



Namme

NAMMO

10 YEAR ANNIVERSARY

Celebration dinner in Gjøvik Olympic Cavern Hall. 800 employees from all the Nammo Sites were gathered.



Nammo Management together with guests onboard the paddle steamer 'Skibladner' on the Lake Mjøsa.



On August 29th 2008 Nammo celebrated its tenth anniversary since its formation in 1998. The celebration took place at Nammo's Headquarter, Raufoss. 800 Nammo employees from all six Nammo countries were present.

The anniversary started with a presentation of the Nammo Raufoss facility at the Raufoss City Hall. Thereafter the guests were given a well organized guided tour that included entertainment of the Nammo Raufoss facility where products and production processes were presented. The guided tour also included a visit at the Test Center close to Raufoss where an «Open air» lunch was served. – Some testing of our most known products, and a shooting competition between the five Nammo Divisions was on the agenda.

The Nammo Owners and the Board together with additional

guests were invited by Management to a trip on the Lake Mjøsa with the over 150 year old paddle steamer Skibladner. The weather was exceptionally nice during the whole day and helped make the event a great success!

The celebration reached its peak when 800 guests entered the Gjøvik Olympic Mountain Hall in the evening for a very nice dinner. A breathtaking entertainment rounded the celebration off with dancing way into the night.

We do hope we can relive another day like this for Nammo's 20 Year Anniversary!

Thank you!



All visitors had a guided tour at the Nammo Raufoss facility as well as a product demonstration at the Test Range.

MMMCCCXXX

THE TURN OVER REACHED 3130 MNOK

CCCXC

XII

THE RETURN ON SALES WAS 12% IN 2008

V

NAMMO IS DIVIDED INTO FIVE DIVISIONS

DCCXI

DLXIX

569 WOMEN WORK IN THE NAMMO GROUP (31,2%)

XCVII

MCXLVII

THE NUMBER OF BLUE-COLLAR IS 1147

CLXXIX

LAPUA GMBH, 179 YEARS OLD, IS THE OLDEST COMPANY IN THE NAMMO GROUP

DCLXXIX

THE NUMBER OF WHITE-COLLAR IS 679

XVIII

MC

NAMMO HAS 18 PRODUCTION FACILITIES

MMVII

MDCCCXXVI

THE NUMBER OF EMPLOYEES AT YEAR END WAS 1826

IV

THE LEVEL OF SICKNESS ABSENCE WAS 4%, BEST RESULT EVER!

X

IT IS 10 YEARS SINCE NAMMO WAS ESTABLISHED

III

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IMPORTANT NOTICE: If there are any diverging information between the English translation of Nammo's Annual Report and the Norwegian edition, the Norwegian edition will be the pre-vailing and legal version.

PEOPLE

“If you are planning for one year, grow rice. If you are planning for 20 years grow trees. If you are planning for centuries, grow people“
Chinese Proverb

PEOPLE are Nammo's most valuable asset.

PRECISION

“Fast is fine, but Precision is everything“
Wyatt Earp

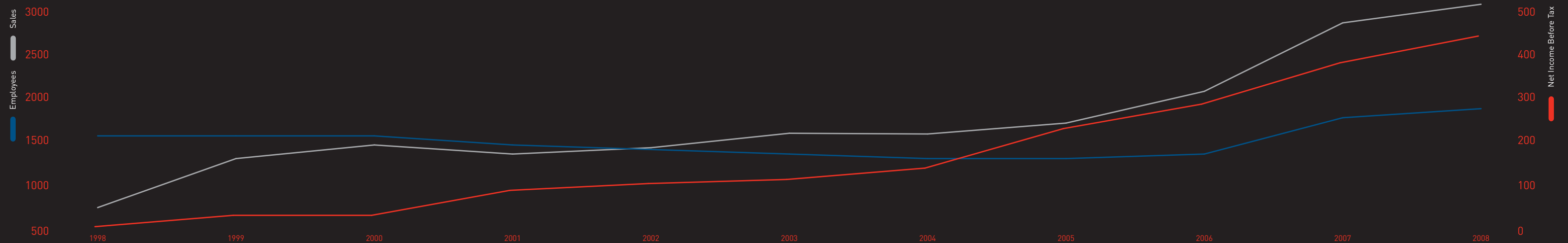
PRECISION is the key word at all levels of Nammo's operations.

TECHNOLOGY

“Once a new technology rolls over you, if you're not a part of the steamroller, you're part of the road“
Stewart Brand

TECHNOLOGY at an advanced level is Nammo's driving force. We always seek to be on the cutting edge.

LOOKING BACK AT 1998-2008



1998

07/98: Start of Nammo fiscal year.

10/98: Official merger of the ammunition activity by Raufoss ASA (45%), Celsius AB (27,5%), Patria Industries Oyj (27,5%).

3 Legal Subsidiaries were formed (Nammo Raufoss AS, Nammo Sweden AB, Nammo Lapua Oy).

5 Divisions were established (Small Caliber, Medium Caliber, Revision Demilitarization & Pyrotechnics, Propulsion, Components).

1999

Buck GmbH was acquired and became 100% part of Nammo AS and was renamed Nammo Buck GmbH.

Nammo acquires NAD at Løkken Verk, Norway – 33% ownership and renamed Nammo NAD AS. Later ownership has been increased to 50%.

PB Nammo Demil LLC was formed – A five year contract was signed with the US Government.

2000

Demonstrations and strike at Raufoss against the planned move of the small caliber production line to Sweden and Finland in January and February – The final decision was postponed until March.

New President & CEO was appointed in April.

Raufoss ASA sold their 45% shares to the Norwegian Ministry of Trade and Industry in June.

Intensified work to strengthen Nammo's technological platform.

2001

Official MoU signed between the three Nordic Governments for cross boarder cooperation within ammunition products.

Decision was made to move Hansson PyroTech from Göteborg to Lindsberg.

Acquisition of the property and the Nammo Raufoss Test Center at Bradalsmyra.

2002

Saab AB acquires Celsius AB in March.

Reorganization and establishment of the Demil Division and Large Caliber Division.

Launch of new Dim Tracer Cartridge.

Full scale serial production of the multinational program Evolved Sea Sparrow Missile (ESSM).

2003

Nammo enters the Polish defense market.

Multiproduct contract – STALVA – signed with Finnish Defence Forces.

2004

SK Jagd und Sportmunition celebrates its 175 year Anniversary and is renamed Laupa GmbH.

Opening of Lapua .22 Service Center in Schönebeck, Germany.

2005

Contract signed with Diehl BGT Defence for IRIS-T Series Production.

Vihtavuori starts the new production line for Charges in June.

Acquisition of Nammo Bakelittfabrikken AS.

Small Caliber breakthrough in the US for Military Special Ammunition.

Rocket Motor contract with MBDA for Exocet Block 3 Missile.

2006

Merger of the Medium & Large Caliber Divisions.

Nammo Raufoss Test Center receives its first qualification as NATO Test Center for 7.62mm, 12.7mm and 30mm ammunition.

Changes in ownership; Saab AB sells their shares to Patria Oyj and the Norwegian State represented by the Ministry of Trade and Industry, who now own 50% of the shares each.

Funding received from the Norwegian MoD for development of new aircraft ammunition.

Torino Olympics; 18 out of 24 biathlon medals won with Nammo Lapua cartridge.

2007

Acquisition of DN Press Tec – 60% ownership and renamed ND PressTec GmbH.

Acquisition of Talley Defense Systems Inc. – 100% ownership, renamed Nammo Talley Inc. and organized as the 5th Nammo Division.

Seven-year NAMSA contract for demilitarization of MLRS.

Acquisition on M72 Launcher Business at Norris Industries in December – integrated into Nammo Talley Inc.

2008

Launch of Lapua X-ACT premium ammunition.

Acquisition of Microtechnologie Hérémence (MTH), Switzerland – 100% ownership and renamed Nammo MTH SA.

FACTS ABOUT US

- Health Environment Safety & Security has highest priority
- A niche producer of small and medium caliber ammunition products
- A unique competence within engineering, analysis and manufacturing of high performance missile propulsion systems including thrust vector control
- A world-leader within environmental friendly demilitarization
- An industry leader in the development and production of direct-fire, shoulder launched weapon systems



CEO REFLECTIONS

In 2008 Nammo celebrated its tenth anniversary since its formation in 1998. It is with great satisfaction I can conclude that these have been ten successful years, last year in particular. I would also like to congratulate all our employees, who can be proud of their contribution to the successful development of the company.

During these ten years, Nammo has gradually developed from a company aspiring to be recognized as the Nordic supplier of ammunition, missile products and related services, to an internationally recognized supplier with around 70 percent of sales to customers outside the Nordic region. This has changed the corporate development perspective, although our Nordic customers remain vital and very important to Nammo's further development.




SO WHAT HAVE WE **ACHIEVED** IN THOSE TEN YEARS?

- We have learned to better recognize and take into account the cultural differences between the countries we operate in. At the same time, we have also become better at working together across borders and building teams that focus on our business from an overall Nammo perspective.
- We have also become more customer focused to better understand the customers' needs in order to provide quality, high performance and specialty products customized to their requirements.
- We have increasingly recognized the need for local presence in a global market through various partnerships and actual presence in key countries.
- We have learned to gradually make the necessary organizational adjustments in time to accommodate the development of the market and maintain an efficient and competitive organization.

Nammo was established at a time when national defense had declining priority in our part of the world; restructuring of the armed forces had started and the future for the defense industry was very uncertain. New countries were joining NATO which also was in transformation. Major restructuring of the defense industry had started – and therefore the creation of Nammo took place in a relatively volatile environment. The September event in 2001 and the later consequences of that has changed the armed forces needs and of course also influenced Nammos priorities in R & D to better meet the military requirements.

Through organic growth and acquisitions, Nammo has developed a balanced presence with approximately 1/3 of sales in the Nordic countries, Europe and the US, respectively, and a small but important presence in the Far East. As we look forward to Nammo's further development, I am confident we have developed a company with an excellent technological platform and a solid market position. That, along with highly competent people, makes a strong competitive platform. Although the world has been hit by the biggest financial crisis and recession in a long time, we still expect 2009 to be a good year for Nammo. In the longer run we are also facing uncertainty along with the economy in general. However, the best way to deal with an uncertain future is to maintain and utilize what we have learned these years: cooperate and build teams across borders, be focused on the customers' requirements, be close to the home market and be flexible to adjust the organization to market trends. I'm looking forward to an interesting and exciting year in 2009!


Edgar Fosheim
President & CEO

HIGHLIGHTS 2008

NAMMO WAS GOLD SPONSOR AT NORWEGIAN MILITARY TATTOO 2008



BIATHLON USA TEAM LANNY RANGE



JOHN LEWIS WORLD RECORD



EVENTS

- Successful launch of new product portfolio; new Rimfire .22 ammunition, Lapua X-act, Midas+ and Center X during Shot Show/USA and IWA/Germany.
- Nammo was Gold Sponsor at the Norwegian Military Tattoo 2008.
- 3 June, Open Day with employees, local politicians and media at MTH SA in Switzerland.
- Nammo received Supplier Excellence Five Star Award from Raytheon as rocket motor supplier.
- Heikki Allonen appointed new Chairman of the Board of the Nammo Group.
- Celebration of Nammo's 10th anniversary at Raufoss on 28-30 August.
- Nammo leadership program "Talent Factory" started a new season with 15 participants from four different business units.



TESTING - QUALIFICATION - CONTRACT

- NATO Qualification Project; 9mm BNT and 5.56mm Tracer Non Toxic; National qualification approved.
- Test firing of the German IDAS Missile was successful. IDAS has a rocket motor produced by Nammo.
- 4-year agreement with UK MoD on demil of ammunition.
- M72 ASM RC; qualified by Norwegian Armed Forces.
- 30mm x 173 TPDS-T qualified by Norwegian Armed Forces.

M72 ASM RC

HESS

- Introduction of the EU's REACH program (EC 1907/2006). Software for Registration, Evaluation, Authorization and Restriction of Chemical substances.



SONJA PFEILSCHIFTER, BEIJING 2008

ACQUISITIONS AND BUSINESS RESTRUCTURING

- 8 April, Purchase of MTH SA, a specialist in ammunition fuze technology, development and manufacturing.
- Successful transfer of the Rimfire production capacity from Lapua, Finland, to Schönebeck, Germany.
- 600-gal mixer was purchased jointly by Missile Products Division and Nammo Talley to facilitate future rocket motor production.

SPORT

- Sonja Pfeilschifter, a German sport shooter, won 3 gold medals at WC Munich and WC Milano with Lapua X-ACT ammunition.
- Success in Sport Shooting during the Olympic Games in Beijing with 3 medals – 1 silver, 2 bronze – using Lapua ammunition.
- New World Record in Benchrest - April 26, 2009 at the Oak Ridge in Tennessee. The International Benchrest Shooters registered Benchrest match. John Lewis shot a spectacular 0.386 (9,804 mm) 5-shot group at 600 yards in Heavy Gun Class with Lapua .308 case and Lapua 155gr Scenar bullet.

