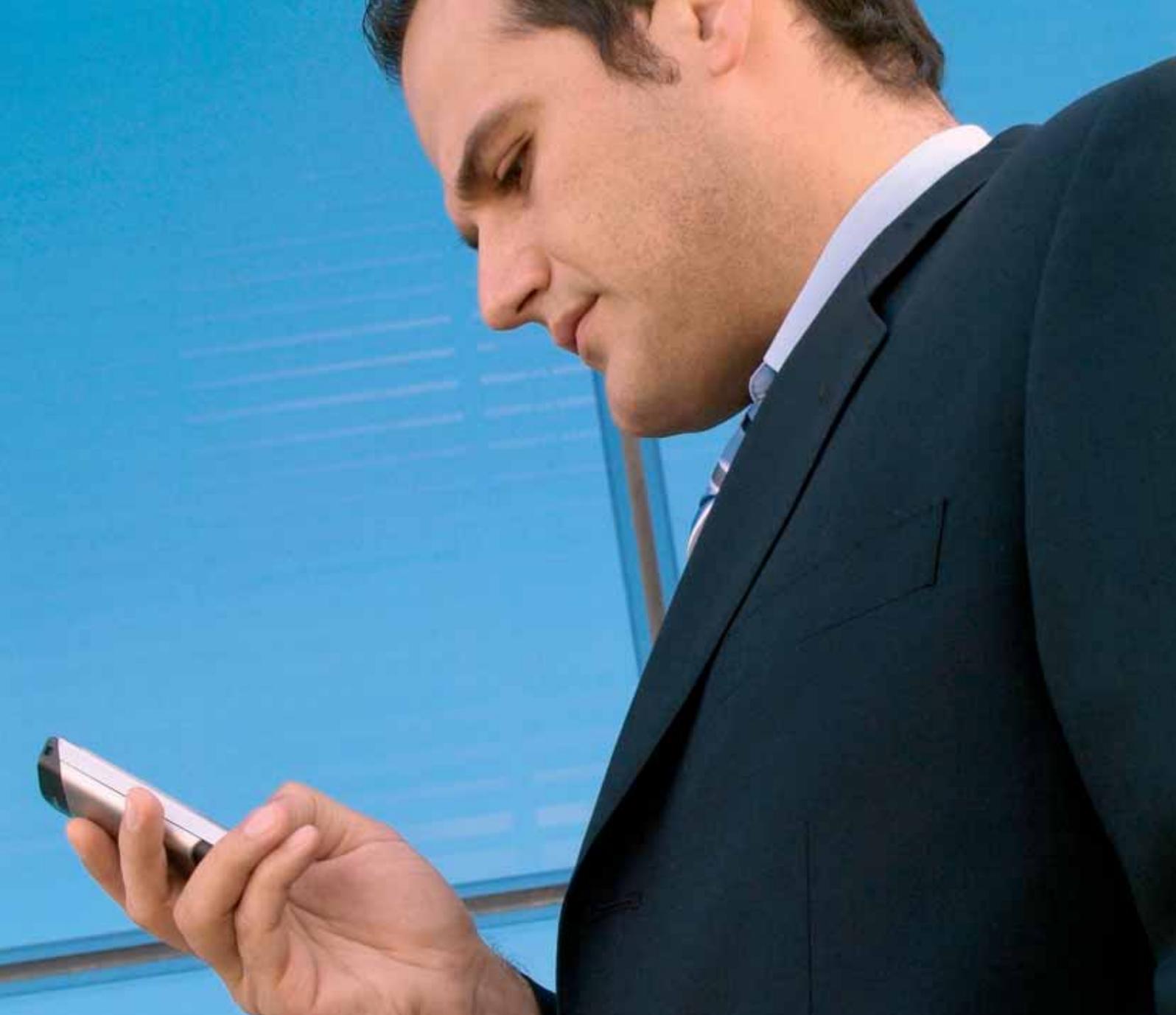
### PAINTING IN THE CLOUDS

When completed in 2008, the Burj Dubai, owned and operated by Emaar Properties, will be the tallest skyscraper in the world. Jotun will deliver concrete protection, powder coatings, decorative paint and decorative painting expertise. Like many of Jotun's Single Source Solution customers, Emaar Properties is multinational, with joint ventures and projects in India, Egypt, Turkey, Morocco, Syria, Pakistan, Tunisia and Saudi Arabia.



**"Jotun has both the products and the skills to meet the challenges of today's global maritime and industrial players, and we are adapting rapidly to meet their demands."**

Esben Hersve, Group Executive Vice President, Jotun Coatings



By utilising resources from different divisions, Jotun can provide fully integrated coating solutions to the marine and protective market.

Single  
Source  
Solution



## Building competence

To successfully support Jotun's rapid growth, the group must invest not only in new facilities and equipment, but also in its most valuable resource: people.

In the summer of 2006, Jotun launched a Business Development department to work in support of each of Jotun's companies around the world. While Jotun has a strong tradition of investing in employees, the group's management team recognised that a more centralised competence development programme would allow for more efficient coordination of Jotun's various training courses and enable more competence-sharing between divisions.

**Jotun Academy** Jotun's competence development team includes seven individuals, representing different parts of the Jotun organisation. One of their first actions was to establish the Jotun Academy as a brand for cross-divisional competence development initiatives. The Jotun Academy is divided into four main training portfolios: Sales & Marketing, Operations, Technical and Management. Each portfolio includes a number of different training courses developed either in-house or in cooperation with partners, including IMD and Orkla.

The competence development team also works in cooperation with Jotun's Human Resources department. The increased demand for management capacity, coupled with an effort to recruit the next generation of "penguins", has led to a dedicated international trainee programme. In 2007, six individuals will be recruited to join Jotun, where they will not only learn the business at Jotun headquarters in Sandefjord and Dubai; they will also be sent to other offices abroad to gain a global perspective.

**Ensuring sustainable growth** Jotun's competence-building department forms part of the Business Development department, which was established to coordinate Jotun's business development initiatives. While the focus of the Business Development department is confined at present to preparing feasibility studies on new markets, exploring new markets and business opportunities and finding cross-divisional synergies, their work shares a common goal with the competence development team: that of providing Jotun with the right tools to ensure sustainable growth.

### JOTUN ACADEMY

Managed by the Jotun's Competence Development Department, the Jotun Academy is the common term for all of Jotun's corporate training activities. While most of these courses are run by Jotun, the group cooperates with external organisations in some areas. Individual courses are offered on the following subjects: Management, Sales and Sales Management, Business to Business, Branding, Purchasing, Operations, Coating advisor incl. FROSIO.

**"Competence-building is vital to Jotun's efforts to recruit skilled workers, retain and enhance current employees, and equip Jotun with the right people to expand into new markets."**

Tor Hatlo-Johansen, Group Vice President, Business Development





Investing in competence-building initiatives is more than an advantage – it is a necessity.



# Embracing Lean Management

Jotun has been using Lean principles in factories around the world for years. It is now becoming part of the business culture. The lean methodology will now be used more systematically in all companies – improving our supply chain throughout the organisation.

Eight months ago, Jotun Dekorativ launched a new efficiency initiative to optimise its purchasing, production, logistics and distribution processes at some of its facilities in Norway. Due to the cold winters, peak demand for paint in Scandinavia occurs during the warm summer months. To manage these seasonal variations, Jotun Dekorativ has been producing paints months in advance of the warmer seasons, building up stock. Today, an initiative to utilise lean principles to optimise its purchasing logistics and distribution processes is under way at our facilities in Norway.

**Go with the flow** The new system is designed to facilitate a more consistent flow of products throughout Jotun's entire value chain. Rather than pushing stock, Jotun will only produce what is necessary, when it is necessary. This approach will help the group not only to reduce costs, but also improve customer service and allow Jotun to respond more rapidly to market changes. The focus is on the performance of the entire supply chain rather than just the production and logistics functions.

The system has already proven to be highly effective. In the last eight months, Jotun Dekorativ has reduced its stock from 9.1 million litres to 5.5 million litres, allowing the group to reduce the number of external warehouses it uses from six to one. We have also managed to cut lead times in production from three weeks to four days and increase production capacity by 20–30 per cent. This production improvement has materialised without any major increase in manpower or new investments.

**Continuous improvement** Whilst encouraging, the division still has a long way to go to fully implement the system. Indeed, Jotun must not only encourage our suppliers of raw materials, packaging and logistics services to harmonise their operations with ours; we must also work more closely with our customers to ensure they get the best out of the new system. As Lean Management is based on the principle of continuous improvement, the work to fine-tune these new processes will remain a high priority for years to come.

## LEAN MANAGEMENT

Lean Management is a manufacturing methodology that was originally developed by Toyota to streamline the manufacture of its cars. The primary objective of the lean production model is to get the right things to the right place at the right time, first time, while minimising waste and ensuring flow, all with a common focus on continuous improvement. Below are ten rules summarising the principles of lean production:

1. Eliminate waste
2. Minimise inventory
3. Maximise flow
4. Pull production from customer demand
5. Meet customer requirements
6. Do it right first time
7. Empower workers
8. Design for rapid changeover
9. Partner with suppliers
10. Create a culture of continuous improvement

**“To capture the benefits of Lean Management, we must change not only our systems, but also how we view our entire value chain.”**

Øyvind Hauge, Director Supply Chain, Jotun Dekorativ



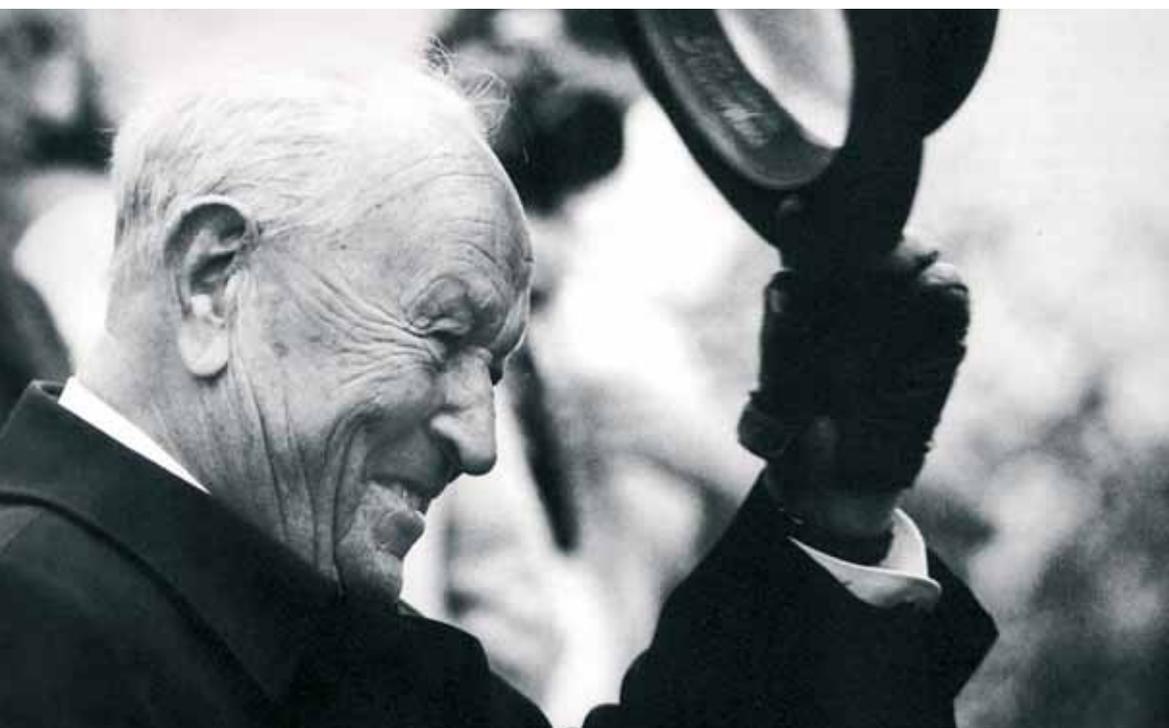


Jotun is continuously implementing new systems to improve the production flow and efficiency.



## A history of adaptability

Throughout our long history, Jotun has adapted quickly to new market realities. On these pages, we profile the different ways in which Jotun has adapted to changes, both large and small.



**Adapting to change** After six years serving on a whaling vessel out of his home port in Sandefjord, Odd Gleditsch Sr. recognised an increased demand among shipowners for marine coatings and related supplies. He established his first store in 1920 but by 1921, the town's economy had collapsed.

Confident that the situation would turn around, Gleditsch Sr. continued building relationships with shipowners and the Framnæs Shipyard. When the whaling economy bounced back in 1922, Gleditsch Sr. was back in business.

**Adapting to market demand** Responding to demand among shipowners for a reliable anti-corrosion coating, Gleditsch Sr. and

chemist Dr. Manfred Ragg launched Arcanol in 1931, a popular coating which established the Jotun brand locally.

**Adapting to shortages of raw materials** During World War II, many raw materials were rationed, including linseed oil, a crucial component in Jotun coatings. Rolf Ra, Jotun's purchasing manager and chemist Thorstein Heimdahl distilled black lye, a waste product of the cellulose industry, into tall oil for use as a binder in house paint, producing two popular wartime paints: Vernol and Estrol.

**Adapting to a shrinking world** Spurred on by a post-war construction boom, decorative paints were in great demand in Norway, creating fierce competition. Jotun performed well in this environment,

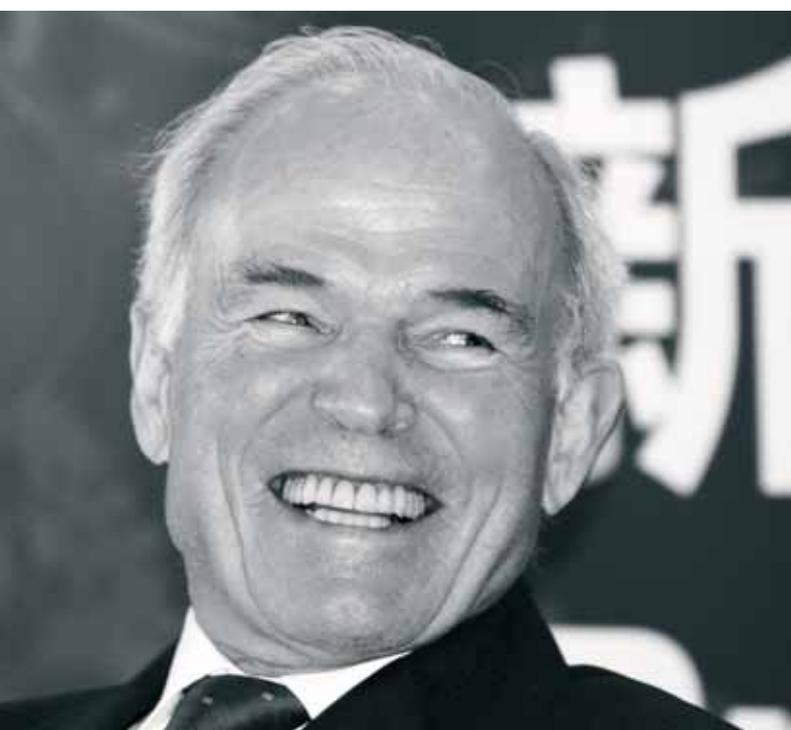
but recognised that to continue growing, the company would have to seek opportunities abroad. In 1961, Odd Gleditsch Jr. led the way by establishing the group's first operations in the Middle East, building a factory in Libya in 1962.

**Adapting to emerging markets** Once Jotun was established in Libya, Jotun received a major order for paint for marking the runway at Tripoli Airport. Running short on aluminium oxide, a substance which gave the paint a non-slip surface, local Jotun managers decided to use another raw material which is found in great abundance in Libya: desert sand.

**Adapting to a competitive environment** By the late 1960s, the coatings industry in Norway had become increasingly

**Adapting to customers** When Sandefjord's whaling industry shut down in 1967, the port's shipyard at Framnæs began building oil platforms, and Jotun was there to supply the paint. Today, Jotun is a leading supplier of protective coatings to the oil and gas industry.

**Adapting to new technologies** Prior to the launch of Multicolor colour mixing machines, retailers displayed paints of many different colours, produced by different manufacturers. In addition to offering a limited palette of colours, retailers were forced to stock large numbers of paint cans. Working with an American equipment supplier, Jotun technician Ole Kval developed a workable in-store mixing machine which would revolutionise the sale and marketing of Jotun paints. Today, the group has 4,450 Multicolor machines worldwide.



crowded and competitive, forcing prices down. Led by Odd Gleditsch Jr., Jotun approached three of its major competitors, Denofa Lilleborg, Bjercke, and Fleischer, to discuss a merger. By 1972, the merger was complete, and the new company A/S Jotungruppen had a dominant market share in Norway.

**Adapting to climate** Jotun established operations in Thailand in the 1960s. However, the heat and humidity played havoc with paint manufacturing and forced Jotun chemists to re-think factory processes. In addition, Jotun's sales teams had to become familiar with local lore: in Thailand, different colours are assigned to different days of the week.

**Adapting to economic growth** While Jotun has been active in Asia for decades, the remarkable economic growth of China over the last five years has created increased demand for additional capacity in China.

In 2006, Jotun invested about USD 30 million in a new factory located in Zhangjiagang outside Shanghai. Today, Jotun has 600 employees in China, and is represented in Shanghai, Hong Kong, Guangzhou, Chengdu, Wuhan, Tianjin, Beijing, Dalian and now Zhangjiagang – in time for the 2008 Beijing Olympics and the 2010 World EXPO.

## All the colours of the world

As one of the world's leading suppliers of decorative paints, Jotun's success is built on quality products and services and the industry's most extensive global network of in-shop tinting systems.

Jotun manufactures and sells decorative paints throughout the world. Responsibility for the group's decorative paint activities is divided between Jotun Dekorativ and Jotun Paints, but is also carried out in some of Jotun Coatings' markets. Marketing strategies are built around in-shop tinting and colours, brand-building under the Jotun umbrella, close alliances with dealers and distributors as well as painters, contractors, specifiers and developers at all levels.

The USD 40 billion global market for decorative paints is expected to increase, fuelled by new construction in emerging markets and increased consumer appetite for Do-It-Yourself projects in mature markets. A general trend toward consolidation has created multinational home decorating outlet stores in some regions and global construction companies in others. This trend has not only helped drive volume sales; it has also changed how paint suppliers interact with major retailers and contractors.

Tougher environmental standards are also having an impact on the global decorative paint market, as more countries begin to follow

Europe's lead in restricting the use of solvents in paints. Jotun paints are produced in compliance with these new regulations and in some cases exceed environmental laws and regulations. On the consumer side, interest in interior decoration is increasing worldwide, although tastes vary considerably in different markets.

Customer relations with the trade and Do-It-Yourself sectors, together with our focus on understanding the customer are important factors. These factors, together with effective marketing and sales service, are under constant development to ensure that we stay ahead of our competitors. Jotun's success in this segment, which has also been driven by quality products, excellent service and its extensive network of Multicolor centres, suggests that consumers the world over respond to the same thing – quality, good service and choice.

### MEGA PROJECTS

Jotun Paints is supplying both exterior and interior paints to Nakheel Properties, a leading property developer in Dubai, for the company's **International City** project. International City, a residential development which will provide 60,000 affordable homes for migrant workers, is divided into 22 residential buildings with a total space of 1,859 million square metres. Meanwhile, in Norway, Jotun Dekorativ is supplying surface coatings for the **National Opera House** in Oslo. Jotun will deliver various surface coatings products covering approximately 80,000 square metres of the new opera house in cooperation with professional paint specialists and the coatings applicator company, Malemester Kaasa AS.

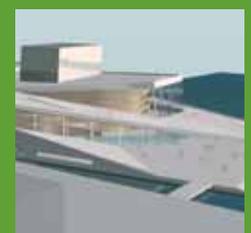


"Jotun's success in the decorative paints segment is due to the quality of our products, the strength of our customer service, and the range of colour choices we offer to individual customers, wherever they may live."

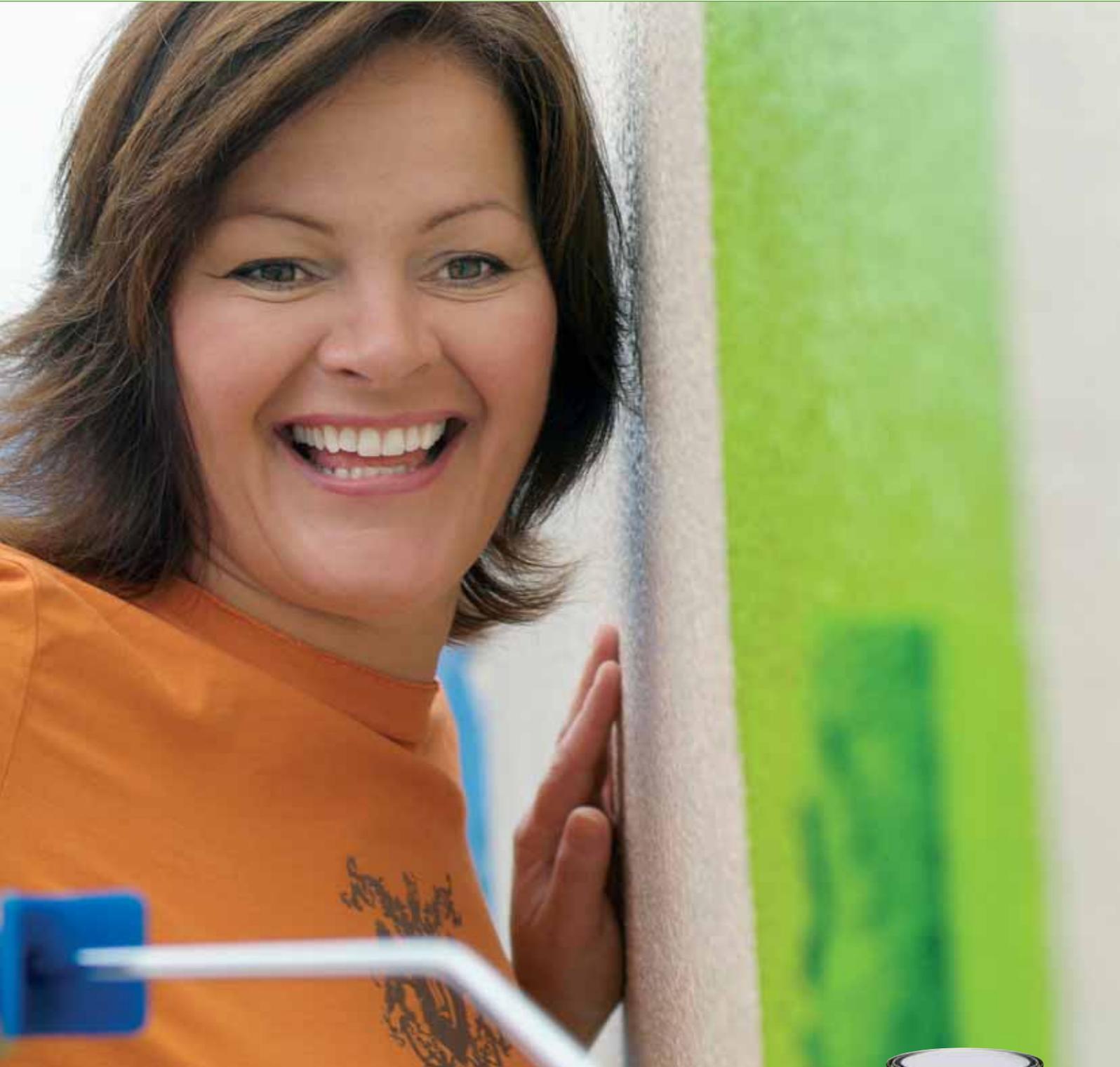
Erik R. Aaberg, Group Executive Vice President, Jotun Paints



*International City, UAE*



*National Opera House, Norway*



*Savannah Condo Park,  
Singapore*

Driven by Jotun's development of quality exterior paints such as Jotashield and Drygolin, and our many popular brands of interior paints, Jotun has taken a strong market position in the global decorative paint segment.



decorative

## Building stronger customer relationships

**Thanks to increased global activity in both the energy and construction industries, there is demand for quality protective coatings suppliers with strong global networks.**

About 60 per cent of Jotun's protective coatings business lies in the oil and gas industry, where Jotun provides anti-corrosion coatings solutions for offshore oil rigs, platforms and semi-submersibles and the onshore hydrocarbon processing industry, around the world. Jotun also markets coatings to refineries, power stations and major, high-profile infrastructure projects, such as bridges and stadiums.

Jotun's protective coatings business is managed by the Jotun Coatings division, which works with Jotun Paints and Jotun Powder Coatings on major projects, where appropriate.

The health of today's global protective coatings market is the result of both economic development and the rising global demand for energy. Economic development in Asia, the Middle East, Russia and other regions has put pressure on oil prices, encouraging energy companies to invest more in both offshore installations and refineries to meet increased global demand. At the same time, economic development has encouraged investment in major infrastructure projects throughout the world, creating new opportunities for coatings suppliers.

While encouraging, these developments have created some fresh challenges for the protective coatings market. Economic develop-

ment has driven the cost of raw materials higher, especially zinc, which is used in primers.

Jotun will focus on increasing volume sales and improving profitability. To achieve this, the group has established Key Account Management teams which are responsible for managing the largest customers. While Jotun protective coatings solutions are recognised for their quality, the future success of Jotun's share in this market will be determined by the ability to build strong, long-term relationships with leading companies through more customer-driven products and solutions.

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### SIEMENS: KEY ACCOUNT CUSTOMER

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With its head office in Erlangen, Germany Siemens Power Generation is providing power solutions to customers around the world. In February 2004, Siemens awarded Jotun a contract to supply protective coatings solutions for the company's power facilities worldwide, including follow-up and support services. To ensure a uniform quality of service, Jotun has developed a single specification for all Siemens projects, and ensured that the company has access to uniform stock and a global price structure, wherever they are. A statement issued by a representative of Siemens Power Generation emphasised the vital importance of Siemens working with a coating supplier with a global reach. "Jotun is one of our nominated partners due to the fact that they provide us with the service and quality we expect from a global industrial player," the statement read.



*Aker Kvaerner H6 drilling rig*



*Siemens project Ca Mau, Vietnam*



*Kashagan, the Caspian Sea*

**"To succeed, we must not only continue to provide quality protective coatings solutions, but also build closer relationships with our customers, wherever they operate."**

Martin Chew, Divisional Vice President, Protective Coatings



*Bridge in Norway*

From bridges to oil rigs, stadiums to power stations, Jotun's protective coatings can be found on structures at sea and on land all over the world.



*Jotamastic Smart Pack*

protective

## Serving the borderless maritime industry

For more than 80 years, Jotun has been an innovative supplier of marine coatings.

Yet in an increasingly global industry dominated by fewer but larger players, Jotun is working to optimise its global network.

The Jotun Group's marine coatings business is managed by Jotun Coatings, with significant sales support from Jotun Paints. More than any other business in the Jotun Group, marine coatings require an international perspective, an integrated global network and the ability to provide quality, uniform services throughout the world.

Today's shipping industry is driven by three major forces. Global economic growth, especially in Asia and China in particular, has created a demand for more tonnage. At the same time, the industry is becoming dominated by fewer but larger players seeking agreements with professional global suppliers. Finally, the industry is subject to increasingly strict environmental regulations which have created a demand for more innovative products.

In 2006, Jotun's marine coatings sales increased by 19 per cent. Part of this success was driven by the group's decision to encourage more cooperation and communication in its marine coatings business. To allow the group to optimise its global network, Jotun has set up Key

Account Management teams, responsible for the group's 23 largest global customers and launched a newbuilding project, designed to ensure Jotun marine coatings are specified on the maker's lists of both leading yards and owners. Other initiatives include the launch of Albatross, a customer data management system and further investment in innovative new products, such as SeaLion fouling release coating.

Looking ahead, Jotun will establish an ambitious recruitment and training drive to build technical capacity and competence, and develop improved business processes and systems for the repair and maintenance of vessels. These vital changes will not only enable Jotun to provide improved services, but will also strengthen Jotun's global network.

### BEST NEWBUILDING YEAR EVER

After four years of continuous growth, 2006 represents the best newbuilding year ever in Jotun's entire marine history, measured both in terms of numbers of vessels signed and in contract value, in total dead weight tonnage. In addition to improving our project management and communications tools, our excellent performance is the result of good, consistent and hard work over a long time by our marine network to strengthen our relationships with shipyards. By focusing on meeting the demands of shipyards, we have earned the trust of customers as a provider of quality service and coatings solutions in every step of the newbuilding process.

Photo: The Ulstein Group, ULSTEIN AX104, www.ulsteingroup.com



Bourbon Orca

**"To be a global player you must have a strong, integrated global network."**

Geir Bøe, Divisional Vice President, Marine Coatings

Photo: Aker Yards



Freedom of the Seas



## SeaQuantum

*SeaQuantum, self-smoothing antifouling*

## SeaLion

*SeaLion, fouling release coating*

Jotun's development of quality marine coating solutions, including SeaQuantum and SeaLion, has contributed significantly to the growth of Jotun's marine coatings business and strengthened the group's position as a leading innovator.



*Knock Adoon*

## Anticipating change in a complex market

As the world's fourth largest supplier of powder coatings, Jotun has staked out a strong position in an expanding market.

Jotun's powder coatings business focuses on three core segments: architectural, industrial and functional coatings. While performing well in all of these markets in 2006, Jotun Powder Coatings is recognised for its expertise in serving the oil and gas industry with specialised heat- and corrosion-resistant pipe coatings, valves and related oil and gas equipment.

The total global powder coatings industry is estimated to be worth around USD 4.5 billion. Today's powder coatings market is relatively healthy, although the emergence of small local producers has created overcapacity in the industrial segment in certain markets, putting pressure on margins. To compete in these complex and crowded markets, Jotun Powder Coatings has recently reorganised to allow managers the flexibility to adjust to changing markets at a local level. By generating more volume and focussing increasingly on premium products, Jotun Powder Coatings will continue to expand.

Conditions are somewhat different in the architectural and functional markets, where the industry has seen more consolidation amongst customers. Many major new construction projects in Europe, the

Middle East and Asia are managed by internationally based architects and contractors. To compete in this market, Jotun Powder Coatings works closely with Jotun Coatings and Jotun Paints to offer complete solutions to these multinationals to ensure Jotun is specified as a coatings supplier. Jotun applies a similar approach to marketing its functional powder coatings solutions to the oil and gas industry.