NAMMO IN BRIEF

The Nammo Group is an international defense group focusing on high technology and niche products within ammunition, shoulder-fired weapon systems, missile propulsion systems and related services.

Being a high quality niche products producer only reflects the high expertise of our dedicated employees. This combined with strong leadership and active team building across national borders, and constant focus on customer needs, have strengthened our position in the market and created a solid platform for continuous development of our business.

EXPERTISE

Nammo designs, develops and produces a wide range of high-quality ammunition products for hand weapons, medium-caliber guns, tank artillery as well as aircraft and naval platforms. The range of shoulder-fired weapon systems has become important, and new versions have been developed and qualified, with more to come. With regards to missile and space propulsion, Nammo possesses leading technology in rocket booster and thrust vector control. The Group's demilitarization business comprises leading expertise and know-how related to eco-friendly recycling and effective disposal processes for all conventional ammunition, explosives products and cluster munitions.

New products or new versions are continuously and closely examined in order to maintain the high level of technology

and expertise and uphold the well known reputation of our company within its specialty domain.

OPERATIONAL STRUCTURE

Nammo operates through its five business units: Small Caliber Division, Medium & Large Caliber Division, Missile Products Division, Demil Division and Nammo Talley.

BACKGROUND

The Nammo Group was established in 1998 following a merger of the ammunition operations of three major Nordic defense companies: Celsius AB, Patria Industries Oyj and Raufoss ASA.

SHAREHOLDERS

Nammo's shareholders are the Norwegian Ministry of Trade and Industry (50%) and the Finnish Defense and Aerospace Group, Patria Oyj (50%).

VISION – «NAMMO, A CUSTOMER DRIVEN SUPPLIER»

Nammo is a leading ammunition, missile-products and related-services group with a strong international industrial presence.

BUSINESS CONCEPT

Nammo shall develop a leading global position as a supplier of ammunition and missile products and related services in a customer-driven culture through strong market presence.

VALUES

- Cooperation for the benefit of our customers and shareholders
- Always think safety and ethics
- Make good ideas grow – share them
- More leadership – less bureaucracy
- Organize for speed and cash flow

KEY FIGURES NAMMO GROUP

MNOK	2004	2005	2006	2007	2008
Sales	1 521	1 641	1 991	2 745	3 130
Operating Result (EBIT)	131	206	270	390	390
EBITDA	180	256	332	521	528
Net Finance Result	-2	10	1	-29	-15
Net Income Before Tax (NIBT)	129	216	270	361	375
Net Income after tax	111	184	186	261	272
Dividend	30	92	74	130	133

Key Performance Indicators

Return On Sales % (Sales/NIBT)	8,5	13,2	13,6	13,1	12,0
Economic Value Added (1)	38	83	109	183	160
Average Man Years	1 170	1 162	1 258	1 544	1 744
Sales per Man-Year	1,30	1,41	1,58	1,78	1,79

Balance Sheet:

Fixed & Long Term Assets	329	410	444	949	1 143
Current Assets	876	1 099	1 307	1 579	1 944
Total Assets	1 204	1 508	1 750	2 527	3 087

Invested Equity	359	359	359	359	359
Earned Equity incl minority	283	322	460	527	827
Total Equity	642	681	819	886	1 186

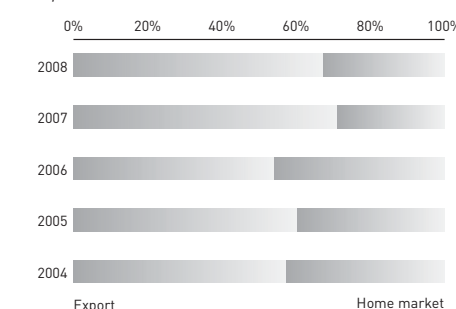
Provisions	121	120	124	114	125
Long-Term Debt	0	0	1	525	604
Short-Term Debt	442	707	807	1 003	1 172
Total Debt	562	827	932	1 641	1 901

Total Debt & Equity	1 204	1 508	1 750	2 527	3 087
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(1) 12 month rolling EVA with average cost of capital of 11% and 28% calculated tax

NAMMO SALES

Export market vs Home market



SALES BY GEOGRAPHICAL AREAS



HUMAN RESOURCES

In August 2008 Nammo celebrated its 10th anniversary with a great event at Raufoss including employees representing all the subsidiaries and business units in the Nammo Group. The celebration program was designed according to Nammo's tenet that our employees are the company's most important resource. The event also allowed an opportunity to reflect on the various stages the company has been through in its first 10 years of existence.

10-YEAR RETROSPECTIVE

From an HR perspective the 10 years can be divided into two 5-year periods:

The first 5 years can be reflected in three pillars as focus areas. The first pillar was restructuring the business units, streamlining the organization including downsizing to make us a competitive manufacturer in our business segments. The second pillar was to develop the organization in line with market trends and customer needs. Our ability to meet customer needs and requirements is hugely influenced by the way we educate our employees and how we organize the different operations and processes. It is essential that our employees, managers, engineers and operators understand that our main focus is to serve the customer adequately. The third pillar was leadership development. Development of a common management standard was highlighted. The internal leadership program, Talent Factory, started in 2002.

In the second 5-year period the organization entered a new phase with three new pillars of focus.

The first was to enhance management development in order to have managers working towards performance targets and goals. Our Performance Management system integrates goal setting, communication about performance levels and actions, performance reviews and individual appraisals into an annual system. Its purpose is also to support the continuous development of individuals and teams by providing direct and diverse feedback during performance reviews and development

discussions. Managers need performance management for goal setting, action planning, reviewing of results and giving feedback and recognition to their employees. All employees should be committed to our business areas, our plans and strategies, and to finding ways to best contribute to our business goals and actions. We believe that strong teamwork and a Performance Management system will boost motivation among our employees and have a positive impact on the working environment. We believe our continuous efforts to create a positive working environment will have a positive long-term impact on our ability to meet our targets.

The second pillar has been to integrate the new employees from the acquired companies, introducing them to the Nammo culture, values, ethical standard and leadership thinking as well as employment development.

The third pillar has been recruitment. After extensive downsizing in Nammo's early years, recruitment has been a key factor for the various business units the past few years. Nammo believes in recruiting highly motivated, target-oriented people with strong teamwork skills and the ability to take responsibility.

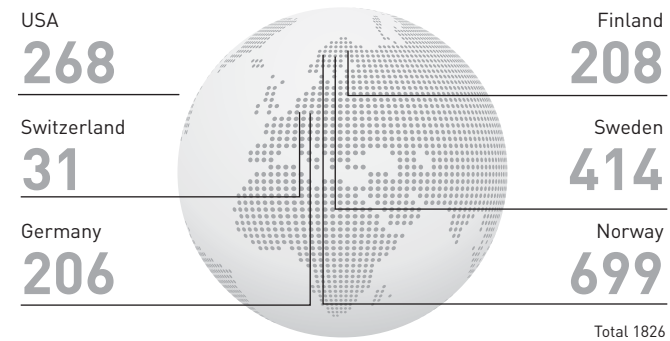
INCREASE IN RECRUITMENT

Because of increased activity in the business units, the number of employees has increased significantly from 2005 through 2008. Many new employees joined the company during this period. The high recruitment rate of new employees has also been a significant factor in lowering the average age of our workforce.

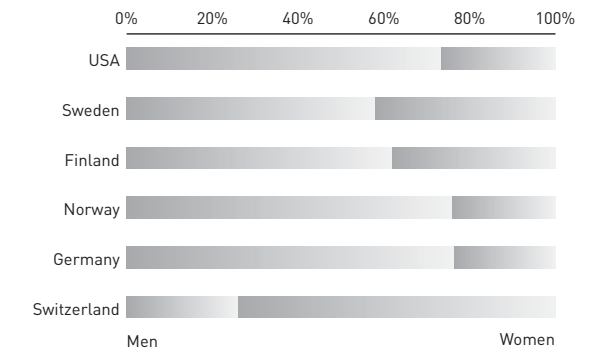
EQUAL OPPORTUNITIES

Gender equality is an important part of our personnel policy. The proportion of female employees in the group is 31,2%. The increase in female employees compared with 2007 is mainly ascribed to the high percentage of female employees recruited in the wake of the surging activity of our business units. Equal opportunities for all employees constitute an important platform.

DISTRIBUTION OF NUMBER OF EMPLOYEES BY COUNTRY



NUMBER OF EMPLOYEES Men vs Women



This applies particularly to recruitment, career development, equal pay for equal work, and working conditions. In 2008 Nammo has been an active partner in a common program in Raufoss Industry Park along with the Park's other companies. The aim of the program is to establish a stronger platform for female employees and motivate them to seek managerial positions. The program also aims to motivate females to apply for positions offered by the Park's other companies. Activities to motivate female university graduates to seek employment in our company will be an important effort going forward.

ETHICS

During 2008 the Group revised and distributed the new version of the Ethical Code of Conduct.

ETHICAL COMMITTEE

As a logical consequence of the company's work evaluating the Ethical Code of Conduct, the Nammo Group established an Ethical Committee in 2008. The Nammo Ethical Committee shall ensure a strong focus on common understanding of, and compliance with, Nammo's ethical standards as well as support of the implementation and follow-up of the Ethical Code of Conduct within the Nammo Group.

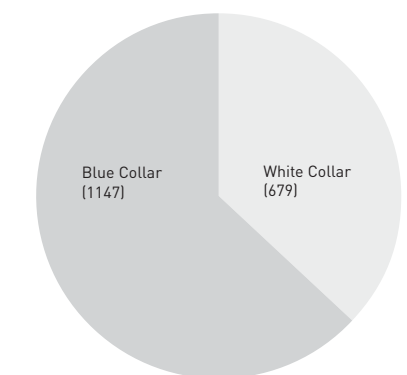
OUTLOOK

Nammo shall strive for efficient use of resources applied and good profitability through a positive and creative organization. The organization shall be flexible to adapt to new challenges and changed framework. A success criterion for our business is to ensure co-operation across organizational lines, functions and projects within as well as between divisions. Transfer of experience between different parts of the organization shall be taken care of through formal and informal actions. A systematic development program for employees to enable our organization

and individual employees to reach their full potential will be further developed. To secure use of total competence and experience in the organization a broad participation in the development and decision making processes is necessary. To achieve this it is of great importance that all employees show engagement and initiative. A decentralized decision-making process with broad participation shall secure decisions deeply rooted in the organization.

At the same time as recruitment of new competence is important, retaining of critical competence in the organization is an important factor. Competence transfer between different departments and between the employees is critical to maintain and develop the total competence platform in the company. To secure stability of employees with critical competence and knowledge the introduction of an effective and good senior policy is an important step to meet future challenges.

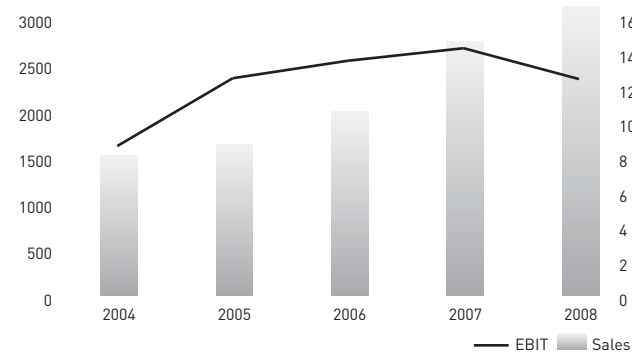
GROUP DISTRIBUTION BETWEEN WHITE-COLLAR AND BLUE-COLLAR



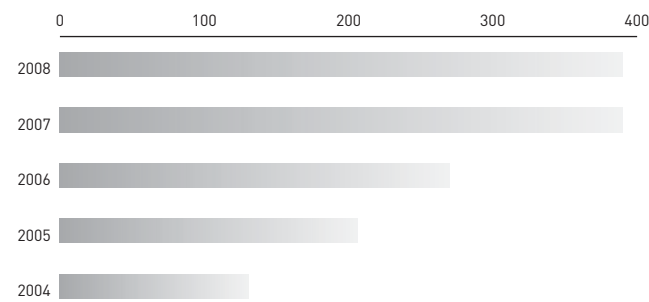
FINANCE

The primary aim of Nammo's financial activities is to generate a total return to shareholders on par with the best companies in the defense industry. Nammo defines total return to shareholders as the sum of the increase in share value plus dividend over a period.

NAMMO SALES (MNOK) & OPERATING MARGIN (%)



OPERATING RESULT (MNOK)



The defense industry is in a restructuring process, where new alliances and consolidation through mergers and acquisitions have set the agenda. In this framework, Nammo shall strive to maintain strong partnerships and have the financial strength to seize investment opportunities in the core business areas where Nammo's investment criteria and strategic benefits are met.

The historical development of the Return on Equity (ROE) has been as follows;

	2004	2005	2006	2007	2008
ROE	21%	30%	27%	32%	31%

ROE is the net result after tax/total equity at the start of the year.