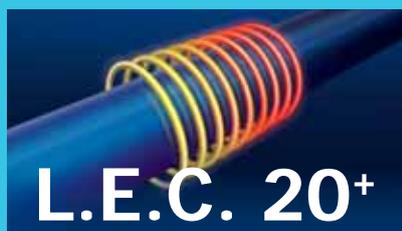
By strengthening its presence in local markets and working with other business units within Jotun, the group's powder coatings division has become an increasingly important part of the group's overall growth strategy.

### JOTUN POWDER COATINGS LAUNCHES CORRO-COAT DURASOL TO THE ARCHITECTURAL SEGMENT

In a continuing effort to strengthen our market share in the architectural segment, Jotun Powder Coatings has assembled a team of architectural managers to ensure that Jotun's high performance powder coatings are specified for major residential, commercial and monumental projects. In addition, we launched **Corro-Coat Durasol**, a hyper-durable powder coating based on fluoropolymer technology, engineered to meet the aesthetic and functional needs of certain segments of the industry which has traditionally relied on a fluorocarbon solvent-based wet coating technique (known as PVDF). The official launch took place in four main markets: the United Arab Emirates, Indonesia, Thailand and Egypt.



Indoor and outdoor applications



Lower energy consumption FBE powder coatings

"To grow, we must serve the needs of our local customers with the same energy and commitment we devote to securing contracts with our global customers."

Knut Øivind Malmin, Group Executive Vice President, Jotun Powder Coatings



Corro-Coat Durasol

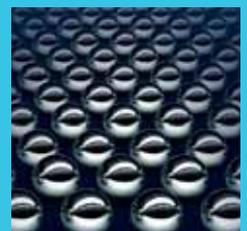


*Custom-designed powder coatings*



*Dual-layer Fusion Bond Epoxy*

As one of the world's leading providers of dry coating solutions, Jotun powder coatings can be found protecting everything from kitchen appliances, rolls of film and industrial pipes to window frames.



*Puro-Coat protects the film from bacterial attack*

powder coatings



*Odd Gleditsch d.y., Chairman*

## The risks and rewards of long-term investment

Jotun's strong performance in 2006 has its origins in the group's long-term organic growth strategy.

Jotun's continued growth in 2006 was supported by several new developments. We increased capacity by opening new factories, gained market share in some areas and segments by improving our sales performance, and launched several new management initiatives to improve efficiency and build our competence. While the group's four divisions continue to serve their own markets, the management team is finding new ways of working together to leverage our global reach and capacity to strengthen our business.

### Global challenges

As a global player, Jotun remains sensitive to macro-economic trends. For example, the rising cost of many raw materials over the past few years continues to put pressure on our margins. However, it should be noted that the costs of raw materials is not inconsistent with historical averages. Jotun's profits are also affected by the weakness of the dollar, an issue which remains a concern. To meet these challenges, Jotun must continue to improve all aspects of our operations.

Looking forward, Jotun will continue to pursue a strategy of organic growth, without excluding acquisitions. While we recognise that the consolidation amongst other coatings suppliers may result in increased competition in certain markets, we remain convinced

that our successful record and experience in establishing Jotun in emerging markets represents the way forward.

### A long-term perspective

Jotun's organic growth strategy is also consistent with our corporate structure. Because Jotun is not a listed company, we are under less pressure to deliver quarterly gains to satisfy short-term investors.

Rather, we have the freedom to take some risks and make incremental investments in new markets. Once established in an emerging market, we can then develop our business step-by-step. After all, the seeds of our current success in the Middle East and Asia were planted and nurtured over time, and have helped support a growth rate of about ten per cent annually over the last ten years.

While generally considered safer than an acquisition-driven growth strategy, the organic growth model is not without risk. Today, Jotun faces many challenges, from managing working capital to maintaining our high level of competence. To ensure we can support our rapid growth and maintain our reputation for quality, we need to continue building our technical, sales and management capacity. In the meantime, we will continue to explore new markets, and seek to gain market share in all regions in which we operate.

**"To ensure we can support our rapid growth and maintain our reputation for quality, we need to continue to build our technical, sales and management capacity."**

*Odd Gleditsch d.y., Chairman of the Board*



# Directors' report

## 1. PRINCIPAL ACTIVITIES

At the end of 2006, the Jotun Group was engaged in the development, manufacture, marketing and sale of paint and coating systems and surface treatment products through four divisions:

**Jotun Dekorativ:** Decorative paints, stains and varnishes for the trade and DIY markets in Norway, Sweden, Denmark and Iceland, and the manufacture of binders.

**Jotun Coatings:** Marine and protective coatings for industrial and offshore use in Europe, the USA, South Africa, Australia and North East Asia, and decorative products for local customers in the same regions.

**Jotun Paints:** Decorative paints in the Middle East and South East Asia, and marine and protective coatings for local customers in the same regions.

**Jotun Powder Coatings:** Powder coatings for architectural, functional and industrial market segments to protect metal surfaces from corrosion and add colour and style to their appearance.

Jotun has a global network and is represented on every continent through its various subsidiaries and joint ventures. The group comprises 67 companies across 35 countries, including 40 production facilities. In addition, Jotun has agents, branch offices and distributors in more than 70 countries. The parent company Jotun A/S has its head office in Sandefjord, Norway.

## 2. THE ACCOUNTS

The 2006 accounts were prepared on a going concern basis.

The consolidated accounts comprise the results posted by subsidiaries and all joint ventures in which Jotun A/S directly or indirectly owns a stake of 20 per cent or more, with consolidation based on the gross method.

### Results

Group operating income totalled NOK 7,733 million, against NOK 6,710 million in 2005.

The group recorded pre-tax profits of NOK 585 million, against NOK 490 million in 2005. The overall tax charge for the year was NOK 209 million, against NOK 151 million in 2005. The group profit after tax but before minority interests was NOK 376 million, against NOK 339 million in 2005.

The parent company Jotun A/S posted pre-tax profits of NOK 461 million, against NOK 451 million in 2005. After tax totalling NOK 134 million, the parent company accounts show a profit of NOK 327 million, compared with NOK 349 million in 2005.

### Financial position and capital structure

The group is exposed to credit, interest rate and exchange rate risks in its ordinary business operations, and active steps are taken to keep these risks at acceptable levels.

In addition to credit insurance, procedures have been established to assess customer creditworthiness in order to reduce the credit risk.

Net interest-bearing debt by the end of 2006 was NOK 229 million, compared with NOK 251 million at the end of 2005. The group's interest rate exposure therefore remains limited.

The primary exchange rate exposure relates to the USD and USD-related currencies. Exchange rate exposure in the group's balance sheet and net cash flows is hedged through currency loans, forward contracts, foreign exchange swaps and options.

Group investments totalled NOK 278 million in 2006.

On behalf of the group, Jotun A/S had overdraft facilities and other committed short-term and long-term lines of credit amounting to NOK 1,275 million at year-end, none of which had been utilised. At the same time, Jotun A/S had liquid reserves (committed lines of credit, cash, bank deposits, etc.) totalling NOK 1,462 million.

The group's net cash flow in 2006 was NOK 108 million, against NOK -183 million in 2005. The cash flow from operations was NOK 415 million.

The group's equity ratio stood at 53.2 per cent at year-end, against 54.9 per cent a year earlier.

Liquid reserves and the capital base are considered to be satisfactory for both the Jotun Group and the parent company Jotun A/S.

### Allocation of profit

Jotun A/S recorded a net profit of NOK 327,200,000 for 2006, with the proposed allocation for approval by the AGM as follows:

Provision for dividends (NOK 500 per share)	NOK 171,000,000
Allocation to other equity	NOK 156,200,000
Total allocation	NOK 327,200,000

On this basis, unrestricted equity at year-end 2006 totalled NOK 2,217 million, against NOK 2,075 million a year earlier.

## 3. THE MARKET

### Jotun Dekorativ

The division's sales were at a record level in 2006. Higher volumes of both interior and exterior paints were achieved. However, financial results were adversely affected by the harmonisation of prices in Scandinavia.

After a few years with delivery challenges during the high season, deliveries to customers improved as a result of the implementation of a new ERP system. A programme to increase supply chain efficiency and reduce working capital based on Lean principles was launched in 2006.

Jotun's strong brands in Norway are increasingly being challenged by private labels and further consolidation in the trade. Our growth is still coming from increased volumes of our major brands and premium qualities. The Lady interior and Drygolin exterior brands have further strengthened their positions as Norway's undisputed No.1 paint brands.

In Sweden, Jotun entered both the professional paint market and the COOP chain with the Scanox range (e.g. Butinox). Additional

distribution has been achieved through the Colorama chain in Sweden and Denmark.

Strong customer relations and innovation are keys to Jotun's further growth. In 2007, new premium products with features based on consumer insight will be launched. This will increase the total value of the paint category for the benefit of both customers and Jotun. Marketing initiatives, mainly via TV, the internet and in-store, will also be used to support our launches, face the challenge from private labels and encourage the consumer to paint.

### Jotun Coatings

The division is expanding rapidly and sales have increased since 2005. Profits have improved despite a challenging raw material market, but are still not in line with the group's long-term expectations for profitability.

The *marine segment* strengthened its position in 2006. This business is still benefiting from an upturn in global trade and the resulting increase in demand for transport. The industry is becoming dominated by fewer, larger players seeking agreements with professional suppliers. Closer cooperation and improved communication in the marine network has contributed to the strengthened position with these customers.

The *protective segment* has benefited from increased global activity in both the energy and construction industries and improved its position considerably in 2006. Economic development has encouraged investment in major infrastructure projects, creating new opportunities for us as a coating supplier. We have improved our ability to handle such projects by establishing a Key Account Management programme.

Effective innovations have been developed to meet customer needs and increasingly strict environmental regulations. This has contributed to the improved performance of the division.

While encouraging, the rapid development has created some fresh challenges for the industry and Jotun Coatings as a supplier. In response to this, an ambitious recruitment and training initiative has been launched to strengthen technical competence.

High growth is expected over the next few years as a result of both new and further development in rapidly expanding markets such as Russia, Brazil, India, Turkey, the Black Sea region and China.

Jotun Coatings opened its new production facility in China in January 2006. The volumes manufactured by this factory are strongly supporting the rapidly increasing level of our activity in China. Jotun has also decided to build a factory in Pune in India. This factory will be an important part of Jotun's extensive network of production facilities – serving a market with a very high domestic potential.

### Jotun Paints

Jotun Paints has three business segments; *decorative*, *marine* and *protective*, of which decorative is the most important in terms of sales and earnings. All three segments have good profitability and are growing. *Decorative* in the Middle East is growing particularly rapidly, but our position in several markets in South East Asia has also improved significantly during the period. The division has been less affected by the general increases in raw material costs and has a good operating margin.

The division is expanding and continues to be the market leader in the Middle East.

The Multicolor concept (Jotun's in-store colour-mixing system) gives Jotun one of its competitive advantages. Further development of the concept and its applications has helped to boost distribution and maintain a strong market position. Steps are also being taken to strengthen sales and marketing expertise within the local companies as well as on a regional basis.

The division is active in the construction project market throughout the Middle East and South East Asia and has established a good position amongst architects and contractors. Paint deliveries to many large and prestigious projects have been secured.

Jotun has achieved success by establishing an early presence in markets with growth potential. A strategic focus on marketing and organisational development has led to the establishment and reinforcement of strong positions in markets such as Saudi Arabia, the United Arab Emirates and Malaysia. Jotun Paints is continually assessing potential new markets in the light of this strategy and has significant exports to a number of markets in Middle East and South East Asia.

Strong growth has led to the need for increased production capacity. A new factory was opened in Yemen in early 2006. Investments are also being made to expand the group's production facilities in Saudi Arabia and Egypt.

### Jotun Powder Coatings

After a difficult year with weak performance due to sliding margins and increased costs, Jotun Powder Coatings has managed to turn the division into a profitable operation. It is now showing stronger and healthier results. The division has continued to grow in terms of sales volume and operating result in Europe, the Middle East and South East Asia. Margins have improved with stronger sales of premium products.

The key for the future success of the division will revolve around three elements; innovation, competence and collaboration across borders and divisions.

In addition to a continuous focus on brand-building and value-added products, a well structured innovation process has been established. Innovation is an important factor in order to respond to the increased competition in the market.

People and competence represent an important part of any business today and in order to have a competitive edge it is important to develop our people further. The Jotun Powder School was introduced last year with the aim of increasing professional skills in the areas of sales and technical support. To develop competence in production and improve process efficiency, the Jotun Operations Academy was established in collaboration with other Jotun divisions.

Collaboration between Jotun's divisions has become much more focused. There are clear benefits and synergies to be gained both from working closer in specific business areas where there are similarities and from transferring best practice.

The restructuring of the division from a geographical, region-based structure towards a more segment-based structure with a stronger local focus has proven to be a success. As a result of this change, the operations are closer to the markets and more responsive

to customer and product requirements across national boundaries. Divisional support will continue to play an important role in the further development of local operations.

#### 4. HEALTH, SAFETY AND THE ENVIRONMENT (HSE)

##### Objectives and activities

The world around us demands continuous work relating to technical and operational initiatives to safeguard health, safety and the environment (HSE). In its approach to HSE, Jotun strives to ensure that its activities satisfy both internal and external interests.

Jotun aims to become more competitive through an active and responsible approach to HSE. Priority is given to ensuring that initiatives aimed at improving group profitability do not compromise HSE.

The six audits conducted by HSE personnel in 2006 revealed that most of the group's factories, laboratories and warehouses meet acceptable HSE standards. However, some facilities require upgrading and action plans have been prepared for improvements.

The Board of Directors emphasises the importance of continuous improvement in HSE-related work and actions.

##### Costs

The overall cost of HSE measures and initiatives shows a slight downward trend over the past five years. Most of the decrease is due to lower operating costs relating to waste disposal and waste treatment.

In 2006 HSE-related operating costs were slightly up at NOK 25 million. This increase was partly due to two new factories, the cost of purchasing personal protective equipment, and higher waste management costs arising from increased production.

HSE-related investments totalled NOK 19.5 million (same as in 2005).

##### Working environment

Safety has always been a priority at Jotun, and the group's aim is to work continuously to safeguard our employees. Jotun considers preventive work to be the most important tool as regards working environment and health.

##### Group

The overall incidence of sick leave within the Jotun Group stood at 1.9 per cent. This represents an increase from 1.8 per cent in 2005.

A total of 1,311 working days were lost as a result of injuries, equivalent to 0.1 per cent of total working hours. The total number of lost-time injuries due to accidents was 77, compared to 53 injuries in 2005. The frequency of injuries resulting in absence of at least one day was 7.86 per million working hours. The accidents were mainly related to crushing injuries, cuts and burns. This is higher than desirable, and initiatives aimed at reducing injuries are under continuous assessment.

There were 22 accidents involving damage to property in 2006, compared to 11 accidents in 2005.

A total of NOK 11.2 million was invested in improvements to the working environment in 2006. This included installation of dust filters, ventilation systems, first-aid stations and air-conditioning.

##### Jotun A/S

The incidence of sick leave within Jotun A/S stood at 5.2 per cent in 2006, against 4.0 per cent in 2005. The trend in Norway shows an increase in sick leave in 2006. The increase in Jotun is a result of long-term sick leave cases.

Although some of Jotun's factories need improvement, the Board of Directors and the Group Management consider the working environment in general to be satisfactory.

##### Environment\*

Emissions to air consist of dust from the production of powder coatings and solvents from paint production. A total of 59,700 tonnes of solvents was used in 2006, against 55,800 in 2005. The increase was mainly due to a higher production volume.

The group generated 14,700 tonnes of waste in 2006, of which 5,000 tonnes were classified as hazardous waste. This represents an increase compared to 2005 when 12,400 tonnes of waste were generated, with hazardous waste accounting for 4,200 tonnes.

A total of 69,900 tonnes of water-based waste was discharged from production (against 64,300 tonnes in 2005). Of this, 46,400 tonnes were treated (against 47,300 tonnes in 2005). The authorities regard discharges into public sewage systems to be a local problem at eight of the group's factories.

A total of NOK 1.9 million was invested in measures to prevent or reduce adverse environmental effects (down from NOK 2.9 million in 2005). These measures included equipment to reduce waste volumes and treat process water.

*\* In 2005, figures from Jotun Paints Inc., USA, were missing. They are now included in the historical data and deviation from figures published in 2006 occurs.*

##### Future challenges

The recruitment, training and expertise of employees are vital for the realisation of the group's goals and visions. Particular attention will be given to the preventive maintenance of manufacturing equipment and buildings over the next few years.

The European Regulation on Registration Evaluation and Authorisation of Chemicals (REACH) was adopted by the European Council on 18 December 2006 and will enter into force on 1 June 2007. REACH will represent a major challenge for the chemical industry over a period of more than 11 years. Jotun is preparing for this challenge by screening all substances, raw materials and products, and by initiating and participating in the project "Innochem 2006–2010" with the purpose of developing effective systems to turn the new regulation into a promoter of innovation instead of being a threat to R&D, innovation and the production of chemicals in Norway and Europe. In this context a case study is being carried out in 2006–2007 together with a supplier and some customers to give input to the guidelines that are under development by the European Commission.

Directive 2004/42/EC on the limitation of emissions of volatile organic compounds due to the use of organic solvents in certain paints and varnishes (the so-called VOC Paints Directive) lays down maximum VOC concentrations. The limits came into force on 1 January 2007. The concentration of solvents in Jotun's products is

now being labelled according to the directive. The implementation of the directive has little influence on our products from 2007.

For some of our traditional solvent-borne paints the requirements for maximum VOC concentration will become stricter from 2010. Alternative products are already introduced and the development of new technology is in progress.

## 5. DIVERSITY

A key to Jotun's success and development is a willingness and ability to adapt to and respect local and cultural differences. Strategies and actions have been implemented to strengthen and develop this competitive advantage further; training at the Jotun Academy focus on cultural differences and understanding; a well established organisational structure ensures cooperation across borders and cultures; young employees with potential are encouraged to gain experience abroad to develop an understanding of diversity.

At Jotun, two of the nine members of the extended group management are women. 20 per cent of executive positions within Jotun A/S are held by women (against 25 per cent in 2004 and 2005). Seven per cent of blue-collar staff and 31 per cent of white-collar staff are women (against 7.5 per cent and 29 per cent respectively in 2005 and 8 per cent and 30 per cent in 2004).

## 6. GROWTH AND OUTLOOK

The strong underlying growth in the world economy in 2006 is expected to continue in 2007, although slightly below the 2006 level. There will be further strong growth in the Chinese economy; an almost double-digit growth rate during 2007 is anticipated. Good growth is expected in the Middle East with the booming construction industry, along with increasing growth in South East Asia. The growth in the US economy in 2007 is expected to be somewhat lower than in 2006, but it will still be higher than the European growth rate. The predicted growth rate for the Euro area during 2007 is two per cent.

The USD did not depreciate against the Euro in 2006 as many had predicted. However, many expect a weakening of the USD in 2007.

The price of oil is still high, although substantially below the peak experienced in 2006. The prices of some metal-based raw materials, especially copper and zinc, rose dramatically during 2006, but now seem to be levelling out or dropping to some extent.

All these elements impact on Jotun's business and profit, although it is difficult to measure the net effect of such external factors. Weakening of the USD would have an adverse impact on Jotun's profits in the short term. On the other hand, further volume growth is expected, which would improve profits and further strengthen Jotun's market positions.

Jotun has a sound market position in Scandinavia, the Middle East and Asia. Jotun's strategy is to further strengthen its position in these regions through organic growth. To enable such growth, Jotun:

- will strengthen the ability to support divisional initiatives through allocation of resources to projects
- has established a business development function to assist the divisions in developing at a faster rate
- has established a competence development function to enhance development of competence throughout the group
- has established an international trainee concept to employ and develop "young potentials"

Jotun is continuing to invest in the future, both as regards production facilities, research and development and the expertise and skills of employees. Investments in 2006 include the expansion and upgrading of factories in Turkey, Yemen, China and Norway. Further major investments are anticipated in 2007, with a new factory in India and factory expansion in Turkey, Egypt, Saudi Arabia and Singapore.

The Jotun Group's breadth in terms of business areas and geographical regions makes it less vulnerable to fluctuations in individual markets. Experience suggests that there is likely to be consolidation within some of our business areas. Jotun has the financial strength needed to adapt to changing market conditions and to expand further.

The foundation of Jotun's corporate responsibility lies in our values and business principles, which are being communicated throughout the organisation. We respect local culture, laws and regulations and have a reputation and tradition of operating in an ethically sound manner.

In view of ongoing steps to improve efficiency and given Jotun's strong market positions, the Board of Directors believes that the group will achieve a satisfactory result in 2007.

Sandefjord, 15 February 2007

The Board of Directors

Jotun A/S

Odd Gleditsch d.y.  
Chairman

Einar Abrahamsen

Terje V. Arnesen

Richard Arnesen

Torkild Nordberg

Nicolai A. Eger

Dag J. Opedal

Thore Kristiansen

Morten Fon  
President & CEO

(NOK thousand)	Note	Jotun A/S		Group	
		2006	2005	2006	2005
<b>Sales and other operating income</b>	1,2	<b>2 205 199</b>	2 052 541	<b>7 732 966</b>	6 710 212
Cost of goods sold	4	1 153 247	1 027 121	4 218 105	3 563 835
Staff costs	5,7	446 599	464 160	1 232 225	1 178 163
Depreciation and amortisation	8	63 987	62 948	221 749	205 579
Bad debts	3	361	765	34 764	23 444
Other operating costs	6	372 574	329 630	1 381 176	1 204 544
<b>Operating profit</b>		<b>168 431</b>	167 917	<b>644 947</b>	534 647
Dividends, etc. from subsidiaries		142 242	168 716	-	-
Dividends from joint ventures		105 788	128 727	-	-
Interest receivable		43 127	31 117	12 848	17 424
Other financial income		21 490	2 197	31 104	28 124
Interest payable		-18 747	-18 516	-60 495	-41 860
Other financial costs		-1 563	-28 714	-43 542	-48 320
<b>Profit on ordinary activities before taxation</b>		<b>460 768</b>	451 444	<b>584 862</b>	490 015
Tax payable on profit on ordinary activities	14	-133 568	-102 435	-209 101	-150 879
<b>Profit on ordinary activities</b>		<b>327 200</b>	349 009	<b>375 761</b>	339 136
Minority interests	15	-	-	-45 136	-34 387
<b>Net profit for the year</b>		<b>327 200</b>	349 009	<b>330 625</b>	304 749
<b>Distribution of profit</b>					
Allocated to dividends	15	171 000	153 900	-	-
Other equity	15	156 200	195 109	-	-
<b>Total</b>		<b>327 200</b>	349 009	<b>-</b>	-

## balance sheet

(NOK thousand)	Note	Jotun A/S		Group	
		31.12.06	31.12.05	31.12.06	31.12.05
<b>ASSETS</b>					
FIXED ASSETS					
<b>Intangible assets</b>					
Deferred tax assets	14	25 259	26 686	70 667	68 603
Intangible assets	8	67 448	63 289	151 141	147 422
<b>Total intangible assets</b>		<b>92 707</b>	89 975	<b>221 808</b>	216 025
<b>Tangible fixed assets</b>					
Land	8	14 469	14 469	99 480	92 003
Buildings and plant	8	164 865	157 231	689 176	692 606
Machinery, vehicles and equipment	8	146 089	138 823	590 189	601 312
Plant under construction	8	17 751	27 776	82 513	53 911
<b>Total tangible fixed assets</b>		<b>343 174</b>	338 299	<b>1 461 358</b>	1 439 833
<b>Financial fixed assets</b>					
Shares in subsidiaries	9	1 125 353	990 746	-	-
Shares in joint ventures	10	180 137	180 137	-	-
Other shares and interests	11	7 972	8 442	8 009	8 442
Pension assets	7	63 959	56 974	83 480	77 311
Other long-term receivables	18	849 465	799 218	38 603	40 727
<b>Total financial fixed assets</b>		<b>2 226 886</b>	2 035 517	<b>130 092</b>	126 480
<b>Total fixed assets</b>		<b>2 662 767</b>	2 463 791	<b>1 813 258</b>	1 782 337
CURRENT ASSETS					
<b>Stocks</b>	4	<b>272 611</b>	358 968	<b>1 359 787</b>	1 209 961
<b>Debtors</b>					
Trade debtors	3,18	258 347	190 218	1 694 456	1 496 293
Other short-term debtors	18	172 124	265 429	235 117	230 442
<b>Total debtors</b>		<b>430 471</b>	455 647	<b>1 929 573</b>	1 726 735
<b>Bank deposits, cash, etc.</b>		<b>186 539</b>	132 453	<b>510 398</b>	402 044
<b>Total current assets</b>		<b>889 621</b>	947 068	<b>3 799 758</b>	3 338 740
<b>Total assets</b>		<b>3 552 388</b>	3 410 859	<b>5 613 016</b>	5 121 078

(NOK thousand)	Note	Jotun A/S		Group	
		31.12.06	31.12.05	31.12.06	31.12.05
<b>EQUITY AND LIABILITIES</b>					
EQUITY					
<b>Injected equity</b>					
Share capital	15,16	102 600	102 600	102 600	102 600
<b>Total injected equity</b>		<b>102 600</b>	102 600	<b>102 600</b>	102 600
<b>Earned equity</b>					
Other equity	15	2 469 241	2 313 041	2 763 668	2 592 288
<b>Total earned equity</b>		<b>2 469 241</b>	2 313 041	<b>2 763 668</b>	2 592 288
Minority interests	15	-	-	120 518	116 054
<b>Total equity</b>		<b>2 571 841</b>	2 415 641	<b>2 986 786</b>	2 810 942
LIABILITIES					
<b>Provisions for liabilities</b>					
Pension liabilities	7	77 600	75 726	107 924	118 325
Other provisions for liabilities		-	7 662	119	7 960
<b>Total provisions for liabilities</b>		<b>77 600</b>	83 388	<b>108 043</b>	126 284
<b>Other long-term liabilities</b>					
Amounts owed to credit institutions	12,17		96 787	56 567	144 086
Other long-term liabilities		-	-	35 201	38 309
<b>Total other long-term liabilities</b>		-	96 787	<b>91 768</b>	182 395
<b>Current liabilities</b>					
Loans	18	162 864	124 900	407 024	301 993
Bank overdrafts	21	-	-	275 858	206 713
Trade creditors	18	207 275	206 531	829 331	704 478
Tax payable	14	100 130	78 640	133 941	99 364
Public duties payable		81 085	82 834	107 972	104 309
Allocated to dividends	15	171 000	153 900	171 000	153 900
Other current liabilities	13,18	180 593	168 238	501 293	430 700
<b>Total current liabilities</b>		<b>902 947</b>	815 043	<b>2 426 419</b>	2 001 457
<b>Total liabilities</b>		<b>980 547</b>	995 218	<b>2 626 230</b>	2 310 136
<b>Total equity and liabilities</b>		<b>3 552 388</b>	3 410 859	<b>5 613 016</b>	5 121 078

Sandefjord, 15 February 2007  
The Board of Directors  
Jotun A/S

Odd Gleditsch d.y.  
Chairman

Einar Abrahamsen

Terje V. Arnesen

Richard Arnesen

Torkild Nordberg

Nicolai A. Eger

Dag J. Opedal

Thore Kristiansen

Morten Fon  
President & CEO

## cash flow statement

(NOK thousand)	Note	Jotun A/S		Group	
		31.12.06	31.12.05	31.12.06	31.12.05
<b>Cash flow from operating activities</b>					
Net profit for the year		327 200	349 009	330 625	304 749
Change in deferred tax	14	1 427	-7 396	-2 065	-28 334
Gains/losses on sale of fixed assets		-1 511	-1 280	-8 566	-3 980
Depreciation, amortisation and write-downs	8	63 987	62 948	221 749	205 579
Change in stocks, trade debtors and trade creditors	19	18 972	-85 480	-223 135	-328 779
Change in borrowing/lending via group account system		93 843	-61 800	-	-
Change in provisions for warranty claims	13	-3 355	-7 985	2 983	-7 986
Change in other accrual items	19	33 504	22 420	93 336	46 592
<b>Net cash flow from operating activities</b>		<b>534 067</b>	<b>270 436</b>	<b>414 927</b>	<b>187 841</b>
<b>Cash flow from investing activities</b>					
Sale of tangible fixed assets		3 209	3 129	23 142	12 258
Purchase of tangible fixed assets	8	-74 720	-69 511	-277 505	-430 833
Investments in subsidiaries and joint ventures		-134 606	-78 466	-	-
Change in other investments and lending		-54 888	-201 426	-3 613	-26 199
<b>Net cash flow from investing activities</b>		<b>-261 005</b>	<b>-346 274</b>	<b>-257 976</b>	<b>-444 774</b>
<b>Cash flow from financing activities</b>					
New loans		-	-	343 632	357 900
Loan repayments		-96 787	-11 384	-270 483	-192 420
Dividends paid		-153 900	-136 800	-153 900	-136 800
Group contributions		31 711	-	-	-
Change in minority interests	15	-	-	4 464	8 950
<b>Net cash flow from financing activities</b>		<b>-218 976</b>	<b>-148 184</b>	<b>-76 287</b>	<b>37 630</b>
Translation differences		-	-	27 689	36 367
<b>Net change in bank deposits, cash, etc.</b>		<b>54 086</b>	<b>-224 022</b>	<b>108 353</b>	<b>-182 936</b>
Bank deposits, cash, etc., 1 Jan.		132 453	356 475	402 044	584 980
<b>Bank deposits, cash, etc., 31 Dec.</b>		<b>186 539</b>	<b>132 453</b>	<b>510 397</b>	<b>402 044</b>
Undrawn credit facilities, 31 Dec.	21	1 275 000	1 275 000	1 275 000	1 275 000

### **Basis for valuation and classification**

The annual accounts for Jotun A/S and the group comprise the profit and loss account, balance sheet, cash flow statement and notes to the accounts, which have been prepared in accordance with the Companies Act (Norway), the Financial Reporting Act (Norway) and generally accepted accounting principles as at 31 December 2006. In a move to make the accounts more accessible, that the financial statements are presented as summaries, with the relevant figures broken down in the notes. As such, the notes form an integral part of the annual accounts.

The parent company and group accounts are based on the fundamental concepts of historic cost, comparability, going concern, congruence and prudence. Transactions are included in the accounts at the value of the payment at the time of the transaction. Income is included in the profit and loss account as it is earned, and costs are recognised in line with the income to which they relate. In the case of sales of goods and services, items are therefore normally taken to income when the goods are delivered or the service is provided. Where projects are identified as generating a loss, a provision is made to cover the entire loss. Hedging and portfolio management are taken into account. Costs that cannot be related to specific items of income are included in the accounts as they are incurred. In the case of the restructuring or termination of operations, all estimated associated costs are charged to the accounts at the time the relevant decision is taken. Where actual figures are not available at the time the accounts are prepared, generally accepted accounting principles dictate that the management should use the best possible estimates in the profit and loss account and balance sheet. Discrepancies may arise between estimated and actual figures.