ACQUISITIONS

Nammo acquired 100% of MTH in Switzerland in April 2008. The company is a key supplier of fuze technology in Nammo.

CURRENCY RISK

Ten percent of the total sales in the Nammo Group are in NOK, our group reporting currency. Nammo is reducing currency risk by hedging revenues and purchases with currency forward contracts. The calculated currency value at risk on the financial result due to currency fluctuations has been estimated at +/- 4.8 MNOK on an annual basis. For 2008 we saw high volatility in Q4, but managed with existing procedures to minimize the effects for the Nammo Group.

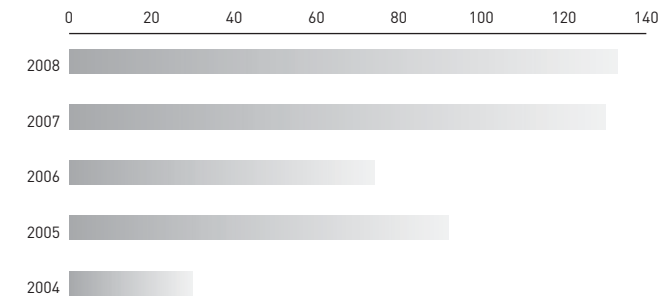
LONG TERM DEBT

A revolving multi-currency credit facility of 600 MNOK was established in March 2007 relating to acquisitions. The mix of currencies in the credit facility has mostly comprised USD and EUR. The debt measured in NOK fluctuates according to exchange rates. These fluctuations are hedged against assets in USD and EUR. This eliminates effects from the credit facility on the Nammo Group's income statement.

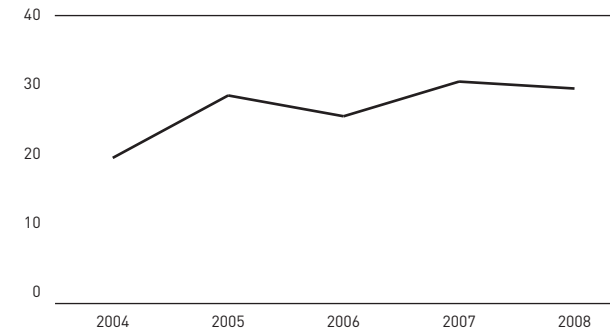
INTEREST RISK

Nammo has an interest risk due to the established credit facility. The risk is mainly on the USD and EUR. The interest fixing periods in the Loan Agreement can be determined by Nammo and have been 1-3 months since March 2007. The gradually reduced interest levels on the USD have been favorable to Nammo since the

DIVIDEND TO SHAREHOLDERS (MNOK)



RETURN ON OWNERS EQUITY - ROE (%)
(After tax and measured on book values)



loan was established. Nammo has a margin of 0,25% on the credit facility which is considered low compared to current 2,00-3,00% market rates.

LIQUIDITY

Nammo generates cash mainly from operational activities. The EBITDA for 2008 at Group level is 528 MNOK. Continued focus on working capital has freed up cash used for reducing the revolving multi-currency credit facility. Free liquidity is in the form of bank deposits in order to maintain low financial risk.

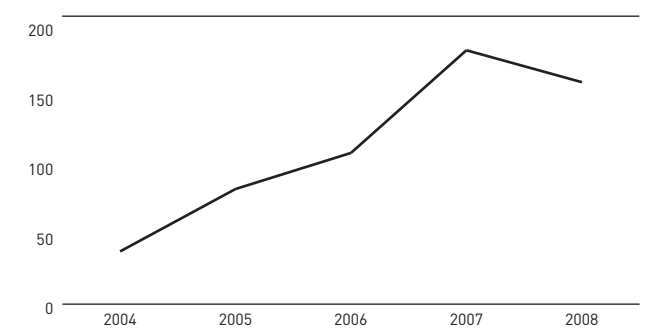
TAXATION

Nammo has a very limited amount of tax loss carry-forwards in the Group. Auditors and the authorities focus on international taxation and therefore the focus in Nammo is on arm's-length principles between internal Nammo companies. In 2008, audit authorities in our operational countries conducted a number of reviews, but the findings from these have not resulted in any changes to the Group's profit and balance sheet in 2008.

INTERNATIONAL

In our international operations we have been focusing on establishing financial low-risk setups where the emphasis is on transparency in ownership and high ethical standards with our industrial partners.

ECONOMICS VALUE ADDED (EVA in MNOK)
(WACC 11% and Tax 28%)



DISSEMINATING FINANCIAL KNOWLEDGE

Internally, we strive to distribute this knowledge at all levels of the organization. Our philosophy is also to imbue personnel outside Nammo's financial organization with a healthy financial understanding.

INFORMATION TECHNOLOGY

IT operations, technical maintenance and application support have been outsourced for large parts of the Nammo Group since 2002, but are placed on competitive tendering each third year. We ran these tendering processes in 2008 for nine different IT services and ended up with replacing vendors for two services. During the year we continued our effort to achieve cost-efficient IT services by centralizing more systems to the headquarters in Norway.

DIRECTORS' REPORT 2008



The Board is pleased to report record results for the Nammo Group in 2008.

GENERAL COMMENTS

Nammo showed a record high turnover of 3 130 MNOK, up 14% from last year, as well as an operating profit of 390 MNOK. These results were achieved thanks to the performance of the company's ammunition divisions and in spite of technical challenges and unexpected delays of new orders in some business areas. In view of the international financial crisis that emerged in the latter part of 2008, it should be noted that Nammo strengthened its overall financial position by generating 528 MNOK in EBITDA, reducing its long-term debt minus cash and cash equivalents from 349 to 262 MNOK and increasing its equity ratio. It is considered that the order backlog will secure a good year also in 2009.

Since its establishment in 1998, Nammo's strategy has been to develop a company with a wide range of ordnance products and services, though focusing on high performance and niche technologies and being a complete provider for the Nordic customers as well as a highly competitive supplier of specialty products to international customers. During those ten years, Nammo has made significant steps in that direction.

Close contact and dialog with demanding customers and the development of high-performance niche products have

enabled Nammo to achieve a leading position within its core business areas as well as maintain an important balance between R&D and ongoing production. This will continue to be key factors for Nammo's success also in the future. A long-term strategy of developing Nammo's position and presence in the international market has gradually generated positive results. We aim to continue this strategy through partnering with national companies in several countries and via acquisitions.

Strategic acquisitions like that of Talley Defense Systems Inc. (today Nammo Talley Inc.) have secured and enhanced Nammo's already well-established position in the US market. Moreover, the acquisition of the M72 Launcher division of the US company NIFMS at the end of 2007, the small and medium caliber cartridge case brass cup supplier, ND PressTec in Germany as well as the latest acquisition of the microelectronic fuze specialist, MTH in Switzerland, have further strengthened Nammo's supply chain in core business areas. As a result, Nammo has become an even stronger, more dedicated and focused supplier of ammunition, missile products and demil services to customers both in the Nordic countries and internationally.

In addition to organic growth and acquisitions, continuous improvement of operations has gradually strengthened Nammo's financial position, thus providing flexibility to develop the company both organically and through further acquisitions according to strategy.

As a developer, manufacturer and supplier of ammunition and missile pro-

ducts to the international market, Nammo is conscious of the ethical issues and the responsibility we have in our business activities. We therefore co-operate closely with the respective national authorities to ensure that we are in full compliance with laws and regulations. We also operate consistently within our own Ethical Code of Conduct. Consistent with the company policy, we reviewed the company's ethical guidelines and established an ethics committee to implement and follow up the guidelines.

The operations of Nammo are to a large extent based on high end technology solution to the best of our customers. These development- and production contracts imply a technical risk in success of delivering the promised technical solution to the customers. This risk is handled on a daily basis in the projects, based on an overall strategy to reduce the project risks.

THE NORDIC PLATFORM

Nammo has its offspring through the Nordic countries, but over the years the Group has grown and today Nammo has operating companies in Norway, Sweden, Finland, Germany, Switzerland and the USA. Nammo's headquarter is situated at Raufoss, Norway.

The defense industry operates in a regulated market and is generally dependent on a domestic, demanding customer as a platform from which to develop. This is the key to new technology and new products, and it creates a production base from which to compete in the international market. For Nammo, the Nordic countries form the domestic base, and although the

Nordic markets share of Nammo's total turnover is declining, it is vital to be a part of those countries' development and future structure and to feature in the plans of their armed forces. The restructuring of the Nordic countries' armed forces is progressing according to separate plans and objectives for each country. Nammo has developed a constructive dialog in relation to our role and interests in this complex and difficult process. However, we have also experienced an increased focus on the Nordic perspective and cooperation among the armed forces of Finland, Norway and Sweden. The Board see this as a potentially positive development, where Nammo could play a key role in future programs and requirements for ammunition and missile products. Nammo believes the armed forces' focus on core activities will gradually require partnering arrangements and create new opportunities for the industry. The Group is in dialog with the armed forces in each of the Nordic countries with the objective of developing a mutually beneficial model for partnering in order to establish "Ammunition Life Cycle Management Services". This process has been implemented separately and with a different focus in each country and is closely followed by Nammo.

The Finnish Defense Forces (FDF) continued to contract their long-term program of particularly large caliber artillery ammunition to the Finnish industry. Nammo co-operates with Patria and Eurengo to fulfill these requirements. The next long-term large-caliber contract between FDF and the Finnish industry

is under evaluation and is expected to be implemented in 2009.

In Sweden and Norway the transition process for the armed forces is progressing with significant impact on the industry. However, as this process has moved forward and a new structure has emerged, the dialog and contracting with the industry has become more focused and entered into a more constructive phase. As a result, new areas of cooperation such as the joint artillery program, Archer, are materializing, in which Nammo will play a central role for the development and production of next generation artillery ammunition.

Nammo's position in the domestic Nordic markets as "the Nordic Ammunition Company" represents a continuous challenge to develop the best competitive solutions together with our authorities, the customers, the Nordic defense industry and international partners.

THE INTERNATIONAL MARKET

The domestic Nordic platform has been, and remains, the key to Nammo's development. However, since Nammo was established in 1998, the domestic Nordic market has decreased from 60% to 33% of Nammo's turnover, whereas the international market has become increasingly important. In order to be politically accepted as a supplier, there is an increased requirement for close co-operation and local presence in international markets. This applies to both small countries supporting their local industry and major countries protecting their domestic industrial base. The

need for Nammo to be operationally present in key markets has therefore increased.

The US has become an important customer for Nammo by taking a leading role in the development and qualification of new technology for integration within their armed forces. New technology and niche products developed by Nammo have continued to be accepted and qualified for use by the US armed forces. Nammo's potential and presence in the US is therefore considered important and will continue to be evaluated with the aim of building a stronger operational presence in the future. The acquisition of Nammo Talley is consistent with this strategy, and work is in progress to develop Nammo Talley as a platform making Nammo a recognized domestic supplier to US customers. In this perspective Nammo Talley seems to perform within the target of the first 3 year strategy plan. In the European defense market, leading national defense industries still predominate in most countries. However, there have been opportunities for Nammo's niche products in co-operation with national suppliers or by direct deliveries, and Europe still remains a key market for Nammo. Nammo has established a wide network of co-operation with both the armed forces and the local industry in the new NATO countries.



Key ammunition projects for new platforms acquired by the Polish armed forces are being successfully developed in co-operation with our Polish partners Mesko, Dezamet and Bumar. This partnership is developing into a long-term relationship and new areas of cooperation are expected to form as the Polish armed forces continue to modernize and develop their equipment.

South East Asian countries have become important markets for Nammo with key contracts awarded and additional potential being developed. The positive results from our efforts so far provide the basis for further follow-up and concentration of our presence in this area. To succeed in these markets, Nammo must focus on cutting-edge technology and niche products. Nammo's position in the majority of international markets has shown an overall positive development, in accordance with its long-term goals and leading to continued growth and positive profit results. The effect of the global financial slowdown remain presently at a moderate level.

OPERATIONS

Operations have shown progress from last year. Operating income increased by 14%, from 2 745 MNOK in 2007 to 3 130 MNOK.

The operating profit ended at 390 MNOK. This is partly the result of accumulated long-term improvement processes and adjustments of the organization to meet actual market demand, and partly the result of success in the market for Nammo's leading technology and high performance niche products that meet customer requirements. Net cash from operating activities in 2008 was 498 MNOK, mainly reflecting strong earnings. Net cash flow from operating activities in 2007 was 110 MNOK. The difference between the two years is mainly due to a material increase in stocks during 2007. Cash flow from investing activities was -152 MNOK mainly explained by investments in fixed assets and purchase of Nammo MTH SA. In 2007 this number was -732 MNOK mainly due to the purchase of Nammo Talley Inc. Cash flow from financing activities was -180 MNOK mainly due to changes in long term debt and paid dividend. Despite a slight decrease in the company order backlog from 3 764 MNOK in 2007 to 3 662 MNOK, the Group can maintain a long-term basis for stable and efficient production. The number of man-years increased from 1 683 in 2007 to 1 786 in 2008, reflecting an organization adjusting to increased turnover. The company sustained its focus on continuous improvements in all aspects of the organization, from operations to management, keeping in mind the importance of having a structured and organized process that includes, and is accepted by, the employees. An important tool in the improvement efforts has been the continued use of "6 Sigma" processes developed

with the AGILE tool adopted from Raytheon through the co-operation on the Evolved Sea Sparrow Missile program. A strong commitment to our HESS program is also included in the improvement process to ensure that health, environment, safety and security aspects are all taken into consideration. The Board is proud to report that Nammo has continued to develop an effective and reliable improvement process for the benefit of the company, both in terms of increased profits and with respect to HESS factors for the benefit of the employees and the local communities.

Nammo is continuously involved in research and development programs, both financed by customers and through Nammo's own operations. These costs are normally recognized in the profit and loss statement.

FINANCE

The 2008 results have further strengthened Nammo's financial position. The equity ratio of the Group was 38% in 2008 compared to 35% in 2007. The liquidity reserves totaled 341 MNOK at the end of 2008. The Board believes Nammo should maintain a strong financial position to be able to grow both organically and through acquisitions in the future.

FINANCIAL RISK

The nature of Nammo's business involves a number of financial risk elements. The customer base is global and currency fluctuations have a major impact on Nammo's financial statements. The Nammo Group has both transaction risk

and translation risk. Transaction risk is reduced through internal risk matching and hedging in the market through financial instruments. Hedging of forecast currency cash flows is carried out continuously and the strategy is to secure calculated earnings on industrial contracts and thereby reduce exposure to fluctuations. Nammo has experienced more volatile currency and interest markets than seen in many years. This has been managed according to the existing strategy, resulting in only minor variations.

The translation risk is the effect on balance sheet items in foreign currencies due to fluctuations. This risk comprises equity in subsidiaries and joint ventures reported in foreign currency. The risk is partly hedged through hedge accounting of assets relating to long term financing. Interest rate volatility is a potential risk area for Nammo. The focus area for 2008 has been to reduce the amount of debt in the revolving credit facility with excess liquidity. Nammo's capital assets are mostly buildings, machinery and property. These assets are depreciated according to Norwegian GAAP.

It is the Board's opinion that the financial risk has remained at an acceptable level during 2008. Credit risk is low since Nammo mostly trades with governments and major defense companies through established, long-term relationships.

THE INTEREST RISK

The interest risk for the Nammo Group has been monitored and continuously evaluated during the year. The long-term credit facility is mostly in USD and EUR.

Both currencies have experienced a decline in interest rates throughout the year. Nammo has taken advantage of the situation by continuing to fix the interest rate for short periods at a time.

The Board foresees no major change in trading pattern and credit risk for 2009. Liquidity risk is considered low for the Group. The Board has assessed the criteria for the going concern assumption according to Norwegian corporate law and confirms that Nammo is well within these criteria.

DISTRIBUTION OF DIVIDEND

The Board proposes to the General Meeting of Shareholders a dividend payment for 2008 of 133 MNOK. The profit in the parent company Nammo AS is distributed as follows:

Dividend	133 000 MNOK
Other equity	63 403 MNOK
Total	196 403 MNOK

The proposed dividend represents 68 % of the Nammo AS profit for the year. In relation to the profit in the Nammo Group the proposed dividend represents 50 %. After the distribution of the profit for 2008 the recognized equity in both Nammo AS and Nammo Group remains strong.

HEALTH, ENVIRONMENT, SAFETY AND SECURITY (HESS)

Policy

Nammo operates in the explosives industry, handling high energetic materials. Our policy therefore is that HESS has priority over all other business objectives and goals.

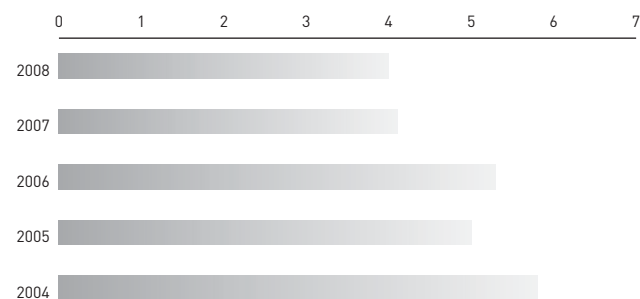
HESS for people working in Nammo is a highly prioritized and important issue and constantly on the management's agenda.

The policy is evaluated every year. All accidents resulting in absence, and serious near accidents, are reported and discussed and preventive action is taken. Monthly reports are sent to all sites for information and actions. The Corporate Management conducted HESS audits at all sites in 2008.

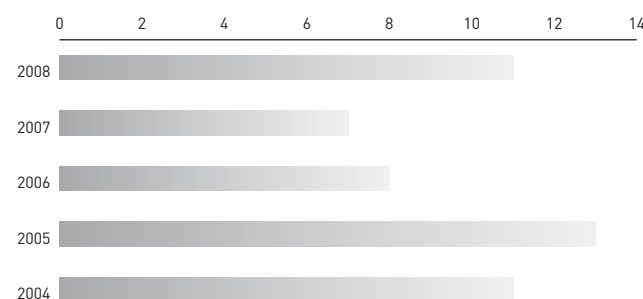
Safety and security

At the annual HESS seminar in Norway, it was discussed common experiences with accidents and incidents. An action plan for 2008-2009 was worked out as a guideline for continuous HESS improvements at all sites. Main topics are: reduced sickness absence, environmental issues, safety and security, improvement of common HESS systems, explosives education/training and transfer of know-how. One of the seminar topics was crises and how to be better prepared to handle them. All sites have plans and are training on different crisis situations. In Norway, regulations for the handling and storage of explosives have been amended to prevent burglary. Security systems for all production and storage areas for explosives have been altered and improved.

SICKNESS ABSENCE IN NAMMO 2004-2008
Sickness absence in %



H-VALUE IN NAMMO 2004-2008
H-value: Number of accidents with absence per million working hours



Education and training

In 2008 the focus has been on proactive work, training and education. Nammo AS is a partner in the EuExcert program for the training and education of operators in the explosives industry. This project is a collaboration among several EU countries. The project started in 2004 and was terminated in 2006. In 2006 a new program was initiated called EuExcert 2, which ended in 2008. The aim of this program is to compile standards for certification of personnel working in the explosives sector in Europe. The program includes a number of new partners from Europe. The aim for Nammo is to build new training and education programs based on the EuExcert standard and to increase the know-how needed to ensure accident reduction.

THE ENVIRONMENT

Nammo's HESS policy requires that all sites be certified according to ISO 14001 or similar environmental standard. Most of the sites have achieved this goal, and the remaining sites and new sites will be certified in the near future. Environmental conditions for personnel exposed to hazardous materials are registered and followed up with preventive medical examinations.

Nammo has carried out a full survey and analyses of potential environmental

liabilities at all operational sites. Based on this review, necessary actions and the owner's responsibility for these liabilities are identified and addressed. A more detailed survey has been conducted and discussed with the authorities and owners. Each site has constant focus on environmental issues such as preventing pollution to water, air and ground and will follow up these issues according to national regulations. Each site reports to its local and state authorities. No new pollution has been detected.

A common effort in the area of energy efficiency, special waste, and water consumption will receive special focus in 2009, with plans and goals for continuous improvement.

HESS RESULTS

Sickness absence in Nammo at the end of 2008 was 4.0% compared to 4.1% in 2007 (graph above). Some of the sites experienced a decrease in sickness absence in 2008, and this is the best result at Nammo ever. This development shows that the management's and unions' focus and follow-up produce results. Various activities including workplace improvement, attention to the environment, protective equipment, physical training etc., have been on the agenda.

There were 37 accidents resulting in absence in 2008, representing an H-value of 11 (number of accidents leading to absence per million working hours), compared to 7 in 2007 (graph above). This is a poorer result than in 2007 and needs continued focus to improve. That gives an F-value of 197, which indicates that the

most frequent types of accidents are minor. Most of the injuries are to fingers and hands as a result of handling materials and machinery. Another type of frequent injuries are those caused by falls due to icy or slippery ground. The Group will continue its preventive work in all areas and maintain particular focus on the attitudes of the employees.

HUMAN RESOURCES

Equal opportunity

Equal opportunity for all employees is a key element of the Human Resources policy. This applies particularly to recruitment, career development, equal pay for equal work, and working conditions. Nammo continues to participate in Female Future, a national Norwegian program aiming to give female employees improved opportunities to take leading positions within the Group. Activities to motivate female university graduates to join our company will continue to be an important endeavor in the future.

We encourage all Nammo subsidiaries to follow this aim in order to make this a company with a wide variety of human resources.

Key figures

Nammo AS is a Group with 1826 employees (1786 man-years) at year end. On average there were 1783 employees (1 744 man-years) in 2008. The employees of Nammo MTH SA were included in the head count in June 2008. A breakdown of the number of employees by country gives the following result: 699 in Norway, 414 in

Sweden, 268 in USA, 208 in Finland, 206 in Germany and 31 in Switzerland.

- Women account for 31,2% of the total employment in the Group.
- Nammo has three female members on the Board of Directors.
- The Corporate Management team has one female participant as of this date.
- The Board of Nammo Raufoss AS has 1/3 female representation.
- Nammo gives equal pay for work of equal value.
- When recruiting, there are equal opportunities for both women and men.
- Women and men have the same working conditions.
- The Nammo Group will continue to enforce the Group's salary policy, which requires equal pay for both women and men employed in the same position.

- Any and all future recruitments will continue to encourage women to apply.
- The total number of employees has increased significantly due to acquisitions and new recruitments.

OUTLOOK FOR THE NAMMO GROUP

Since its creation in 1998, Nammo has developed into a financially sound company with a balanced business activity in the European community and USA, all based on a strong Nordic foundation. A further strengthening of our international position, including a number of international partners and alliances, combined with advanced technologies and niche products, has created a solid base for the company's future development, both organically and by acquisitions. This overall positive development was confirmed and strengthened

in 2008. The order books remained at a good level also during 2008 and are already well covered in most areas, and the outlook is good also for the coming year. Nammo will continue to focus on profitable growth in selected niche markets and the Board foresees a positive development for the Nammo Group in 2009. The growing uncertainty in the global economy has made the operating environment less predictable in the long term.

The Board expresses its appreciation to all employees for their commitment and strong individual efforts, which have made Nammo a successful and even stronger company in 2008.

Garder, April 2, 2009


Jan T. Jørgensen
Vice Chairman


Heikki Altonen
Chairman


Tone M. Lindberg
Board Member


Annika Tanttinen
Board Member


Karl Glad
Board Member


Kai Nurmio
Board Member


Astrid Berg-Ardesjö
Board Member


Einar Linnerud
Board Member


Edgar Fosshem
President & CEO

DIRECTORS' PRESENTATION

The Board of Directors in Nammo AS consist of eight Directors, three from each owner and two Directors representing the employees. The employees also nominate one additional observer so that in total Norway, Sweden and Finland are represented.