Assets/liabilities related to the working capital cycle and items falling due within one year of the year-end are classified as current assets/liabilities. Current assets/liabilities are valued at the lower/higher of cost and net realisable value. Net realisable value is defined as the expected future selling price, net of selling costs. Other assets are classified as fixed assets. Fixed assets are valued at cost. Fixed assets that reduce in value are depreciated. Any drop in the value of a fixed asset that is not considered temporary results in the write-down of that fixed asset. Equivalent policies are normally applied for liabilities.

In line with generally accepted accounting principles, there are a few departures from the general valuation policies above, with any such departures being commented on in the relevant notes. Importance is attached to financial realities, and not solely to legal form, when applying accounting policies and presenting transactions and other matters. Conditional losses that are both likely and quantifiable are charged to the profit and loss account. The division of the segmental information is based on the company's internal management and reporting objectives, and on risk and earnings. Sales figures are presented for both the divisions and geographical areas, since the geographical distribution of operations is important in any assessment of the company.

### **Consolidation of subsidiaries and joint ventures**

The group accounts cover the parent company and its subsidiaries

(companies in which it directly or indirectly controls more than 50 per cent of the shares or otherwise has a significant influence) and joint ventures (companies over which it shares control with other shareholders under the terms of a specific agreement to this effect). Full line-by-line consolidation is used for subsidiaries and proportional line-by-line consolidation for joint ventures.

The group accounts present the financial performance and position of the group as a single entity. The accounting policies are used consistently for all group companies to all intents and purposes. New subsidiaries are included in the accounts from the time a controlling influence is acquired, and companies that have been sold are included until the date of disposal. All inter-company transactions and balances have therefore been eliminated. Unrealised gains on stocks of goods, etc. arising from inter-company transactions are eliminated in the group's stocks and operating profit figures.

### **Elimination of shares in subsidiaries and joint ventures**

The acquisition method has been used to consolidate holdings in subsidiaries and joint ventures. This means that the cost to the parent company of shares in subsidiaries and joint ventures is offset against their equity at the time of acquisition. Any excess paid over the book value of the separable net assets acquired is assigned to the assets to which it relates and depreciated in line with these assets, with the balance included as goodwill under intangible assets in the group balance sheet. Goodwill is amortised on a straight-line basis over its estimated useful life, normally ten years in the paint industry.

### **Translation of the accounts of subsidiaries and joint ventures**

The profit and loss accounts of foreign subsidiaries and joint ventures are translated into NOK at the average exchange rates for each month, while their assets and liabilities are translated at the exchange rates ruling at the year-end.

Translation differences arising on consolidation are taken directly to equity. Income and costs from hedging the equity of foreign companies are offset against translation differences.

Translation differences attributable to minority interests are included under minority interests.

### **Subsidiaries in high-inflation countries**

The accounts of subsidiaries in countries with high rates of inflation, i.e. Jotun Toz Boya San. ve. Ticaret AS and Jotun Boya San. ve. Ticaret AS in Turkey are prepared in EUR and USD respectively as their notional currency. This means that their assets and liabilities are valued on the basis of their historical cost in these currencies.

### **Minority interests**

Minority interests' share of after-tax profit on ordinary activities and share of equity are shown on separate lines.

### **Financial instruments**

Financial instruments are used extensively to reduce exchange rate and interest rate risk at Jotun. Exchange rate instruments are carried at market value and interest rate instruments are carried at the lower of cost and market value.

Jotun manages the hedging of cash flows from operating activities exposed to exchange rate risk as a portfolio on the basis of anticipated future cash flows. Contracts used for this purpose do not qualify for hedge accounting. Gains/losses are recognised under other financial income/costs, and open contracts are carried at market value. The hedging of group balance sheet items can be divided into portfolios. This exposure relates primarily to the parent company's net investments in foreign operations. Normally instruments used to hedge such balance sheet items qualify for hedge accounting, so realised exchange rate gains/losses are taken directly to equity and offset against translation differences. Open contracts hedging balance sheet items are carried at market value, and unrealised gains/losses are taken to equity. Where such instruments do not qualify for hedge accounting, changes in value are recognised under other financial income/costs. The interest component of a hedge is also taken to the profit and loss account under other financial income/costs.

Various types of derivative are used to hedge interest rate risk on the basis of a portfolio view of the underlying items. The underlying items are primarily off balance sheet items. Since many hedges cannot be linked to specific loans, open contracts are valued at the lower of cost and market value. Gains/losses are recognised when realised under other financial income/costs.

### Shares, bonds and other securities

Market-based shares, bonds and other financial instruments classified as current assets are valued at market value in line with § 5–8 of the Financial Reporting Act (Norway). Other securities classified as current assets are valued on a portfolio basis. The portfolio is managed as a single unit and, as such, its value is adjusted only if the total value of the portfolio falls below the total cost of the various securities it comprises. Securities classified as fixed assets are included at the lower of cost and market value.

### Intangible assets

All costs relating to market investments and research and development are charged to the profit and loss account on an ongoing basis. Acquired goodwill and technology are capitalised and amortised over their estimated useful life, normally five to ten years in the paint industry.

### Tangible fixed assets and depreciation

Tangible fixed assets are reported at cost less accumulated depreciation. Depreciation is charged against operating profit on a straight-line basis over the estimated useful life of an asset. Depreciation for the year is included in the annual operating profit.

Where the net realisable value of a fixed asset is lower than its book value, and this is attributable to causes that are not considered temporary, the fixed asset is written down to its net realisable value.

Costs relating to normal maintenance and repairs are charged to the profit and loss account on an ongoing basis. Costs relating to major replacements and renewals that substantially increase the estimated useful life of a fixed asset are capitalised. Interest which relates to facilities under construction is capitalised as part of the cost.

### Stocks

Stocks are valued at the lowest of cost, materials cost and net realisable value on a FIFO basis. The materials cost of semi-finished and finished goods produced internally is defined as direct materials and labour costs plus a proportion of indirect production costs. Allowances are made for obsolescence.

### Debtors and liabilities

Debtors and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the year-end.

Debtors are included in the accounts at their full value, with deductions for anticipated bad debts.

### Pensions

Pensions are accounted for in line with NRS 6 of the Norwegian Accounting Standard. Pension liabilities relating to defined benefit plans are shown at the present value of projected pension benefits at the year-end. Pension scheme assets are shown at their market value. Any scheme surpluses are included in the balance sheet only where it is likely that they can be put to use. Actuarial gains and losses of up to 10 per cent of gross liabilities/assets are not taken to the profit and loss account, while any gain or loss in excess of 10 per cent is amortised over a period of three years. The year's net pension costs are included in the profit and loss account under staff costs.

### Tax and deferred tax

The tax charge relates to the accounting profit/loss for the year and comprises the sum of tax payable and the change in deferred tax liabilities and tax assets. Deferred tax is computed using the liability method on the basis of the temporary timing differences between values for tax and accounting purposes at the end of the year. The nominal tax rate is used in these calculations. Temporary positive and negative timing differences which reverse or may reverse in the same period are offset.

### Cash flow statement

The cash flow statement is prepared using the indirect method. Cash and cash equivalents comprise cash, bank deposits and other short-term liquid investments which can be converted to known cash amounts immediately with no material price risk.

**NOTE 1 SALES PER DIVISION AND GEOGRAPHICAL AREA***(NOK thousand)*

Divisions	Jotun Dekorativ	Jotun Coatings	Jotun Paints	Jotun Powder Coatings	Total
Sales	1 628 456	3 304 292	1 765 262	928 743	<b>7 626 753</b>
Geographical areas	Europe	Middle East/ Far East	USA	Other	Total
Sales	4 032 534	3 108 356	82 501	403 362	<b>7 626 753</b>

**NOTE 2 SALES AND OTHER OPERATING INCOME***(NOK thousand)*

	Jotun A/S		Group	
	2006	2005	2006	2005
Sales	1 380 477	1 308 807	7 626 753	6 630 414
Sales to subsidiaries	599 947	563 136	-	-
Other operating income	75 669	59 249	106 213	79 798
Other operating income from subsidiaries	149 105	121 348	-	-
<b>Total</b>	<b>2 205 199</b>	2 052 541	<b>7 732 966</b>	6 710 212

Other income comprises rental income, licence income, sundry costs invoiced on, compensation payments and gains on the sale of tangible fixed assets.

**NOTE 3 BAD DEBTS***(NOK thousand)*

	Jotun A/S		Group	
	31.12.06	31.12.05	31.12.06	31.12.05
Provisions for bad debts, 1 Jan.	3 900	3 150	190 421	179 617
Bad debts written off and net recoveries	-929	-15	-34 034	-12 640
Year's provisions	361	765	34 764	23 444
<b>Provisions for bad debts, 31 Dec.</b>	<b>3 332</b>	3 900	<b>191 151</b>	190 421

**NOTE 4 STOCKS***(NOK thousand)*

	Jotun A/S		Group	
	31.12.06	31.12.05	31.12.06	31.12.05
Raw materials	102 267	101 566	558 698	444 869
Finished goods	188 991	266 349	871 947	812 816
Write-down for obsolescence	-18 647	-8 947	-70 858	-47 724
<b>Total</b>	<b>272 611</b>	358 968	<b>1 359 787</b>	1 209 961

**NOTE 5 STAFF COSTS, NUMBER OF EMPLOYEES AND REMUNERATION**

Staff costs (NOK thousand)	Jotun A/S		Group	
	2006	2005	2006	2005
Salaries and wages incl. bonuses	355 397	367 412	969 948	926 756
Social security	56 670	59 119	111 847	112 590
Pension costs – defined-contribution plans	17 575	17 452	48 124	40 119
Pension costs – defined-benefit plans	16 101	19 320	32 869	37 112
Other benefits	856	857	69 437	61 586
<b>Total</b>	<b>446 599</b>	<b>464 160</b>	<b>1 232 225</b>	<b>1 178 163</b>

Average number of employees, including shares in joint ventures	<b>765</b>	776	<b>4 754</b>	4 437
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**Remuneration to members of the Board of Directors, Corporate Assembly and President & CEO**

(NOK)	CEO	Board	Corporate Assembly
Salaries incl. bonuses	2 704 000		
Other remuneration (company car, etc.)	165 616	1 350 000	164 750
Pension premiums	403 762		

The President & CEO is included in a pension scheme covering the company's senior management team. The standard retirement age is set at 67 years, with either party being entitled to terminate employment wholly or in part up to five years earlier (see Note 7). The President & CEO is also a member of a profit-related bonus scheme for the group management, with an upper limit of 20 per cent of the agreed annual salary.

**Auditors**

Audit fees for Jotun A/S in 2006 came to NOK 1,107,000. A further NOK 490,000 was paid for other services.

Audit fees for the group came to NOK 5,817,000 in 2006. A further NOK 6,751,000 was paid for other services.

**NOTE 6 OTHER COSTS AND FINANCIAL ITEMS**

Common services in Jotun A/S were invoiced to subsidiaries and joint ventures in the amount of NOK 79.9 million.

**NOTE 7 PENSION COSTS**

The company is obliged to have an occupational pension scheme in accordance with the Act on mandatory occupational pension (Norway). The company's pension schemes meet the requirements in this Act.

**Defined contribution plans**

Defined contribution plans are schemes where the company pays annual contributions to the employees' pension plans and where the return on the pension funds will affect the amount of pension paid. Jotun closed the defined benefit pension schemes with effect from 1 January 2005 in the Norwegian companies for employees under 57 and replaced them with defined contribution schemes. The company now pays monthly contributions to each employee's pension account.

**Defined benefit plans**

Schemes with net pension funds cover 166 employees and 635 pensioners linked to the collective pension scheme within Jotun A/S. In addition, 22 employees and 76 pensioners in other Norwegian subsidiaries are members of similar schemes. In the collective scheme, a future pension benefit is accrued of up to 60 per cent of the final salary as a single person, limited to a maximum of 12 times the National Insurance Basic Amount (G). The scheme is co-ordinated with benefits from the National Insurance Scheme. The scheme with net pension obligations includes fund-based benefit schemes for 14 employees and 24 pensioners in Jotun A/S and Norwegian subsidiaries for employees with a pensionable income in excess of 12G and fund-based defined benefit payments for 105 employees and 156 former employees/pensioners within Jotun's

UK companies. There are also pension obligations for 176 employees in our Indonesian companies. The scheme also covers obligations for Jotun A/S and Norwegian subsidiaries from the contractual pension scheme (AFP). In addition to this are other pension obligations financed through operations, which cover agreed and implemented early retirements, unsecured retirement pensions and early retirement schemes for Jotun's senior executives in Norway.

With effect from 2002, Jotun decided to reduce the period for booking actuarial gains and losses over and above corridor and planned changes to three years. The company used an external actuary to perform the pension calculations for the year. The actual value of pension assets in Norwegian and UK schemes is estimated as of 31 December 2006. Pension obligations in the Norwegian and UK schemes have been valued at their actual value as of 31 December 2006. Overfinancing in the fund-based schemes has been valued and will be used to finance future pension premiums.