HEIKKI ALLONEN
CHAIRMAN



ANNIKA TANTTINEN
BOARD MEMBER



JAN T. JØRGENSEN
VICE CHAIRMAN



EINAR LINNERUD
BOARD MEMBER
EMPLOYEE REPRESENTATIVE,
NORWAY



KARL GLAD
BOARD MEMBER



ASTRID BERG-ARDESJÖ
BOARD MEMBER
EMPLOYEE REPRESENTATIVE,
SWEDEN



PETRI KONTOLA
OBSERVER, FINLAND



KAI NURMIO
BOARD MEMBER

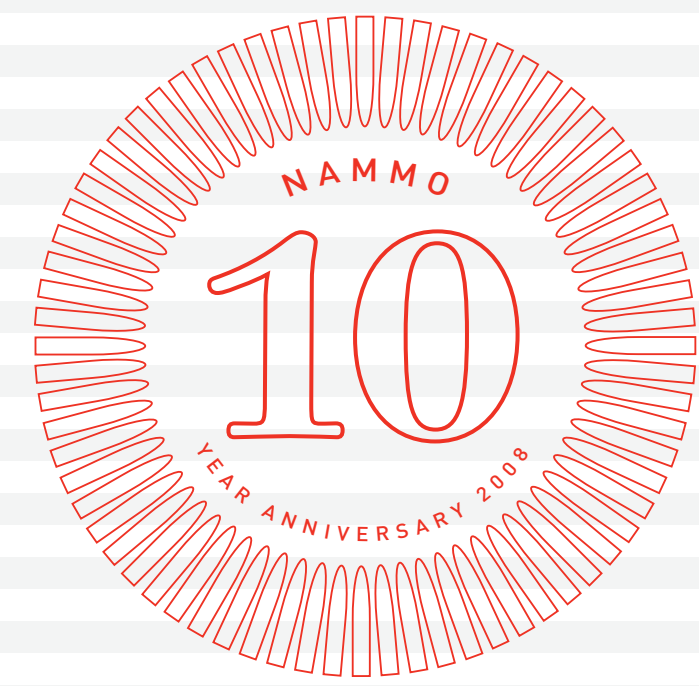


TONE M. LINDBERG
BOARD MEMBER

NAMMO GROUP / NAMMO AS

ANNUAL REPORT

2008



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	27 Income Statement	31 General Principles
	28 Balance Sheet	32 Notes to the Accounts

NAMMO GROUP



INCOME STATEMENT NAMMO GROUP

(Figures in 1000 NOK)

	Notes	2008	2007
OPERATING INCOME	1	3 130 096	2 745 365
OPERATING EXPENSES			
Changes in stock of manufactured goods		(135 018)	(374 990)
Changes in stock of manufactured fixed assets		(701)	(1 059)
Cost of raw materials, purchased components and finished goods		1 338 519	1 436 478
Salaries, wages, vacation pay and professional fees	3, 11	860 245	776 405
Depreciations of fixed assets	6	137 456	131 002
Other operating expenses		539 272	387 647
Total operating expenses		2 739 773	2 355 483
OPERATING PROFIT		390 323	389 882
FINANCIAL INCOME AND EXPENSES			
Share of profit (loss) - Equity method	5	243	602
Interest income		17 719	17 091
Other financial income	4	49 701	12 910
Interest expenses		(35 864)	(46 187)
Other financial expenses	4	(47 049)	(13 350)
Net financial income (expenses)		(15 250)	(28 934)
PROFIT BEFORE TAX AND EXTRAORDINARY ITEMS		375 073	360 948
Taxes on ordinary result	12	(103 441)	(100 434)
PROFIT BEFORE EXTRAORDINARY ITEMS		271 632	260 514
EXTRAORDINARY INCOME AND EXPENSES			
Net extraordinary items		0	0
Minority share		(3 864)	(1 307)
Profit (Loss) for the year		267 768	259 207

BALANCE SHEET

NAMMO GROUP

(Figures in 1000 NOK)

ASSETS	Notes	As of 31.12.08	As of 31.12.07	As of 31.12.06
FIXED ASSETS				
Intangible assets				
Deferred tax asset	12	103 792	65 836	63 047
Other intangible assets	6	402 595	342 462	3 800
Goodwill	6	91 781	81 300	12 599
Total intangible assets		598 168	489 598	79 446
Tangible assets				
Buildings	6	171 291	146 009	110 108
Property	6	16 799	15 440	16 212
Machinery and equipment	6	228 649	173 539	136 052
Fittings, office machines etc.	6	38 473	31 727	18 475
Plant under construction	6	66 741	62 057	54 815
Total tangible assets		521 953	428 772	335 662
Financial assets				
Shares in joint-controlled companies	5	10 257	10 130	9 594
Other shares and participations	5	1 554	9 043	9 040
Other long-term assets	7	10 786	11 251	9 942
Total financial assets		22 597	30 424	28 576
Total fixed assets		1 142 718	948 794	443 684
CURRENT ASSETS				
Inventories				
Raw materials		322 756	327 527	155 969
Work in progress		407 017	282 653	106 853
Finished goods		141 286	125 861	98 230
Total inventory		871 059	736 041	361 052
Receivables				
Prepayments to suppliers		29 773	41 626	29 273
Accounts receivables	8	578 581	584 731	498 613
Other receivables	7	123 346	40 321	29 865
Other financial assets		0	0	10 489
Total receivables		731 700	666 678	568 240
Cash and cash equivalents	9	341 068	175 808	377 223
Total current assets		1 943 827	1 578 527	1 306 515
TOTAL ASSETS		3 086 545	2 527 321	1 750 199

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(Figures in 1000 NOK)

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	As of 31.12.08	As of 31.12.07	As of 31.12.06
EQUITY				
Share capital	10	100 000	100 000	100 000
Premium funds		258 670	258 670	258 670
Other equity	10	812 340	518 285	459 954
Total equity		1 171 010	876 955	818 624
Minority share		14 492	9 099	
LIABILITIES				
Provisions				
Pension engagement	11	125 216	113 583	103 774
Deferred taxes	12	179	0	0
Allocation for restructuring		0	0	20 237
Total provisions		125 395	113 583	124 011
Other long-term liabilities				
Other long-term liabilities	13	603 545	524 986	824
Total other long-term liabilities		603 545	524 986	824
Short-term liabilities				
Allocation for guarantee liability		93 866	82 106	82 476
Advance payments from customers		266 792	234 510	183 488
Accounts payable		248 508	207 771	143 585
Taxes payable	12	57 682	70 048	84 573
Withheld taxes and VAT		132 943	75 727	67 681
Dividend payable to shareholders		133 000	129 600	74 300
Other short-term liabilities		239 312	202 936	170 637
Total short-term liabilities		1 172 103	1 002 698	806 740
Total liabilities		1 901 043	1 641 267	931 575
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		3 086 545	2 527 321	1 750 199

Garder, April 2, 2009


Jan T. Jørgensen
Vice Chairman


Heikki Allonen
Chairman


Tone M. Lindberg
Board Member


Annika Tanttinen
Board Member


Karl Glad
Board Member


Kai Nurmi
Board Member


Astrid Berg-Ardesjö
Board Member


Einar Linnerud
Board Member


Eggar Fosshem
President & CEO

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CASH FLOW NAMMO GROUP

(Figures in 1000 NOK)

	2008	2007	2006
CASH FLOW FROM OPERATIONAL ACTIVITIES			
Result before tax	375 073	360 948	270 178
Tax payments	(135 183)	(99 134)	(29 190)
Profit and loss on sale of fixed assets	(2 299)	8 474	0
Ordinary depreciations	137 456	131 002	62 833
Changes in stock	(135 018)	(374 989)	48 047
Changes regarding debtors	6 150	(86 118)	(252 962)
Changes regarding creditors	11 147	71 743	(12 290)
Changes in other depositions	220 603	97 805	82 761
Net cash flow from operational activities (a)	477 929	109 731	169 377
CASH FLOW FROM INVESTMENTS ACTIVITIES			
Payments received from sales of long-term assets	404	72	107
Purchase of long-term assets	(131 646)	(88 582)	(86 468)
Payments received from sale of other long-term investments	21 532	0	0
Purchase of other long-term investments	(22 485)	(643 513)	0
Net cash flow from investment activities (b)	(132 195)	(732 023)	(86 361)
CASH FLOW FROM FINANCING ACTIVITIES			
Payments received re new long term loans	149 213	660 828	0
Payments received re new short term debt	0	0	1 648
Repayment of short term debt	0	0	(824)
Installments on long-term loans	(185 626)	(147 827)	0
Net payment of interest	(14 461)	(17 824)	5 964
Paid dividend	(129 600)	(74 300)	(92 000)
Net cash flow from financing activities (c)	(180 474)	420 877	(85 212)
Net changes in cash and bank accounts (a+b+c)	165 260	(201 415)	(2 196)
Cash and bank accounts as of 01.01	175 808	377 223	379 419
Cash and bank accounts as of 31.12.	341 068	175 808	377 223

GENERAL PRINCIPLES

Annual Accounts of the Nammo Group

Nammo Group's annual accounts are prepared according to the Norwegian Companies Act and Generally Accepted Accounting Principles in Norway (N GAAP). The Group includes Nammo AS and all those subsidiaries directly owned or controlled by agreement. All receivables and liabilities between the Group companies have been eliminated. The same applies to internal transactions from changes in stock values. The past equity method is applied as a consolidated Group principle for the elimination of shares in subsidiaries. The accounting principles used by the Nammo Group have been applied both in Nammo AS and in all subsidiaries.

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given and liabilities incurred or assumed in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under NRS (F) Konsernregnskap, are recognized at their fair values at the acquisition date. The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and depreciated over the estimated economic life time.

This purchase method implies that the parent company's book value of the shares in the subsidiary is eliminated against the booked equity in the subsidiaries at the time of purchase.

Subsidiaries that are acquired or sold during the year are included or excluded from consolidation when the Group achieves control or ceases to have control.

Shareholding companies, which are jointly controlled with other owners, are entered according to the proportional consolidation method if they have major impact on the group results. Jointly controlled companies with less impact on the group results are included according to the equity method. When the total loss for the Nammo Group for such an investment is higher than the recognised value in the balance sheet, the value is reduced to zero. Additional losses are only recognised if the group through an agreement is obliged to cover the loss.

The foreign subsidiaries' profit and loss accounts are calculated in NOK at the average rates valid during the year, whereas assets and liabilities are calculated at the exchange rate valid at 31.12. Changes arising from recalculation of foreign subsidiaries are entered against the equity capital.

Classification and assessment balance sheet items

Current assets and current debt are items which are deemed to be paid within one year from the

time of the transaction and items as part of the product purchase and sale cycle. Other items are classified as non-current assets and non-current liabilities in the balance sheet.

Current assets are recognized at the lower of the acquisition cost and net realizable value. Current debts are recognized at nominal value at the time of the transaction.

Fixed assets are recognized acquisition cost reduced by depreciation and any impairment effects. Long term debt is recognized at nominal value at the date of the transaction.

Operating income

Revenue is measured at fair value of consideration received or receivable. Revenue is recognized when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliably. The transfer of risk and reward of ownership to the goods must also be considered to have taken place. Normally, the recognition of revenue from sale of goods takes place at the time of delivery unless otherwise documented.

Revenues arising from the sale of services or the execution of development and long-term production contracts are recognized on a percentage of completion basis. The share of revenues related to future rendering of services is booked as deferred income and is recognized as revenues when performed. Losses are charged as an expense when they occur. Value added tax, rebates and bonuses and other related costs are deducted from revenue.

Research and development

Costs incurred for research and development are in general booked as cost on a continuous basis.

Maintenance

Maintenance is mainly booked when costs incur. Updating and replacement of operating equipment are viewed as investment and activated accordingly.

Warranty cost

Generally all warranty costs are booked when possible claims occur. Periodic allocations for warranty cost have been made to meet possible warranty claims in the future. The allocation is based on the nature of our business and long-term experience. The allocation is booked as short-term liabilities in the balance sheet.

Financial instruments

The main principle in the group is to hedge the exchange rate of major transactions. The objective is to secure the calculated margin on contracts and thus eliminate the currency risk.

Tax expenses

Income tax expenses consist of taxes currently payable and changes in deferred tax assets and liabilities. Deferred tax assets and liabilities are based on temporary differences that arise between the book basis and tax basis of assets and liabilities and the expected future tax benefit of tax carry forwards.

Taxes on extraordinary items, if any, are specified according to the Norwegian accounting

standard. The tax effects of equity transactions, both payable and deferred taxes, are recognised directly in equity.

Property and equipment

Property and equipment are entered at the original purchase price minus specific depreciation plans on linear basis. The rates for calculations of linear depreciations are fixed at an evaluation of the economic longevity of the individual asset. For sales of property or equipment, profit/loss is calculated as the difference between the selling price and the asset's booked value. When it is determined that the carrying amount of tangible assets may not be recoverable, any impairment is measured based on discounted projected cash. An impairment loss is recognized to the extent that the carrying amount of an asset exceeds its recoverable amount.

Accounts receivable and credit risk

Accounts receivable are recorded net of an allowance for doubtful accounts, if any.

In Nammo Group only a small part of the total sales is to the civilian market, mainly small caliber ammunition and sea safety products. The major part of the sales is to governmental and major industrial companies and therefore the credit risk is considered and experienced as minimal.

Leasing

Operational leasing is expensed periodically. Buildings leased under normal contracts are treated as operational leasing.

Stocks

Stocks of raw materials are recognized at purchase price and stocks of goods in progress and finished goods are valued at acquisition cost (direct and indirect fixed and variable production costs included). Historic cost is based on the FIFO principle and includes all costs that have incurred to bring the stock to its present condition and location. Net recognized amount is the lower of cost and net realizable value.

Assets and liabilities in foreign currency

Accessible capital in foreign currency is booked at the exchange rate valid at closing date. Secured settlement of receivables and liabilities are entered in the balance at the securancy rates.

Pension commitments/costs

Calculation of pension and pension costs is effected in accordance with accountancy standards for pension costs in each country where such standards apply. The net capitalised value of the Company's pension commitments is entered in the balance as a Long-term Debt entry. The effect of estimate alterations is dispersed over the current average earning period. The deferred tax advantage connected to pension is included under long-term assets in the balance sheet.

Cash flow statement

The cash flow statement is prepared in line with indirect method. Cash and cash equivalents includes cash, bank balances and other short term cash equivalents.

NOTES TO THE ACCOUNTS

1. OPERATIONAL INCOME AND RESULT FOR THE NAMMO GROUP

The Nammo Group consists of subsidiaries in Norway, Sweden, Finland, Germany, Switzerland and the USA.

Turnover from Nammo subsidiaries pr. country	2008
(Figures in 1000 NOK)	
Norway	1 144 538
Sweden	727 914
Finland	458 594
Germany	473 619
Switzerland	824
USA	324 607
Total	3 130 096

Turnover per geographical location of customers	2008
(Figures in 1000 NOK)	
Norway	355 337
Sweden	325 555
Finland	341 936
Germany	269 489
Denmark	54 856
Great Britain	311 231
France	52 335
Netherlands	7 088
Belgium	25 084
Other european countries	317 952
USA	797 200
Canada	98 139
Australia	833
Asia	53 041
Other countries	120 023
Total	3 130 096

2. FINANCIAL MARKET RISK

The Nammo subsidiaries make both sales and purchases in foreign currencies. To reduce the financial risk on currency changes, secured exchange rate instruments are used to hedge substantial contracts in foreign currency with both the customers and the suppliers.

Transactions are recorded at the hedged rates of exchange.

3. SALARIES AND SOCIAL COST

(Figures in 1000 NOK)	2008	2007
Salaries	650 351	559 679
Employment taxes	109 536	95 672
Pension costs	57 375	68 723
Other social costs	42 982	52 332
Total	860 245	776 405

Average number of man years	1 744	1 546
-----------------------------	-------	-------

Remuneration to CEO and Board of Directors

Function	Salary and other remuneration	Pension in excess of collective pension	Prepaid pension	Bonus	Total
Edgar Fosshiem President and CEO	2 637 396	-	1 208 640	827 500	4 673 536
Nammo AS Board Board of directors	1 048 992	-	-	-	1 048 992

Loan to the CEO has a balance of 383 TNOK as of 31.12.08. The loan is due in 6 years and the interest rate is 0,75% p.a. in 2008.

The CEO is included in Nammo AS collective pension scheme, limited to 12G. The prepaid pension in 2008 is the calculated difference between collective pension and 60% of salary at retirement by the age of 63.

Bonus payment is based on an incentive plan for the CEO.

Auditors	2008
Auditors fee for 2008	2 954
Fees for other assurance work, including IFRS	403
Tax advisory services	70
Services related to internal accounting manual	263
Other fees	350
Total	4 040

4. FINANCIAL ITEMS

(Figures in 1000 NOK)	2008	2007
Gain on exchange	49 686	11 243
Other financial income	14	1 667
Total other financial income	49 701	12 910
Exchange costs	(45 733)	(9 663)
Other financial expenses	(1 316)	(3 687)
Total other financial expenses	(47 049)	(13 350)

5. SHARES IN OTHER COMPANIES

Joint controlled companies:	Company's share capital	Number of shares owned	Nominal value	Booked value NOK	Ownership
(Figures in 1000 NOK)					
PB Nammo Demil, Virginia, USA					49 %
Nammo NAD AS, Løkken verk, Norway	NOK 4782	23910	NOK 2391	5 375	50 %
Norabel Ignition Systems AB, Lindsberg, Sweden	SEK 400	2000	SEK 200	4 090	50 %
SN Technologies SA, Meyrin, Switzerland	CHF 200	100	CHF 100	655	50 %
DrawTech Oy, Finland				137	25 %
Total				10 257	

Joint controlled companies: (Figures in 1000 NOK)	Booked value	
	NOK	Ownership
Other shares and participations		
Raufoss Technology & Industrial Management, Raufoss, Norway	1 302	14 %
Raufoss Næringspark AS, Raufoss, Norway	28	7 %
Others	224	
Total	1 554	

Recorded value for jointly-controlled companies are included as Nammo's relative share of the profit/loss in the company in accordance with the proportional consolidation method for companies with substantial impact on the groups accounts. Companies with less impact on the groups accounts are included according to the equity-method.

6. FIXED AND INTANGIBLE ASSETS

(Figures in 1000 NOK)	Other intangible assets		Buildings	Other fixed assets		Fittings and office equipment	Plant under construction	Total
	Goodwill			Machinery				
Acquisition cost as of 01.01.08	499 243	132 806	293 404	17 332	850 299	122 446	63 446	1 978 976
Additions during the year	818	19 803	30 370	10	89 376	11 128	3 295	154 800
Disposal's during the year	-	-	666	543	13 481	4 470	-	19 160
Acquisition cost as of 31.12.08	500 061	152 609	323 108	16 799	926 194	129 104	66 741	2 114 616
Accumulated depreciations	97 466	60 828	151 817	-	697 545	90 631	-	1 098 287
Balance value as of 31.12.08	402 595	91 781	171 291	16 799	228 649	38 473	66 741	1 016 329
Ordinary depreciations for the year	31 923	26 307	23 303	0	47 739	8 184	0	137 456
Annual leasing cost on assets not in the balance sheet	0	0	32 386	0	0	0	0	32 386
Economic life time (years)	1 - 20	5	10 - 30	7 -->	5 - 10	3 - 10		
Depreciation plan	linear	linear	linear	linear	linear	linear		

7. OTHER RECEIVABLES (LONG AND SHORT TERM)

These items include receivables regarding employees, prepayments and accruals.

8. RECEIVABLES AND LOSSES ON BAD DEBTS

(Figures in 1000 NOK)	2008	2007
Accounts receivable	579 332	584 968
Provision for bad debt	751	237
Book value of accounts receivables	578 581	584 731

After an evaluation of the accounts receivable, the above provision is considered to be adequate to meet potential future losses on bad debts as of 31.12.2008

9. CASH RESERVE

(Figures in 1000 NOK)	2008	2007
Cash and cash equivalents	341 068	175 808
Unused credit facility	31 742	75 014
Net Cash reserve	372 810	250 822

Nammo AS has established an international cash pool along with Nammo Raufoss AS, Nammo Bakelittfabrikken AS, Nammo Sweden AB, Nammo Liab AB, Vanäsverken AB, Nammo Vingåkersverken AB, Hansson Pyrotech AB, Nammo Lapua Oy, Lapua GmbH, Nammo Buck GmbH, Nammo Inc, Nammo Demil Division AB and Nammo Talley Inc.

10. EQUITY - ALTERATIONS TO EQUITY

(Figures in 1000 NOK)	Share capital	Funds	Net result	Dividend 2)	Total
Equity as of 01.01.2008	100 000	776 955	0	0	876 955
Net result	0	0	267 768	0	267 768
Application of net result	0	134 768	(267 768)	133 000	(133 000)
Transferred direct to equity 1)	0	159 287	0	0	159 287
Equity as of 31.12.2008	100 000	1 071 010	0	133 000	1 171 010

1) Exchange rate adjustments from translation of foreign subsidiaries, bookings regarding previous years and consolidation corrections.

2) Board of Directors proposal for the General Assembly

11. PENSION COMMITMENTS - PENSION COSTS

The companies with pension arrangements, which provide the employees with the right to determined future pension payments, are included in the pension commitment calculations (defined benefit plan).

Net pension cost is included in salaries, wages, vacation pay and professional fees.

Net pension commitments as at the end of the year amounted to 125,2 MNOK.

The pension liabilities in the balance sheet are from the companies in Norway, Sweden and Germany.

In other countries the pension liabilities are covered by insurance according to local practice.

Pension cost	2008	2007
(Figures in 1000 NOK)		
Service costs	27 503	26 400
Amortization of net actuarial losses (gains)	6 386	19 112
Interest costs	12 583	10 887
Expected return on plan assets	(8 648)	(7 926)
Pension cost related to defined contribution plans	19 550	20 250
Net pension costs	57 375	68 723

Pension commitments		
(Figures in 1000 NOK)	2008	2007
Defined benefit obligation incl. payroll tax	351 374	347 413
- Fair value of plan assets	154 151	144 957
Net pension obligation	197 223	202 456
Items not recorded under the result		
Unrecognized net actuarial loss (gain)	(72 007)	(88 873)
Net amount recognized in the balance sheet	125 216	113 583

12. TAX CALCULATIONS

12.1 This years tax cost

(Figures in 1000 NOK)	2008
Tax payable	125 543
Changes in temporary differences	(22 102)
This years tax cost	103 441

Payable taxes refers to European companies.

Tax payable in the balance sheet is reduced by prepaid taxes. Net amount recognized is 57,7 MNOK.

12.2 Calculation of deferred tax/deferred tax asset

The deferred tax liabilities/tax asset has been calculated on the basis of the temporary differences existing at the end of the accounting year between accounting values and taxation values. The specification below shows the temporary differences and the calculation of the deferred tax liabilities/tax advantage as at the end of the accounting year.

12.3 Deferred tax liability (- deferred tax asset)

	2008	2007
Differences in:		
Stock-in-trade	3 885	30 740
Guarantee allocations	(85 623)	(73 794)
Allocations pursuant to generally accepted accounting principles	(6 037)	(236)
Total short-term items	(87 775)	(43 290)
Fixed assets	(29 724)	(15 983)
Total long-term items	(29 724)	(15 983)
Tax losses carried forward	(140 010)	(81 168)
Adjustments for consolidation items	(24 385)	930
Basis for calculation of deferred tax liabilities	(281 894)	(139 512)
Deferred tax liability (-deferred tax asset)	(91 134)	(53 749)
Classified as deferred tax asset	91 313	53 749
Deferred tax liability in the balance sheet	179	(0)

12.4 Deferred tax asset

Pursuant to the accounting standard for the calculation of taxes, any future realisable deferred tax assets shall, as rule, be off-set against deferred tax liabilities. Deferred tax asset related to pensions can not be off-set and are consequently entered in the balance sheet.

Deferred tax asset regarding the restructuring in the companies outside Norway are recorded as assets due to the fact that taxes can not be eliminated between the countries.

(Figures in 1000 NOK)	2008	2007
Allocation according to international accounting standards	-	-
Pension commitments	44 685	43 166
Basis for calculation of deferred tax assets	44 685	43 166
Deferred tax asset	12 479	12 086
Deferred tax asset from other items (ref. 12.3)	91 313	53 749
Deferred tax asset in the balance sheet	103 792	65 836

13. INTEREST BEARING LOANS AND GUARANTEES

	2008	2007
Mortgage loan	35 287	39 473
Loan from credit institutions	568 258	485 513
Total interest bearing loans	603 545	524 986

Loan from credit institutions is mainly a credit facility of 600 MNOK. The facility is reduced by 75 MNOK annually after the first 2 years and will terminate at the end of March 2014. Inventory in ND PressTec GmbH is used as collateral for the mortgage loan.

The book value of the inventory is 38,9 MNOK.

Guarantees not in the balance sheet as of 31.12.2008 are 171 MNOK.

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	40 Balance Sheet	48 Auditors Report
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NAMMO AS



INCOME STATEMENT NAMMO AS

(Figures in 1000 NOK)

	Notes	2008	2007
OPERATING INCOME		42 155	53 659
OPERATING EXPENSES			
Salaries, wages, vacation pay and professional fees	1	22 160	14 880
Ordinary depreciation	3	331	260
Other operating expenses		38 578	26 783
Total operating expenses		61 069	41 923
OPERATING PROFIT		(18 914)	11 736
FINANCIAL INCOME AND EXPENSES			
Received concern contribution		100 000	90 000
Interest received	2	26 869	29 239
Other financial income	2	150 789	33 522
Interest paid	2	(28 442)	(26 466)
Other financial expenses	2	(2 383)	(23 847)
Net financial income (expenses)		246 833	102 448
PROFIT BEFORE TAX AND EXTRAORDINARY ITEMS		227 919	114 184
Taxes on ordinary result	10	(31 516)	(23 012)
Profit (Loss) for the year		196 403	91 172
The Board's proposal for allocation of the profit for the year			
Dividend		133 000	129 600
Other equity		63 403	(38 428)
Total		196 403	91 172

BALANCE SHEET

NAMMO AS

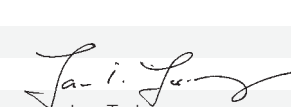
(Figures in 1000 NOK)

	Notes	As of 31.12.08	As of 31.12.07	As of 31.12.06
ASSETS				
FIXED ASSETS				
Intangible assets				
Deferred tax asset	10	2 211	1 627	1 565
Total intangible assets		2 211	1 627	1 565
Tangible assets				
Fittings, office machines etc.	3	648	979	0
Plant under construction	3	2 309	0	
Total tangible assets		2 957	979	0
Financial assets				
Shares in group companies	4	587 195	587 191	347 249
Other shares and participations	4	4 033	4 033	4 033
Loans to group companies		489 274	369 167	69 438
Other long-term assets	4	3 346	3 525	3 245
Total financial assets		1 083 848	963 916	423 965
Total fixed assets		1 089 016	966 522	425 530
CURRENT ASSETS				
Receivables				
Accounts receivable	5	8 753	14 824	48
Receivables from group companies		110 964	95 676	86 520
Receivables related to concern contributions		100 000	90 000	19 613
Other receivables		2 178	3 270	2 869
Other financial instruments		0	0	10 489
Total receivables		221 895	203 770	119 539
Cash and cash equivalents	6	290 437	98 202	303 609
Total current assets		512 332	301 972	423 148
TOTAL ASSETS		1 601 348	1 268 494	848 678

(Figures in 1000 NOK)