	Jotun A/S	Other
Retirement pensioners in unsecured schemes	9	1
Early retirement pension agreements		
– agreed and implemented	43	4
Senior executive schemes – active	13	-
Senior executive schemes – pensioners	4	-
Contractual pension (AFP) – active	889	106
AFP pensioners	62	10

Jotun A/S (NOK thousand)	2006		2005	
	Overfunded schemes	Underfunded schemes	Overfunded schemes	Underfunded schemes
<b>Changes in pension obligations incl. employers' contributions</b>				
Pension obligation as at 1 Jan.	278 478	148 687	279 630	145 278
Pension accrual during the year	2 865	14 552	4 014	12 280
Interest cost on pension obligations	14 836	7 666	14 945	6 899
Actuarial loss (gain)	3 256	14 117	-3 626	-2 573
Pension payments	-17 474	-18 597	-16 485	-13 197
<b>Pension obligation as at 31 Dec.</b>	<b>281 961</b>	<b>166 425</b>	278 478	148 687
<b>Changes in pension funds</b>				
Pension funds as at 1 Jan.	299 700	58 589	297 960	54 343
Anticipated return on pension funds	20 038	3 936	18 845	3 572
Actuarial (loss) gain	11 912	2 372	-6 961	-998
Payments received/(made)	4 648	4 318	6 341	8 273
Pension payments	-17 474	-6 352	-16 485	-6 601
<b>Pension funds as at 31 Dec.</b>	<b>318 824</b>	<b>62 863</b>	299 700	58 589
<b>Reconciliation of balance sheet obligations/credits</b>				
Net pension obligation – overfinanced (underfinanced)	36 863	-103 562	21 222	-90 098
Non-booked actuarial loss (gain)	27 096	25 962	35 752	14 372
<b>Net book surplus (deficit)</b>	<b>63 959</b>	<b>-77 600</b>	56 974	-75 726
<b>Pension costs for the period, including employers' contributions</b>				
Pension accrual during the year	2 865	14 552	4 014	12 280
Interest cost on pension obligations	14 836	7 666	14 945	6 899
Anticipated return on pension funds	-20 038	-3 936	-18 845	-3 572
Booked actuarial loss (gain)	-	156	2 787	812
<b>Booked pension cost</b>	<b>-2 337</b>	<b>18 438</b>	2 901	16 419

CONTINUED NOTE 7 PENSION COSTS

Group (NOK thousand)	2006		2005	
	Overfunded schemes	Underfunded schemes	Overfunded schemes	Underfunded schemes
<b>Changes in pension obligations incl. employers' contributions</b>				
Pension obligation as at 1 Jan.	309 905	400 961	311 280	360 263
Translation difference as at 1 Jan.	-	12 144	-	-468
Pension accrual during the year	3 162	22 427	4 338	19 821
Interest cost on pension obligations	16 512	20 719	16 632	17 993
Actuarial loss (gain)	3 760	10 377	-3 981	23 468
Pension payments	-19 378	-27 049	-18 364	-20 116
<b>Pension obligation as at 31 Dec.</b>	<b>313 961</b>	<b>439 579</b>	<b>309 905</b>	<b>400 961</b>
<b>Changes in pension funds</b>				
Pension funds as at 1 Jan.	345 140	222 340	343 652	189 701
Translation difference as at 1 Jan.	-	7 152	-	-563
Anticipated return on pension funds	23 036	15 305	21 716	12 126
Actuarial (loss) gain	13 927	8 103	-7 619	17 718
Payments received/(made)	2 949	34 323	5 755	16 021
Pension payments	-19 378	-13 576	-18 364	-12 663
<b>Pension funds as at 31 Dec.</b>	<b>365 674</b>	<b>273 647</b>	<b>345 140</b>	<b>222 340</b>
<b>Reconciliation of balance sheet obligations/credits</b>				
Net pension obligation – overfinanced (underfinanced)	51 713	-165 932	35 235	-178 621
Non-booked actuarial loss (gain)	31 767	58 008	42 076	60 296
<b>Net book surplus (deficit)</b>	<b>83 480</b>	<b>-107 924</b>	<b>77 311</b>	<b>-118 325</b>
<b>Pension costs for the period, including employers' contributions</b>				
Pension accrual during the year	3 162	22 427	4 338	19 821
Interest cost on pension obligations	16 512	20 719	16 632	17 993
Anticipated return on pension funds	-23 036	-15 305	-21 716	-12 126
Booked actuarial loss (gain)	259	8 131	3 624	8 546
<b>Booked pension cost</b>	<b>-3 103</b>	<b>35 972</b>	<b>2 878</b>	<b>34 234</b>

The actuarial assumptions for the calculations are as follows:

	2006			2005		
	Norway	UK	Indonesia	Norway	UK	Indonesia
Discount rate (%)	4.5	5.0	12.0	5.5	4.9	12.0
Return on scheme assets (%)	5.5	6.3	-	6.5	6.3	-
Wage growth (%)	3.14 – 3.4	3.7	10.0	3.0	3.3	10.0
Inflation/G increase (%)	3.15	2.8	10.0	3.0	2.7	10.0
Pension increase (%)	1.1 – 3.15	3.3	-	2.0	3.3	-

The calculations have been performed on the basis of the actual pensionable income, pension and members as of 1 January 2007.

#### NOTE 8 TANGIBLE FIXED ASSETS AND INTANGIBLE ASSETS

##### Jotun A/S

(NOK thousand)	Goodwill	Technology	Other intangible assets	Land	Buildings and plant	Machinery, vehicles and equipment	Plant under construction	Total
Purchase cost, 1 Jan.	7 175	96 495	55 560	14 469	419 996	491 324	27 775	1 112 794
Reclassification	-	-	-	-	-	-	-	-
Additions	-	-	17 335	-	18 839	48 571	-10 025	74 720
Disposals	-	-	-	-	-	-10 756	-	-10 756
<b>Purchase cost, 31 Dec.</b>	<b>7 175</b>	<b>96 495</b>	<b>72 895</b>	<b>14 469</b>	<b>438 835</b>	<b>529 139</b>	<b>17 750</b>	<b>1 176 758</b>
Accumulated depreciation, 1 Jan.	1 879	89 223	4 839	-	262 765	352 501	-1	711 206
Reclassification	-	-	-	-	-	1	-	1
Year's depreciation charges	1 435	4 403	7 338	-	11 205	39 606	-	63 987
Disposals	-	-	-	-	-	-9 058	-	-9 058
<b>Accumulated depreciation, 31 Dec.</b>	<b>3 314</b>	<b>93 626</b>	<b>12 177</b>	<b>-</b>	<b>273 970</b>	<b>383 050</b>	<b>-1</b>	<b>766 136</b>
<b>Book value 31 Dec.</b>	<b>3 861</b>	<b>2 869</b>	<b>60 718</b>	<b>14 469</b>	<b>164 865</b>	<b>146 089</b>	<b>17 751</b>	<b>410 622</b>

Estimated useful life	Up to 10 years	Up to 10 years	Up to 10 years	Up to 25 years	Up to 10 years
Type of depreciation	Straight line				

## CONTINUED NOTE 8 TANGIBLE FIXED ASSETS AND INTANGIBLE ASSETS

## Group

<i>(NOK thousand)</i>	Goodwill	Technology	Other intangible assets	Land	Buildings and plant	Machinery, vehicles and equipment	Plant under con- struction	Total
Purchase cost, 1 Jan.	382 850	94 746	65 064	92 585	1 248 104	1 695 980	53 910	3 633 239
Reclassification and corrections	-4	-85	1 297	8	-1 709	2 828	-8 336	-6 001
Additions	17 810	868	17 853	6 332	47 384	147 275	39 982	277 505
Disposals	-	-	-	-	-8 079	-65 171	-1 709	-74 959
Translation differences	417	-60	355	1 252	-7 935	-675	-1 408	-8 055
<b>Purchase cost, 31 Dec.</b>	<b>401 073</b>	<b>95 469</b>	<b>84 568</b>	<b>100 177</b>	<b>1 277 766</b>	<b>1 780 237</b>	<b>82 439</b>	<b>3 821 729</b>
Accumulated depreciation, 1 Jan.	296 423	88 526	10 289	581	555 498	1 094 668	-1	2 045 984
Reclassification and corrections	-4	-13	-	-	-958	1 504	-	531
Year's depreciation charges	22 534	2 355	8 214	125	43 954	144 566	-	221 749
Disposals	-	-41	1 057	-	-7 665	-53 661	-73	-60 383
Translation differences	409	-19	238	-10	-2 241	2 972	-	1 349
<b>Accumulated depreciation, 31 Dec.</b>	<b>319 363</b>	<b>90 809</b>	<b>19 798</b>	<b>696</b>	<b>588 590</b>	<b>1 190 048</b>	<b>-74</b>	<b>2 209 230</b>
<b>Book value 31 Dec.</b>	<b>81 710</b>	<b>4 660</b>	<b>64 770</b>	<b>99 480</b>	<b>689 176</b>	<b>590 189</b>	<b>82 513</b>	<b>1 612 499</b>
Estimated useful life	Up to 10 years	Up to 10 years	Up to 10 years		Up to 25 years	Up to 10 years		
Type of depreciation	Straight line	Straight line	Straight line		Straight line	Straight line		

Goodwill relating to acquisitions is amortised over its estimated useful life which is estimated at 10 years in the coatings industry.

Research and development costs within the group are primarily linked to the development of more environmentally friendly products. These development costs are considered necessary to enable the group to maintain its competitiveness. Costs for research and development within the group amounted to NOK 137.6 million in 2006 (2005: 123.3 million).

## NOTE 9 SHARES IN SUBSIDIARIES

## Shares held directly by the parent company

(NOK thousand)

Company	Currency	Share capital	No. of shares	Par value	Book value NOK	Stake %
Jotun Victoria Pty. Ltd.	AUD	1000	1 000 000	1 000	11	100.00
Jotun Australia Pty. Ltd.	AUD	11 550	16 050 001	11 550	45 026	100.00
Jotun (Deutschland) GmbH.	EUR	614	1 200	512	12 090	83.33
Jotun Danmark A/S	DKK	3 300	6 600	3 300	2 698	100.00
El-Mohandes Jotun S.A.E.	EGP	20 000	2 000 000	14 000	91 945	70.00
Jotun Italia S.p.A.	EUR	1 034	200 000	1 034	17 310	100.00
Jotun Iberica S.A.	EUR	9 303	86 645	9 303	110 434	100.00
Jotun France S.A.S.	EUR	320	16 000	320	2 108	100.00
Jotun (U.K.) Ltd.	GBP	6 250	6 250 000	6 250	63 850	100.00
Jotun Insurance Cell	GBP	121	1	121	1 350	100.00
Jotun Hellas Ltd.	EUR	343	11 435	334	2 937	97.40
Jotun Paints (H.K.) Ltd.	HKD	16 000	16 000 000	16 000	18 040	100.00
P.T. Jotun Indonesia	USD	8 675	173 500	8 600	58 852	99.14
Jotun (Ireland) Ltd.	EUR	640	487 409	640	5 500	100.00
Jotun (Malaysia) Sdn. Bhd.	MYR	48 000	48 000 000	44 702	101 022	93.13
Jotun B.V.	EUR	2 616	29 001	2 616	49 175	100.00
Scanox AS	NOK	4 000	20 000	4 000	80 280	100.00
Jotun Powder Coatings AS	NOK	87 000	87 000	87 000	87 000	100.00
Demidekk Optimal Utendørsmaling AS	NOK	111	500	111	111	100.00
Jotun Paints Co. L.L.C.	OMR	250	25 000	155	45 145	62.00
Jotun Polska Sp.Zo.o.	PLN	7 500	15 000	7 500	14 371	100.00
Jotun Portugal Tintas SA	EUR	254	51 000	254	2 281	100.00
Jotun Sverige AB	SEK	4 000	80 000	4 000	4 550	100.00
Jotun (Singapore) Pte. Ltd.	SGD	6 000	6 000 000	6 000	28 040	100.00
Jotun Thailand Ltd.	THB	84 000	84 000	80 186	44 285	95.46
Jotun Boya San. ve Tic. A.S.	USD	1 830	115 000	1 830	32 556	100.00
Jotun Paint South Africa (Pty) Ltd.	ZAR	2 580	110	2 580	4 408	100.00
Jotun Brasil Imp. Exp. & Industria de Tintas Ltda.	USD	922	2 144 200	922	6 731	100.00
Jotun Paints (Vietnam) Co. Ltd.	USD	2 309	-	2 309	15 563	100.00
Jotun Paints Inc.	USD	37 600	100	37 600	18 253	100.00
Jotun Abu Dhabi Ltd. (L.L.C.)	AED	4 000	4 000	1 400	28 061	35.00
Drygoliv Værbestandig Oljemaling AS	NOK	109	500	109	109	100.00
Lady Interiørmaling AS	NOK	120	1 000	120	120	100.00
Jotun Paints OOO	RUB	17 000	17 000	17 000	3 814	100.00
Jotun Coatings (Zhangjiagang) Co. Ltd.	CNY	89 387	-	89 387	69 167	100.00
Jotun Coatings (Zhangjiagang) Trading Co. Ltd.	CNY	5 049	-	5 049	3 916	100.00
Jotun India Pvt. Ltd.	INR	68 000	6 800 000	68 000	9 669	100.00
Jotun COSCO Marine Coatings (HK) Co. Ltd.	HKD	77 390	2 000	38 695	34 231	50.00
Shares held by third parties for Jotun A/S					10 344	
<b>Total</b>					<b>1 125 353</b>	

The percentage of votes held is the same as the percentage of shares held.

## CONTINUED NOTE 9 SHARES IN SUBSIDIARIES

## Shares held directly by subsidiaries and joint ventures

(NOK thousand)

Company	Currency	Share capital	No. of shares	Par value	Book value NOK	Stake %
<b>Jotun Powder Coatings AS</b>						
Jotun Powder Coatings (CZ) a.s.	CZK	128 000	12 800	128 000	30 887	100.00
Jotun Powder Coatings Bulgaria Ltd.	EUR	3	-	3	2 157	100.00
Jotun Powder Coatings Ltd.	GBP	1 000	1 000 000	1 000	8 843	100.00
Jotun Powder Coatings LLC	EGP	300	300	270	421	90.00
Jotun Powder Coatings (M) Sdn.Bhd.	MYR	1 950	1 950 933	1 572	29 146	80.60
Jotun Powder Coatings (N) AS	NOK	12 500	125 000	12 500	95 776	100.00
Jotun Powder Coatings (Thailand) Ltd.	THB	9 000	9 000	9 000	65 000	100.00
Jotun Toz Boya San. ve Tic. A.S.	TRL	23 600	23 600 000	23 600	75 831	100.00
Jotun Powder Coatings (Vietnam) Co. Ltd.	VND	37 800 575	1 200 000	37 800 575	10 000	100.00
Jotun Powder Coatings Pakistan (Pvt.) Ltd.	PKR	60 000	6 000 000	24 000	2 934	40.00
P.T. Jotun Powder Coatings Indonesia	IDR	9 669 543	45 000	9 669 543	7 404	100.00
Jotun Powder Coatings (India) Private Ltd.	INR	68 600	6 860 000	68 600	9 453	100.00
Shares held by third parties for Jotun Powder Coatings AS					10 854	
<b>Total</b>					<b>348 706</b>	
<b>Jotun Powder Coatings (N) AS</b>						
Jotun Powder Coatings LLC	EGP	300	300	30	64	10.00
<b>Scanox AS</b>						
Butinox Inne og Utemaling AS	NOK	100	500	100	100	100.00
<b>Jotun Powder Coatings U.A.E. Ltd. (L.L.C.)</b>						
Jotun Powder Coatings Pakistan (Private) Ltd.	PKR	60 000	6 000	24 000	2 567	40.00
<b>Jotun B.V.</b>						
Jotun (Deutschland) GmbH.	EUR	614	1 200	102	2 592	16.67
Jotun Hellas Ltd.	EUR	343	300	9	181	2.60
<b>Jotun (UK) Ltd.</b>						
Jotun Paints (Europe) Ltd.	GBP	4 000	4 000 000	4 000	48 817	100.00
<b>Jotun Paints Inc.</b>						
PRS Delaware LLC	USD	1 000	100	1 000	6 232	100.00
<b>Jotun U.A.E. Ltd (L.L.C.)</b>						
Jotun Abu Dhabi Ltd. (L.L.C.)	AED	4 000	4 000	1 600	2 715	40.00
<b>Jotun COSCO Marine Coatings (HK) Co. Ltd.</b>						
Jotun COSCO Marine Coatings (GZ) Co. Ltd.	CNY	72 957	-	72 957	62 013	100.00
<b>Total</b>					<b>473 986</b>	

The percentage of votes held is the same as the percentage of shares held.

The companies Jotun COSCO Marine Coatings (HK) Co. Ltd. and Jotun COSCO Marine Coatings (GZ) Co. Ltd. are both 50 per cent controlled by the parent company Jotun A/S. The companies are consolidated 100 per cent with the deduction of minority interests. This is based on an overall assessment of underlying agreements relating to the company's operations and strategy, which indicate that the parent company has actual control.