	Notes	As of 31.12.08	As of 31.12.07	As of 31.12.06
SHAREHOLDERS' EQUITY AND LIABILITIES				
EQUITY				
Share capital	7, 8	100 000	100 000	100 000
Premium funds	8	258 670	258 670	258 670
Total invested equity		358 670	358 670	358 670
Other equity	8	71 205	7 802	46 230
Total earned equity		71 205	7 802	46 230
Total equity		429 875	366 472	404 900
LIABILITIES				
Provisions				
Pension liability	9	7 750	5 811	5 591
Deferred taxes	10	0	3	0
Total provisions		7 750	5 814	5 591
Other long-term liabilities				
Other long-term liabilities	11	568 258	485 513	0
Total other long-term liabilities		568 258	485 513	0
Short-term liabilities				
Prepayments from customers		49 023	22 104	14 230
Accounts payable		4 034	6 383	7 525
Payables to Group companies		369 884	222 389	336 075
Taxes payable	10	32 096	23 070	0
Withheld taxes, VAT and salaries		2 391	2 326	1 997
Dividend payable to shareholders		133 000	129 600	74 300
Other short-term liabilities		5 037	4 823	4 060
Total short-term liabilities		595 465	410 695	438 187
Total liabilities		1 171 473	902 022	443 778
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES		1 601 348	1 268 494	848 678

Garder, April 2, 2009


Jan T. Jørgensen
Vice Chairman


Heikki Allonen
Chairman


Tone M. Lindberg
Board Member

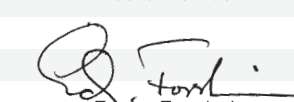

Annika Tanttinen
Board Member


Karl Glad
Board Member


Kai Nurmi
Board Member


Astrid Berg-Ardesjö
Board Member


Einar Linnerud
Board Member


Eggar Fosshem
President & CEO

CASH FLOW NAMMO AS

(Figures in 1000 NOK)

	2008	2007	2006
CASH FLOW FROM OPERATIONAL ACTIVITIES			
Result before tax and group contribution	127 919	24 184	93 462
Tax payments	(23 070)	0	(15 485)
Ordinary depreciation	331	260	0
Changes in accounts receivable	(5 670)	(23 932)	(38 094)
Changes regarding creditors	(2 349)	(1 142)	7 166
Pension cost less paid pension premium	1 955	223	1 722
Changes in loans to group and joint control companies	(9 659)	(299 749)	20 182
Changes in other depositions	205 837	(112 241)	53 608
Net cash flow from operational activities (a)	295 294	(412 397)	122 561
CASH FLOW FROM INVESTMENT ACTIVITIES			
Investments in tangible assets	(2 309)	(1 239)	0
Investments in other assets	0	(239 942)	0
Net cash flow from investment activities (b)	(2 309)	(241 181)	0
CASH FLOW FROM FINANCING ACTIVITIES			
Payments from new bank loans	149 213	660 828	0
Installments on long-term loans	(183 081)	(144 754)	0
Net payment of interest	(27 282)	(13 216)	3 954
Received concern contribution	90 000	19 613	90 000
Paid dividend	(129 600)	(74 300)	(92 000)
Net cash flow from financing activities (c)	(100 750)	448 171	1 954
Net changes in cash and bank accounts (a+b+c)	192 235	(205 407)	124 515
Cash and bank accounts as of 01.01	98 202	303 609	179 094
Cash and bank accounts as of 31.12.	290 437	98 202	303 609

Unused part of credit facility is 31,7 MNOK . See note 11.

GENERAL PRINCIPLES

Annual Accounts of the Nammo Group

Nammo Group's annual accounts are prepared according to the Norwegian Companies Act and Generally Accepted Accounting Principles in Norway (N GAAP). The Group includes Nammo AS and all those subsidiaries directly owned or controlled by agreement. All receivables and liabilities between the Group companies have been eliminated. The same applies to internal transactions from changes in stock values. The past equity method is applied as a consolidated Group principle for the elimination of shares in subsidiaries. The accounting principles used by the Nammo Group have been applied both in Nammo AS and in all subsidiaries.

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given and liabilities incurred or assumed in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under NRS (F) Konsernregnskap, are recognized at their fair values at the acquisition date. The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and depreciated over the estimated economic life time.

This purchase method implies that the parent company's book value of the shares in the subsidiary is eliminated against the booked equity in the subsidiaries at the time of purchase.

Subsidiaries that are acquired or sold during the year are included or excluded from consolidation when the Group achieves control or ceases to have control.

Shareholding companies, which are jointly controlled with other owners, are entered according to the proportional consolidation method if they have major impact on the group results. Jointly controlled companies with less impact on the group results are included according to the equity method. When the total loss for the Nammo Group for such an investment is higher than the recognised value in the balance sheet, the value is reduced to zero. Additional losses are only recognised if the group through an agreement is obliged to cover the loss.

The foreign subsidiaries' profit and loss accounts are calculated in NOK at the average rates valid during the year, whereas assets and liabilities are calculated at the exchange rate valid at 31.12. Changes arising from recalculation of foreign subsidiaries are entered against the equity capital.

Classification and assessment balance sheet items

Current assets and current debt are items which are deemed to be paid within one year from the

time of the transaction and items as part of the product purchase and sale cycle. Other items are classified as non-current assets and non-current liabilities in the balance sheet.

Current assets are recognized at the lower of the acquisition cost and net realizable value. Current debts are recognized at nominal value at the time of the transaction.

Fixed assets are recognized acquisition cost reduced by depreciation and any impairment effects. Long term debt is recognized at nominal value at the date of the transaction.

Operating income

Revenue is measured at fair value of consideration received or receivable. Revenue is recognized when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliably. The transfer of risk and reward of ownership to the goods must also be considered to have taken place. Normally, the recognition of revenue from sale of goods takes place at the time of delivery unless otherwise documented.

Revenues arising from the sale of services or the execution of development and long-term production contracts are recognized on a percentage of completion basis. The share of revenues related to future rendering of services is booked as deferred income and is recognized as revenues when performed. Losses are charged as an expense when they occur. Value added tax, rebates and bonuses and other related costs are deducted from revenue.

Research and development

Costs incurred for research and development are in general booked as cost on a continuous basis.

Maintenance

Maintenance is mainly booked when costs incur. Updating and replacement of operating equipment are viewed as investment and activated accordingly.

Warranty cost

Generally all warranty costs are booked when possible claims occur. Periodic allocations for warranty cost have been made to meet possible warranty claims in the future. The allocation is based on the nature of our business and long-term experience. The allocation is booked as short-term liabilities in the balance sheet.

Financial instruments

The main principle in the group is to hedge the exchange rate of major transactions. The objective is to secure the calculated margin on contracts and thus eliminate the currency risk.

Tax expenses

Income tax expenses consist of taxes currently payable and changes in deferred tax assets and liabilities. Deferred tax assets and liabilities are based on temporary differences that arise between the book basis and tax basis of assets and liabilities and the expected future tax benefit of tax carry forwards.

Taxes on extraordinary items, if any, are specified according to the Norwegian accounting

standard. The tax effects of equity transactions, both payable and deferred taxes, are recognised directly in equity.

Property and equipment

Property and equipment are entered at the original purchase price minus specific depreciation plans on linear basis. The rates for calculations of linear depreciations are fixed at an evaluation of the economic longevity of the individual asset. For sales of property or equipment, profit/loss is calculated as the difference between the selling price and the asset's booked value. When it is determined that the carrying amount of tangible assets may not be recoverable, any impairment is measured based on discounted projected cash. An impairment loss is recognized to the extent that the carrying amount of an asset exceeds its recoverable amount.

Accounts receivable and credit risk

Accounts receivable are recorded net of an allowance for doubtful accounts, if any.

In Nammo Group only a small part of the total sales is to the civilian market, mainly small caliber ammunition and sea safety products. The major part of the sales is to governmental and major industrial companies and therefore the credit risk is considered and experienced as minimal.

Leasing

Operational leasing is expensed periodically. Buildings leased under normal contracts are treated as operational leasing.

Stocks

Stocks of raw materials are recognized at purchase price and stocks of goods in progress and finished goods are valued at acquisition cost (direct and indirect fixed and variable production costs included). Historic cost is based on the FIFO principle and includes all costs that have incurred to bring the stock to its present condition and location. Net recognized amount is the lower of cost and net realizable value.

Assets and liabilities in foreign currency

Accessible capital in foreign currency is booked at the exchange rate valid at closing date. Secured settlement of receivables and liabilities are entered in the balance at the securancy rates.

Pension commitments/costs

Calculation of pension and pension costs is effected in accordance with accountancy standards for pension costs in each country where such standards apply. The net capitalised value of the Company's pension commitments is entered in the balance as a Long-term Debt entry. The effect of estimate alterations is dispersed over the current average earning period. The deferred tax advantage connected to pension is included under long-term assets in the balance sheet.

Cash flow statement

The cash flow statement is prepared in line with indirect method. Cash and cash equivalents includes cash, bank balances and other short term cash equivalents.

NOTES TO THE ACCOUNTS

1. SALARIES AND SOCIAL COST

(Figures in 1000 NOK)	2008	2007
Salaries	15 838	9 328
Employment taxes	2 137	1 724
Pension costs	3 265	1 364
Other social costs	920	2 464
Total	22 160	14 880
Average number of man years	11	10
Auditor		2008
Auditors fee for 2008		314
Fees for other attestation services		403
Services related to internal accounting manual		263
Total		980

2. FINANCIAL ITEMS

(Figures in 1000 NOK)	2008	2007
Interest income from Group companies	26 852	26 115
Other interest income	17	3 124
Total interest income	26 869	29 239
Gain on exchange	32 194	0
Dividend from Group companies	118 595	33 156
Other financial income	0	366
Total other financial income	150 789	33 522
Other interest cost	(28 442)	(26 466)
Total interest cost	(28 442)	(26 466)
Exchange costs	(2 263)	(23 213)
Other financial expenses	(120)	(634)
Total other financial expenses	(2 383)	(23 847)

3. FIXED AND INTANGIBLE ASSETS

(Figures in 1000 NOK)	Fittings and Assets under		
	Buildings	office equipment	construction
Acquisition cost as of 01.01.08	0	1 239	0
Additions during the year	0	0	2 309
Disposal's during the year	0	0	0
Acquisition cost as of 31.12.08	0	1 239	2 309
Accumulated depreciations	0	591	0
Balance value as of 31.12.08	0	648	2 309
Ordinary depreciations for the year	0	331	0
Annual leasing cost on assets not in the balance sheet (buildings)	240	0	0
Economic life time (years)			3 - 10
Depreciation plan			linear

4. NAMMO AS SHARES IN OTHER COMPANIES

(Figures in 1000 NOK)	Company's share capital	Number of shares owned	Nominal value	Booked Value NOK	Ownership
Group companies:					
Nammo Raufoss AS, Raufoss	NOK 150000	150 000	150 000	175 000	100%
Nammo Sweden AB, Lindesberg	SEK 10000	100 000	10 000	59 961	100%
Nammo Lapua OY, Lapua	EUR 4793	285 000	0	105 006	100%
Nammo Buck GmbH, Pinnow	EUR 26	1	26	7 246	100%
Nammo Incorporated, Virginia	USD 38380	0	0	239 982	100%
Total		0	0	587 195	0
Other shares and participations:					
Nammo NAD AS, Løkken Verk	NOK 4782	23 910	2 391	3 938	50 %
Toten Golf AS, Reinsvoll				95	
Total				4 033	
				2008	2007
Loans to associated companies				0	300

Loans to associated companies are included in Other long-term assets.

5. ACCOUNTS RECEIVABLE

(Figures in 1000 NOK)	Accounts Receivable	8 753
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Accounts receivable are booked at face value. There have been no loss on accounts receivable in 2008.

6. CASH RESERVE

This amount includes bank balances of Group companies that participate in the international cash pool by 365,8 MNOK. See note 12.

7. SHARE CAPITAL

As of 31.12.08 Nammo AS' share capital is 100 MNOK, split on 1.000.000 shares of 100 NOK each.

7.1 Nammo AS' shareholders as of 31.12.2008:

	Number of shareholders	Number of shares	
The Norwegian State, represented by The Ministry of Trade and Industry		500 000	50 %
Patria Oyj, Finland		500 000	50 %
Total	2	1 000 000	100,0 %

8. EQUITY - ALTERATIONS TO EQUITY

	Share capital	Other paid in capital	Other equity	Net result	Total
(Figures in 1000 NOK)					
Equity as of 01.01.2008	100 000	258 670	7 802	0	366 472
Net result	0	0	0	196 403	196 403
Application of the net result *	0	0	196 403	(196 403)	0
Dividend *)			(133 000)		(133 000)
Equity as of 31.12.2008	100 000	258 670	71 205	0	429 875

*) Board of Directors proposal for the General Meeting

9. PENSION COMMITMENTS - PENSION COSTS

Accounting principles for calculation of pension commitments are in accordance with Norwegian accounting standards. Nammo AS have established a collective pension plan according to the Norwegian tax law for all employees. The plan includes 11 active members.