**NOTE 10 SHARES IN JOINT VENTURES****Shares held directly by the parent company***(NOK thousand)*

<b>Company</b>	<b>Currency</b>	<b>Share capital</b>	<b>No. of shares</b>	<b>Par value</b>	<b>Book value NOK</b>	<b>Stake %</b>
Jotun U.A.E. Ltd. (L.L.C.)	AED	4 000	2 000	1 660	108 930	41.50
Nor-Maali OY	EUR	8	10 000	3	8 180	33.40
Chokwang Jotun Ltd.	KRW	2 320 000	232 000	1 160 000	9 831	50.00
Corro-Coat Saudi Arabia Co. Ltd.	SAR	7 320	73 200	161	301	2.20
Jotun Saudia Co. Ltd.	SAR	9 000	9 000	3 600	17 278	40.00
Red Sea Paints Co. Ltd.	SAR	9 500	9 500	3 800	21 995	40.00
Ratinjat Saudia Co. Ltd.	SAR	13 000	13 000	5 200	13 248	40.00
Jotun Yemen Paints Ltd.	USD	1 000	20 000	90	675	9.00
Shares held by Jotun A/S for third parties					(301)	
<b>Total</b>					<b>180 137</b>	

**Shares held directly by subsidiaries and joint ventures***(NOK thousand)*

<b>Company</b>	<b>Currency</b>	<b>Share capital</b>	<b>No. of shares</b>	<b>Par value</b>	<b>Book value NOK</b>	<b>Stake %</b>
<b>Jotun Powder Coatings AS</b>						
Jotun Powder Coatings U.A.E. Ltd. (L.L.C.)	AED	3 000	3 000	1 410	66 067	47.00
Corro Coat Saudi Arabia Co. Ltd.	SAR	7 320	73 200	2 035	20 000	27.80
<b>Jotun Powder Coatings U.A.E. Ltd. (L.L.C.)</b>						
Corro-Coat Saudi Arabia Co. Ltd.	SAR	7 320	73 200	2 928	4 873	40.00
<b>Jotun Saudia Co. Ltd</b>						
Jotun Yemen Paints Ltd.	USD	1 000	20 000	170	1 060	17.00
<b>Jotun Paints Co. L.L.C.</b>						
Jotun Yemen Paints Ltd.	USD	1 000	20 000	170	1 068	17.00
<b>Total</b>					<b>93 069</b>	

The percentage of votes held is the same as the percentage of shares held.

**NOTE 11 SHARES AND OTHER SECURITIES****Shares held directly by the parent company***(NOK thousand)*

<b>Company</b>	<b>Currency</b>	<b>Share capital</b>	<b>No. of shares</b>	<b>Par value</b>	<b>Book value NOK</b>	<b>Stake %</b>
Cathelco Jotun Ltd.	GBP	1 333	1 333	133	7 565	10.00
Other companies					407	
<b>Total</b>					<b>7 972</b>	

**NOTE 12 LIABILITIES AND BONDS**

**Amounts falling due more than five years after the year-end**

(NOK thousand)

	Jotun A/S		Group	
	31.12.06	31.12.05	31.12.06	31.12.05
Secured loans	-	32 117	3 422	35 490
Other long-term liabilities	-	-	-	-
<b>Total</b>	<b>-</b>	<b>32 117</b>	<b>3 422</b>	<b>35 490</b>

**Loans from credit institutions – Jotun A/S**

Currency	Average interest rate (%)	Amount in currency	Amount in NOK
NOK	-	-	-
USD	-	-	-
EURO	-	-	-
Other currencies	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Repayment schedule**

Year	2007	2008	2009	2010	2011	Thereafter	Total
Amount	-	-	-	-	-	-	-

Jotun has long-term drawing facilities that require a minimum equity/assets ratio, a maximum level of interest-bearing liabilities relative to EBITDA and a minimum liquidity reserve. Jotun was well within these limits at the year-end. See also Note 21.

**Loans from credit institutions – Group**

Currency	Average interest rate (%)	Amount in currency	Amount in NOK
NOK	-	-	-
USD	6.3	390	2 414
EURO	4.9	271	2 230
Other currencies	5.5	11 479	51 923
<b>Total</b>	<b>-</b>	<b>-</b>	<b>56 567</b>

**Repayment schedule**

Year	2007	2008	2009	2010	2011	Thereafter	Total
Amount	4 778	20 020	2 521	25 611	215	3 422	56 567

**NOTE 13 OTHER CURRENT LIABILITIES**

**Provisions for liabilities included in other current liabilities**

(NOK thousand)

	Jotun A/S		Group	
	31.12.06	31.12.05	31.12.06	31.12.05
Provisions for warranty claims	43 215	46 570	111 226	108 242
Other provisions	24 657	25 751	83 792	75 363
Other current liabilities	112 721	95 917	306 276	247 094
<b>Total</b>	<b>180 593</b>	<b>168 238</b>	<b>501 294</b>	<b>430 700</b>

## NOTE 14 TAX

<i>(NOK thousand)</i>	Jotun A/S		Group	
	2006	2005	2006	2005
<b>Tax payable on year's earnings</b>				
Profit on ordinary activities before taxation	460 768	451 444	-	-
Permanent timing differences	-127 798	-79 253	-	-
Change in temporary timing differences	-5 097	20 877	-	-
Taxable income	327 873	393 068	-	-
<b>Tax payable on year's earnings (28%)</b>	<b>91 804</b>	<b>110 059</b>	<b>-</b>	<b>-</b>
<b>Breakdown of tax for the year</b>				
Tax payable on year's earnings	91 804	110 059	212 271	178 519
Tax outside Norway, no credit allowance	14 972	-1 485	-	-
Gross change in deferred tax	1 427	-7 396	-2 065	-28 334
Translation differences	-	-	-1 105	-563
Previous-year adjustments	25 365	1 257	-	1 257
<b>Tax charge for the year</b>	<b>133 568</b>	<b>102 435</b>	<b>209 101</b>	<b>150 879</b>
Tax payable in Norway	71 586	73 046	71 586	73 046
Tax payable outside Norway	61 982	29 389	137 515	77 833
	<b>31.12.06</b>	<b>31.12.05</b>	<b>31.12.06</b>	<b>31.12.05</b>
<b>Breakdown of tax payable in the balance sheet</b>				
Tax payable on year's earnings	91 804	110 059	212 271	178 519
Tax payable for previous years/prepaid	28 335	-	-58 321	-47 736
Less tax deducted at source	-20 009	-31 419	-20 009	-31 419
<b>Total</b>	<b>100 130</b>	<b>78 640</b>	<b>133 941</b>	<b>99 364</b>
<b>Breakdown of basis for deferred tax</b>				
Fixed assets	51 658	-6 342	147 584	69 511
Current assets	-6 764	-13 981	42 399	-84 706
Liabilities	-135 103	-74 984	-315 676	-171 371
Tax loss carried forward	-	-	-119 481	-42 811
<b>Total</b>	<b>-90 209</b>	<b>-95 307</b>	<b>-245 174</b>	<b>-229 377</b>
<b>Deferred tax liabilities (assets)</b>	<b>-25 259</b>	<b>-26 686</b>	<b>-70 667</b>	<b>-68 603</b>

CONTINUED NOTE 14 TAX

Reconciliation of tax charge and tax charge at the average nominal tax rate

<i>(NOK thousand)</i>	Jotun A/S		Group	
	Amount	%	Amount	%
Tax on pre-tax profit at average nominal tax rate	129 016	28	163 761	28
Effect of tax credits and prior-year adjustments	40 337	9	34 196	6
Tax on dividends, royalties and interest	-	-	25 760	4
Effect of permanent timing differences	-35 785	-8	11 760	2
Effect of goodwill amortisation and other eliminations	-	-	11 984	2
Changes in tax rates and other items	-	-	-38 360	-7
<b>Tax charge for the year</b>	<b>133 568</b>	<b>29</b>	<b>209 101</b>	<b>36</b>

The group's effective tax rate is higher than the nominal tax rate. This is primarily due to the amortisation and write-down of goodwill acquired, the taxation of dividends from group companies, different tax rates in different countries and the exclusion of deferred tax assets in some companies. Provision has also been made for a tax claim in Saudi Arabia. This claim is linked to fulfilment of the conditions for tax exemption for part of our operations abroad.

NOTE 15 EQUITY

Jotun A/S

<i>(NOK thousand)</i>	Share capital	Other equity	Profit for the year	Total
<b>Equity, 1 Jan.</b>	102 600	2 313 041	-	2 415 641
Profit for the year	-	-	327 200	327 200
Allocated to dividends	-	-	-171 000	-171 000
Transfers	-	156 200	-156 200	-
<b>Equity, 31 Dec.</b>	<b>102 600</b>	<b>2 469 241</b>	<b>-</b>	<b>2 571 841</b>
<b>Distributable equity</b>	<b>31.12.06</b>	31.12.05	-	-
Balance sheet equity	2 571 841	2 415 641	-	-
Downward adjustment due to the 10% limit	-355 239	-341 086	-	-
<b>The company's unrestricted equity</b>	<b>2 216 602</b>	<b>2 074 555</b>	<b>-</b>	<b>-</b>

Annual common RISK figures for shares in Jotun A/S

<b>01.01.06</b>	01.01.05	01.01.04	01.01.03	01.01.02	01.01.01	01.01.00
<b>244,06</b>	36,40	315,79	289,11	552,60	184,32	1 500,81
01.01.99	01.01.98	01.01.97	01.01.96	01.01.95	01.01.94	01.01.93
473,59	154,29	221,51	644	156	188,29	92,47

The adjusted opening value on 1 January 1992 has been set at NOK 5,236.

Group	Share capital	Other equity	Profit for the year	Minority interests	Total
<i>(NOK thousand)</i>					
<b>Equity, 1 Jan.</b>	102 600	2 592 288	-	116 054	2 810 942
Profit for the year	-	-	330 625	45 136	375 761
Allocated to dividends/dividends paid	-	-	-171 000	-32 560	-203 560
Transfers	-	159 625	-159 625	-	-
Minority share of share capital changes	-	702	-	-702	-
Translation differences	-	11 053	-	-7 410	3 643
<b>Equity, 31 Dec.</b>	<b>102 600</b>	<b>2 763 668</b>	<b>-</b>	<b>120 518</b>	<b>2 986 786</b>

#### NOTE 16 SHARE CAPITAL AND SHAREHOLDERS – JOTUN A/S

The share capital in Jotun A/S consisted of the following classes of shares on 31 December 2006:

<i>(NOK thousand)</i>	Number	Par value	Book value
A-shares	114 000	300	34 200
B-shares	228 000	300	68 400
<b>Total</b>	<b>342 000</b>	<b>300</b>	<b>102 600</b>

Each A-share gives entitlement to ten votes, while each B-share gives entitlement to one vote at the company's general assembly.

#### Ownership structure

The company had 404 shareholders at the year-end. The largest shareholders were:

Shareholder	A-shares	B-shares	Total	Stake	Votes
Lilleborg AS	41 979	103 448	145 427	42.5%	38.2%
Odd Gleditsch AS	11 399	35 776	47 175	13.8%	10.9%
Mattisberget AS	25 000	-	25 000	7.3%	18.3%
Leo Invest AS	2 982	8 184	11 166	3.3%	2.8%
Abrafam Holding AS	3 359	4 315	7 674	2.2%	2.8%
Odd Gleditsch Farvehandel AS	-	6 750	6 750	2.0%	0.5%
ACG AS	-	5 548	5 548	1.6%	0.4%
Bjørn Ekdahl	1 872	3 431	5 303	1.6%	1.6%
Elanel AS	3 004	2 353	5 357	1.6%	2.4%
Odd Gleditsch Jr.	4 879	243	5 122	1.5%	3.6%
Taco Invest AS	-	5 234	5 234	1.5%	0.4%
Live Invest AS	4 051	547	4 598	1.3%	3.0%
Kofreni AS	131	4 094	4 225	1.2%	0.4%
Bjørn Ole Gleditsch	26	3 679	3 705	1.1%	0.3%
Conrad Wilhelm Eger	1 171	2 155	3 326	1.0%	1.0%
Odd Gleditsch d.y.	27	3 143	3 170	0.9%	0.2%
Anne Cecilie Gleditsch	5	3 161	3 166	0.9%	0.2%
Jill Beate Gleditsch	-	3 172	3 172	0.9%	0.2%
Fredrikke Eger	1 000	2 084	3 084	0.9%	0.9%
Britt Fanny Arnesen	1 855	1 178	3 033	0.9%	1.4%
<b>Total 20 largest</b>	<b>102 740</b>	<b>198 495</b>	<b>301 235</b>	<b>88.1%</b>	<b>89.6%</b>
Others	11 260	29 505	40 765	11.9%	10.4%
<b>Total</b>	<b>114 000</b>	<b>228 000</b>	<b>342 000</b>	<b>100.0%</b>	<b>100.0%</b>

## CONTINUED NOTE 16 SHARE CAPITAL AND SHAREHOLDERS – JOTUN A/S

## Shares held by members of the Board of Directors, the Corporate Assembly, President &amp; CEO and/or relatives

Name	Position	A-shares	B-shares	Total shares
Odd Gleditsch d.y.	Chairman of the Board	27	8 404	8 431
Einar Abrahamsen	Board member	3 359	4 317	7 676
Richard Arnesen	Board member	1 855	3 129	4 984
Nicolai A. Eger	Board member	1 110	5 183	6 293
Olav Christensen	Chairman Corp. Assembly	3 004	2 355	5 359
Bjørn Ole Gleditsch	Corp. Assembly member	26	10 429	10 455
Thomas Gleditsch	Corp. Assembly member	27	5 635	5 662
Fredrikke Eger	Corp. Assembly member	1 144	2 361	3 505
Erling Fr. Sørhaug	Corp. Assembly member	-	1	1
Birger Amundsen	Corp. Assembly member	-	2	2
Morten Fon	President & CEO	3	-	3

No options to purchase shares have been issued.

## NOTE 17 SECURED ASSETS AND GUARANTEES

(NOK thousand)	Jotun A/S		Group	
	31.12.06	31.12.05	31.12.06	31.12.05
<b>Secured balance sheet liabilities</b>				
Secured liabilities – long-term	-	96 787	39 666	130 768
Secured liabilities – short-term	-	-	46 749	27 956
Other long-term liabilities	-	-	5 353	23 670
<b>Total</b>	-	96 787	<b>91 768</b>	182 395
<b>Book value of assets put up as security for secured debt:</b>				
Land, buildings, etc.	-	64 136	32 776	73 787
Machinery and plant	-	67 346	48 663	116 161
Stocks	-	-	84 127	1 096
Trade debtors	-	-	21 573	3 651
<b>Total</b>	-	131 482	<b>187 139</b>	194 695
<b>Off-balance sheet guarantees</b>				
Discounted bills	-	-	-	-
Guarantees for employees	-	-	2 702	7 283
Guarantees for withholding tax	24 000	24 000	24 000	29 489
Guarantees for subsidiaries	267 777	170 497	270 278	173 202
Guarantees from subsidiaries	-	-	-	-
Guarantees for customers, etc. and Jotun A/S	8 400	400	50 253	18 885
<b>Total</b>	<b>300 177</b>	194 897	<b>347 233</b>	228 860

## NOTE 18 INTER-COMPANY BALANCES IN JOTUN A/S WITH SUBSIDIARIES AND JOINT VENTURES

<i>(NOK thousand)</i>	Subsidiaries		Joint ventures	
	31.12.06	31.12.05	31.12.06	31.12.05
<b>Financial fixed assets</b>				
Other long-term receivables – short-term	-	-	-	-
Other long-term receivables – long-term	845 011	794 587	1 919	2 076
<b>Total financial fixed assets</b>	<b>845 011</b>	<b>794 587</b>	<b>1 919</b>	<b>2 076</b>
<b>Debtors</b>				
Trade debtors	179 764	120 060	19 755	9 760
Other current debtors	109 360	231 659	31 908	-
<b>Total financial fixed assets and debtors</b>	<b>1 134 135</b>	<b>1 146 305</b>	<b>53 582</b>	<b>11 836</b>

<i>(NOK thousand)</i>	Subsidiaries		Joint ventures	
	31.12.06	31.12.05	31.12.06	31.12.05
<b>Current liabilities</b>				
Loans	162 864	124 900	-	-
Trade creditors	41 535	36 963	9 895	7 918
Other current liabilities	39 461	14 950	72 567	61 798
<b>Total liabilities</b>	<b>243 860</b>	<b>176 813</b>	<b>82 462</b>	<b>69 716</b>

## NOTE 19 BREAKDOWN OF ITEMS IN THE CASH FLOW STATEMENT

<i>(NOK thousand)</i>	Jotun A/S		Group	
	31.12.06	31.12.05	31.12.06	31.12.05
<b>Change in stocks, customers and trade creditors</b>				
Stocks	86 357	-46 732	-149 826	-124 182
Trade debtors	-68 129	-2 914	-198 163	-275 333
Trade creditors	744	-35 834	124 854	70 736
<b>Total stocks, customers and trade creditors</b>	<b>18 972</b>	<b>-85 480</b>	<b>-223 135</b>	<b>-328 779</b>

<i>(NOK thousand)</i>	Jotun A/S		Group	
	31.12.06	31.12.05	31.12.06	31.12.05
<b>Change in other accrual items</b>				
Other current debtors	2 914	-53 828	-4 674	-56 189
Tax payable	21 490	26 055	34 577	24 948
Public duties payable	-1 749	3 234	3 663	1 556
Other current liabilities	-32 232	54 112	59 770	86 345
Other provisions for liabilities	43 081	-7 153	-	-10 068
<b>Total</b>	<b>33 504</b>	<b>22 420</b>	<b>93 336</b>	<b>46 592</b>

**NOTE 20 CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET LIABILITIES**

Jotun is involved in a number of disputes and complaints in connection with its operations, including those referred to below. Provisions have been made for the anticipated outcome of disputes where a negative outcome is more likely and reliable estimates can be made. Anticipated insurance cover has been taken into account in the assessment of the size of these provisions. Jotun acknowledges that the outcome of these disputes is subject to some uncertainty, but is of the opinion that these

disputes will be resolved without impacting significantly on the group's financial position. A number of legal and arbitration cases are under way in connection with operations in the USA.

Customers are claiming compensation from Jotun Paints Inc. for alleged product defects and defective technology acquired from the Valspar Corporation. The cases are expected to be resolved in 2008 and 2009.

**NOTE 21 OVERDRAFTS AND OTHER CREDIT FACILITIES**

	Jotun A/S	
	31.12.06	31.12.05
Unused part of short- and long-term committed credit facilities	1 275 000	1 275 000

The requirement for liquidity reserves for the group rests with the parent company, which can wholly or partly finance subsidiaries and associated companies through internal loans. At the year-end, Jotun A/S had credit facilities totalling NOK 1.2 billion. NOK 600 million of these facilities fall

due in 2012, while NOK 600 million will fall due in 2010. The latter NOK 600 million can be extended to 2012 if this is acceptable to the credit providers (extension option). No credit had been used in these facilities as at 31 Dec. The credit facilities above include an unused, committed line to Jotun A/S of NOK 75 million in the company's group account system. Jotun A/S is the principal company in the Jotun Group's group account system and is responsible for exposure with respect to the bank.

The remainder of the credit facilities in the group are mainly short-term uncommitted credit that is not included in the liquidity reserve.

**NOTE 22 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**Policy for hedging of currency and interest rate exposure**

Currency exposure in the group balance sheet must be 30–100 per cent hedged where exposure is greater than NOK 25 million per currency (or currency group). Currency exposure concerning the parent company's net cash flows from operations, in a future 12-month perspective, must be 30–100 per cent hedged where exposure is greater than NOK 15 million per currency (or currency group). If the aforementioned two currency exposures (balance sheet exposure and cash flow exposure) go against each other in relation to a currency, only the net exposure exceeding NOK 15 million must be hedged. Interest exposure in the group's balance sheet shall be 30–80 per cent hedged if the total exposure exceeds NOK 25 million per currency.

All transactions are undertaken in accordance with the abovementioned guidelines and with the aim of reducing the total currency and interest rate exposure. Financial instruments are used extensively to reduce such risk. This is explained in more detail below.

**Managing and controlling currency risk**

Currency exposure in the group balance sheet is hedged via currency loans and currency swaps. This exposure primarily consists of the parent company's net investments in international operations. The market value change in the hedging instruments is recorded directly against equity as a contra entry to translation differences. No part of this hedging accounting is reflected in the company accounts of Jotun A/S.

Jotun's net cash flows from operations are mainly generated within

the individual group companies and responsibility for hedging any currency exposures rests at a local level. Included in cash flows from the parent company's operations (and those of the subsidiaries that are included in the parent company's group account system) are the dividends and licence revenues from other external companies. In order to protect the parent company from fluctuations in currency exchange rates, forward contracts and options are used as hedging instruments. Market value change in hedgings are entered in the profit and loss account under financial income and costs. Hedging instruments are valued at their actual value, and non-realised value changes are entered in the profit and loss account as Jotun A/S does not use hedging accounting for cash flow hedging.

As of 31 December 2006, Jotun A/S had balance sheet hedgings in the form of currency swaps (currency swap agreements) totalling NOK 456.6 million (purchase of NOK, disposal of USD, SGD, AUD, THB, KRW, AED, SAR and IDR). The hedging transactions had a reduced value of NOK 0.8 million (the difference between the spot rate at the time of contract establishment and the spot rate on 31 December 2006).

As of 31 December 2006, Jotun A/S had agreed hedging transactions internally and externally to hedge cash flows.

Jotun A/S had internal forward contracts with Jotun Danmark concerning the purchase of DKK 28.5 million in return for the sale of Norwegian kroner. The contracts had a reduced value for Jotun A/S of NOK 0.5 million (the difference between the spot rate at the time of contract establishment and the spot rate on 31 December 2006).

Jotun A/S had external option contracts and forward contracts to hedge cash flows totalling NOK 333.3 million and NOK 27.3 million in the future sale of USD and SEK respectively. The contracts had an added value for Jotun A/S of NOK 4.0 million, of which an added value of NOK 4.3 million relates to the USD contracts and a reduced value of NOK 0.3 relates to the SEK sales. The added value for the forward contracts corresponds to the difference between the spot rate at the time of contract establishment and the spot rate on 31 December 2006. For options, market prices were obtained from the banks which issued the options. The option contracts were purchased as cost-free option structures (put/call/knock in), and the market value therefore represents the change in value since the time of purchase.

#### **Managing and controlling interest rate risk**

The Jotun Group has a low interest-bearing debt and low interest rate exposure. Behind this are large loans for long-term investments in factories, which are partly offset by more short-term bank investments.

The group's interest rate hedging is managed centrally based on measurements of interest rate exposure per currency. Interest rate derivatives and fixed-rate loans are used to hedge interest rate risk.

As of 31 December 2006 Jotun A/S had agreed external interest rate swap agreements from a variable interest rate (LIBOR 3 mth) to a fixed interest rate through to maturity for a total of NOK 206.7 million in the currencies EUR, GBP, USD and IDR. The difference between the variable interest rate and fixed interest rate is amortised on an ongoing basis with one third per month between each new interest rate determination. The interest difference is entered in the profit and loss account under financial income and costs.



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To the Annual Shareholders' Meeting of Jotun AS

**AUDITOR'S REPORT FOR 2006**

**Respective Responsibilities of Directors and Auditors**

We have audited the annual financial statements of the Jotun AS as of 31 December 2006, showing a profit of NOK 327,200,000 for the parent company and a profit of NOK 330,625,000 for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit. The annual financial statements comprise the parent company's financial statements and the group accounts. The parent company's financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The group accounts comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The rules of the Norwegian accounting act and good accounting practice in Norway have been applied to prepare the financial statements. These financial statements and the Board of Directors' report are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

**Basis of Opinion**

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good auditing practice in Norway, including standards on auditing adopted by Den norske Revisorforening. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and good auditing practice an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion,

- the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Company and of the Group as of 31 December 2006, the results of the operations and the cash flows for the year then ended, in accordance with the rules of the Norwegian accounting act and good accounting practice in Norway
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and comply with the law and regulations.

Sandefjord, 15 February 2007

KPMG AS

Asbjørn Næss  
*State Authorised Public Accountant*

Siv Karlsen Moa  
*State Authorised Public Accountant*

Note: This translation from Norwegian has been prepared for information purposes only

Offices in

Oslo	Haugesund	Sandefjord
Bode	Kristiansand	Sandnessjøen
Alta	Larvik	Stavanger
Arendal	Lillehammer	Stord
Bergen	Molde	Tromsø
Elverum	Molde	Trondheim
Fevnsnes	Narvik	Tønsberg
Hamar	Roros	Ålesund

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■ Division  
Jotun Dekorativ

■ Division  
Jotun Coatings

■ Division  
Jotun Paints

□ Division  
Jotun Powder Coatings

COUNTRY	COMPANY	SHARE-HOLDING %				
 Australia	Jotun Australia Pty. Ltd., Victoria	100		<input checked="" type="checkbox"/>		
 Brazil	Jotun Brasil Imp. Exp. & Industria de Tintas Ltda., Rio de Janeiro	100		<input checked="" type="checkbox"/>		
 Bulgaria	Jotun Powder Coatings Bulgaria Ltd., Sofia	100				<input checked="" type="checkbox"/>
 China	Jotun Coatings (Zhangjiagang) Co. Ltd., Zhangjiagang	100		<input checked="" type="checkbox"/>		
	Jotun Coatings (Zhangjiagang) Trading Co. Ltd., Zhangjiagang	100		<input checked="" type="checkbox"/>		
	Jotun COSCO Marine Coatings (GZ) Co. Ltd., Guangzhou	50		<input checked="" type="checkbox"/>		
	Jotun COSCO Marine Coatings (HK) Co. Ltd., Hong Kong	50		<input checked="" type="checkbox"/>		
	Jotun Paints (H.K.) Ltd., Hong Kong	100		<input checked="" type="checkbox"/>		
 Czech Republic	Jotun Powder Coatings (CZ) a.s., Usti nad Labem	100				<input checked="" type="checkbox"/>
 Denmark	Jotun Danmark A/S, Kolding	100	<input checked="" type="checkbox"/>			
 Egypt	El-Mohandes Jotun S.A.E., Cairo	70			<input checked="" type="checkbox"/>	
 Finland	Nor-Maali OY, Lahti	33		<input checked="" type="checkbox"/>		
 France	Jotun France S.A.S., Paris	100		<input checked="" type="checkbox"/>		
 Germany	Jotun (Deutschland) GmbH, Hamburg	100		<input checked="" type="checkbox"/>		
 Greece	Jotun Hellas Ltd., Piraeus	100		<input checked="" type="checkbox"/>		
 India	Jotun India Pvt. Ltd., Mumbai	100		<input checked="" type="checkbox"/>		
	Jotun Powder Coatings (India) Private Ltd., Daman	100				<input checked="" type="checkbox"/>
 Indonesia	P.T. Jotun Indonesia, Jakarta	99			<input checked="" type="checkbox"/>	
	P.T. Jotun Powder Coatings Indonesia, Jakarta	100				<input checked="" type="checkbox"/>
 Ireland	Jotun (Ireland) Ltd., Cork	100		<input checked="" type="checkbox"/>		
 Italy	Jotun Italia S.p.A., Trieste	100		<input checked="" type="checkbox"/>		
 Malaysia	Jotun (Malaysia) Sdn. Bhd., Kuala Lumpur	93			<input checked="" type="checkbox"/>	
	Jotun Powder Coatings (M) Sdn. Bhd., Kuala Lumpur	81				<input checked="" type="checkbox"/>
 Netherlands	Jotun B.V., Spijkenisse	100		<input checked="" type="checkbox"/>		
 Norway	Jotun A/S, Sandefjord	100	<input checked="" type="checkbox"/>			
	Jotun Powder Coatings (N) AS, Larvik	100				<input checked="" type="checkbox"/>
	Scanox AS, Drammen	100	<input checked="" type="checkbox"/>			

Production

Sales office

COUNTRY	COMPANY NAME	SHARE-HOLDING %	Division Jotun Dekorativ	Division Jotun Coatings	Division Jotun Paints	Division Jotun Powder Coatings
 Oman	Jotun Paints Co. L.L.C., Muscat	62			P	
 Pakistan	Jotun Powder Coatings Pakistan (Pvt.) Ltd., Lahore	59				P
 Poland	Jotun Polska Sp.zo.o., Gdynia	100				
 Russian Federation	Jotun Paints OOO, St. Petersburg	100				
 Saudi Arabia	Corro-Coat Saudi Arabia Co. Ltd., Dammam	49				P
	Jotun Saudia Co. Ltd., Jeddah	40			P	
	Ratinjat Saudia Co. Ltd., Jeddah	40			P	
	Red Sea Paints Co. Ltd., Jeddah	40			P	
 Singapore	Jotun (Singapore) Pte. Ltd., Singapore	100		P		
 South Africa	Jotun Paint South Africa (Pty) Ltd., Cape Town	100		P		
 Spain	Jotun Iberica S.A., Barcelona	100		P		
 South Korea	Chokwang Jotun Ltd., Kyungnam	50		P		
 Sweden	Jotun Sverige AB, Gothenburg	100				
 Thailand	Jotun Powder Coatings (Thailand) Ltd., ChonBuri	100				P
	Jotun Thailand Ltd., Samutprakarn	95			P	
 Turkey	Jotun Boya San. ve Tic. A.S., Istanbul	100		P		
	Jotun Toz Boya San. ve Tic. A.S., Istanbul	100				P
 United Arab Emirates	Jotun Abu Dhabi Ltd. (L.L.C.), Abu Dhabi	52			P	
	Jotun Powder Coatings U.A.E. Ltd. (L.L.C.), Dubai	47				P
	Jotun U.A.E. Ltd. (L.L.C.), Dubai	42			P	
 United Kingdom	Cathelco Jotun Ltd., Chesterfield	10				
	Jotun Paints (Europe) Ltd., Flixborough	100		P		
	Jotun Powder Coatings Ltd., Flixborough	100				
 USA	Jotun Paints Inc., Belle Chasse, LA	100		P		
 Vietnam	Jotun Paints (Vietnam) Co. Ltd., Ho Chi Minh City	100			P	
	Jotun Powder Coatings (Vietnam) Co. Ltd., Ho Chi Minh City	100				P
 Yemen	Jotun Yemen Paints Ltd., Aden	26			P	

In addition to legal companies Jotun has branch offices, agents, distributors and licensees in Argentina, Azerbaijan, Bahrain, Chile, Croatia, Curacao, Cyprus, Estonia, Hungary, Iceland, Iran, Japan, Jordan, Kuwait, Latvia, Libya, Lithuania, Malta, Mauritius, Monaco, Montenegro, Morocco, Namibia, Panama, Peru, Philippines, Portugal, Qatar, Romania, Slovak Republic, Switzerland, Syria, Trinidad, Ukraine and Uruguay.

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