In the calculation of the liability the company's membership in the LO/NHO AFP-system is taken into consideration. The inclination to use AFP is calculated at 50%. For the pension benefit for the period 62 - 67 years of age, the agreed pension level is used.

The net pension cost for the year is based on actuarial calculations of this years earning of pension rights and is included in salaries and social cost.

The actuarial calculation is done in December 2008.

The following parameters are the basis for the calculation for 2008:

Yield from pension funds	5,80 %
Interest rate used to discount future cash flows	5,50 %
Annual salary increase	4,00 %
Annual increase in G	3,75 %
Annual change in pension	2,75 %

Deferred tax asset is 2,2 MNOK.

Pension cost	2008	2007
(Figures in 1000 NOK)		
Service costs	1 179	1 093
Amortization of net actuarial losses (gains)	1 875	142
Interest costs	474	359
Expected return on plan assets	(263)	(230)
Net pension costs	3 265	1 364

Pension commitments	2008	2007
(Figures in 1000 NOK)		
Defined benefit obligation incl. payroll tax	12 674	10 051
- Fair value of plan assets	4 924	4 249
Net pension obligation	7 750	5 802
Items not recorded under the result		
Unrecognized net actuarial loss (gain)	0	9
Net amount recognized in the balance sheet	7 750	5 811

10. TAX

10.1 This years tax cost

The differences between the net income before tax and the basis for the tax calculation is specified below.

(Figures in 1000 NOK)	2008	2007
Net income before tax	227 919	114 184
Permanent differences	(115 361)	(31 998)
Changes in temporary differences	2 072	207
Basis for the tax calculation	114 630	82 393
Tax payable	32 096	23 070
Changes in temporary differences	(580)	(58)
This years tax cost	31 516	23 012

10.2 Deferred taxes

The deferred tax liabilities/tax assets has been calculated on the basis of the temporary differences existing at the end of the accounting year between accounting values and taxation values. The specification below shows the temporary differences and the calculation of the deferred tax liabilities/tax advantage as at the end of the accounting year.

Deferred tax calculation

(Figures in 1000 NOK)	31.12.08	31.12.07
Fixed assets	(146)	12
Deferred tax in the balance sheet at 28%	(41)	3

10.3 Deferred tax asset

According to Norwegian GAAP for tax accounting, future realizable tax asset shall generally be offset against deferred tax liabilities.

Deferred tax related to pension liability is according to present practice not offset and is shown in the balance sheet as a deferred tax advantage.

	31.12.08	31.12.07
Pension liability	7 750	5 811
Deferred tax asset (28%)	2 170	1 627
Deferred tax asset, ref 10.2	41	0
Deferred tax asset in the balance sheet	2 211	1 627

11. INTEREST BEARING LOANS AND GUARANTEES

	2008	2007
Loans from banks	568 258	485 513

Loan from bank consist of a credit facility of 600 MNOK. The facility is reduced by 75 MNOK annually after the first 2 years and terminate at the end of March 2014. Guarantees not in the balance sheet as of 31.12.2008 are 165,4 MNOK.

12. CREDIT FACILITY

Nammo AS has established an international cash pool along with Nammo Raufoss AS, Nammo Bakelittfabrikken AS, Nammo Sweden AB, Nammo Liab AB, Vanäsverken AB, Nammo Vingåkersverken AB, Hansson Pyrotech AB, Nammo Lapua Oy, Lapua GmbH, Nammo Buck GmbH, Nammo Inc, Nammo Demil Division AB and Nammo Talley Inc.

Nammo as subsidiaries' balance on the overdraft facility is included in payables to Group companies.

This amounts to 365,8 MNOK. See note 6

AUDITORS REPORT FOR 2008



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Torggata 22
N-2302 Hamar

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Fax +47 62 59 87 60
Internet www.kpmg.no
Enterprise 935 174 627MVA

To the Annual Shareholders' Meeting of Nammo AS

AUDITOR'S REPORT FOR 2008

Respective Responsibilities of Directors and Auditors

We have audited the annual financial statements of Nammo AS as of 31 December 2008, showing a profit of NOK 196.403.000 for the parent company and a profit of NOK 267.768.000 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 2008, the results of its operations and its 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.

Hamar, April 2, 2009
KPMG AS

Arne Frogner
State Authorized Public Accountant

Thore Kleppen
State Authorized Public Accountant

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

Offices in:
Oslo
Bodo
Ales
Bremser
Bergen
Eivindrud
Finnmark
Horten
Grimstad
Haugesund
Kristiansand
Larvik
Lillesand
Molde
Molde
Harvik
Rana
Sandnessjøen
Steinengen
Stord
Tromsø
Trondheim
Tvedestrand
Ålesund

KPMG AS is a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.
Statautoriserte revisorer - medlemmer av Den norske Revisorforening

GROUP MANAGEMENT PRESENTATION

The Nammo Group has its head office in Raufoss, Norway and operational units in Finland, Germany, Norway, Sweden, Switzerland and USA.

EDGAR FOSSHEIM
PRESIDENT & CEO



JOHS NORHEIM
SENIOR VICE PRESIDENT
BUSINESS DEVELOPMENT



SISSEL SOLUM
VICE PRESIDENT
COMMUNICATION



STEVE WEGENER
PRESIDENT NAMMO TALLEY INC.



MØRTEEN BRANDTZÆG
SENIOR VICE PRESIDENT
FINANCE & CFO
FROM 01.02.09
EXEC. VICE PRESIDENT MISSILE
PRODUCTS DIVISION



KJELL I. KRINGSJÅ
EXEC. VICE PRESIDENT MEDIUM
& LARGE CALIBER DIVISION



REIJO BRAGBERG
EXEC. VICE PRESIDENT
DEMIL DIVISION



BERTIL PÅLSRUD
SENIOR VICE PRESIDENT
HUMAN RESOURCES



RAIMO HELASMÄKI
EXEC. VICE PRESIDENT
SMALL CALIBER DIVISION



PETER LERCHE RAADAL
FROM 01.02.09
SENIOR VICE PRESIDENT
FINANCE & CFO



OLA SKRIVERVIK
EXEC. VICE PRESIDENT
MISSILE PRODUCTS DIVISION
FROM 01.02.09: SENIOR VICE
PRESIDENT BUSINESS
DEVELOPMENT



A. ERLAND PAUSRUD
VICE PRESIDENT BUSINESS DEVELOPMENT
& PRESIDENT NAMMO RAUFLOSS AS

CORPORATE GOVERNANCE

In Nammo, corporate governance is regarded as a key factor to sustainable business in all areas of our operations. It governs the creation of value, promotes ethical values, builds respect and drives performance by our employees. Nammo's governance structure is based on Norwegian Corporate Law (Aksjeloven) and the laws in the countries where we are established.

GENERAL MEETING

The annual General Meeting is normally held in the 2nd quarter of each year. Nammo AS is owned by Patria Oyj and The Norwegian State represented by The Norwegian Ministry of Trade and Industry. The Shareholders Agreement outlines the number of representatives of each of the owners and the guidelines for election of the Chairman of the Board.

The annual General Meeting approves the annual result, stipulates the dividend to the owners, decides the remuneration for the CEO and elects the external auditor in addition to mandatory issues covered by Norwegian law.

BOARD OF DIRECTORS

The Board of Directors in Nammo AS shall, according to the Shareholders Agreement, consist of 6 to 8 Directors, three from each owner and two Directors representing the employees. The employees may also nominate one additional observer so that in total Norway, Sweden and Finland are represented. The Chairman of the Board alternates yearly between the two owners. The Board of Directors meets regularly with a minimum of four times per year.

PRESIDENT AND CEO

The President and CEO constitute a formal corporate body according to Norwegian Corporate Law (Aksjeloven). The CEO is responsible for day-to-day management of the Group. The CEO's responsibility and financial commitment are outlined in the Shareholders Agreement.

The CEO governs the operation through internally established Directives, Policies and Management Meetings. These are dynamic instruments for the CEO and are continuously maintained according to the operational environment.

MANAGEMENT MEETINGS AND BUSINESS REVIEWS

Management Meetings are held on a regular basis and are called for by the CEO. The Executive Vice presidents and Senior Vice presidents participate regularly and other members of staff are called for when needed. The focus in Management Meetings is on monitoring of the operations and Key Performance Indicators (KPI), identifying opportunities according to current plans and initiatives, and to follow up HESS indicators and development of employment. The Business Reviews are conducted by individual divisions and are held regularly to verify development relative to budgets, planned targets and opportunities within each business area.

The Small Caliber Division (SCD) continued its growth in sales and operating profit. It increased productivity and focused on cost levels. Thanks to the customers and personnel, the objectives were achieved!

ACHIEVEMENTS IN 2008

2008 was a successful year, again the best ever for SCD. Total organic sales growth was 8% with good operating profit margins. The most important growth was in sales to the domestic market – the Norwegian, Swedish and Finnish Defense Forces – and to the civilian centerfire and rimfire markets.

CUSTOMER IN FOCUS

Customer satisfaction and feedback are the prime motivators, not to forget the innovative resources. The most important thing is to listen to the customers and the goal is to improve the relations at all levels.

THE CHALLENGE CONTINUES – PROFITABLE GROWTH

The market continues to act more stable. To maintain and secure the positive development and excellent customer relations, SCD invested resources and expertise in improvement programs for quality, logistics, internal development and organizational learning using Balanced Scorecard. With focus on costs in all areas and on operational effectiveness, the goal is in sight – profitable growth.

SMALL CALIBER DIVISION

OUTLOOK FOR 2009

The solid platform in the domestic markets and Europe as well as growth expectations in the US market and production start-up at Nammo Talley, all gave the Division a highly stable base for further developing the small caliber business and meeting the customers' future expectations.

DEVELOPMENT OF CORE BUSINESS LAST 10 YEARS

The small caliber business has changed significantly from the internal way of thinking: from site oriented to business oriented. The valuable feed-back on customer needs helps the Division develop new products for special purposes. Good examples are armor piercing and non-toxic, specialized products for specific customers. The Divisions' most important buzzwords will always be: accuracy and reliability.



The Medium & Large Caliber Division's (MLCD) core business is to supply customers with high performance combat and training ammunition for Army, Navy and Air Force applications. The Division provides full-up rounds and components for ammunition ranging from 12.7mm up to 155mm artillery. M72 light shoulder-fired anti-armor and anti-structure weapons, hand grenades, pyrotechnics and ammunition restoring are also important parts of the Division's core business.

MEDIUM & LARGE CALIBER DIVISION

ACHIEVEMENTS IN 2008 The Division achieved an all-time-high sales result and operating profit in 2008. The new M72 ASM-RC and the 30mm TPDS-T were both qualified/certified in 2008 and the first production contracts were won. A systematic approach to improvement processes such as the application of 6-sigma methods has been and will continue to be highly prioritized.

MARKETS AND COOPERATION Alliances and co-operation with recognized industrial partners around the world are central to the Division's strategy. During 2008, the Division continued to expand by winning contracts in several new markets. The Division focused efforts to further strengthen its position in the Nordic home market also during 2008, and new opportunities are being explored.

DEVELOPMENT OF CORE BUSINESS LAST 10 YEARS Like the Nammo Group overall, MLCD has shown substantial growth the past 3-4 years. Major resources have been spent on technology and product development over several years, giving MLCD a modern product portfolio. The Division also has several new products in the pipeline. Examples of these are 25mm APEX aircraft ammunition, 120mm IM-HE ammunition and 155mm artillery charge system.

OUTLOOK FOR 2009 The combination of continuous improvements and our ability to be flexible and act rapidly with a high degree of precision to meet our customers' needs is expected to yield strong results also in the future. The Division has a solid base and expects that its performance in 2009 will be in line with its 2008 achievements.

Nammo Talley was acquired by Nammo in 2007, making 2008 the first full year of operation as a component of the Nammo Group. In the almost 50 years since Nammo Talley was originally formed, the core technology for the company has consistently been energetic materials and the primary product application has been for the U.S. military.

CORE EXPERTISE The Divisions' engineers and chemists work on products ranging from simple components to complex systems, all of which use the energy created in converting materials from solid to gaseous states. The products provide thrust to power jet aircraft escape seats, produce gas to accomplish work in control systems, extend the range of battlefield weapons and improve the effectiveness of infantry weapon systems. The Division use its extensive technical knowledge and capability to increase the value of the products for the customers.

NAMMO TALLEY


COMMON FUTURE IDENTITY Nammo Talley has been welcomed into the Nammo group with optimism for future growth and cooperation. The Division is proud to be included in this company that has combined the rich heritage of many organizations which, though much older than 10 years, have, like Talley, found a new common identity in Nammo AS.

NEW SERVICES Directly training the customer in the use of our systems has become a new services product area for Nammo Talley. We have also worked closely with the other Nammo operations to identify synergies and joint opportunities.

EXPANDED EXPERTISE Since joining the Nammo family of companies, Nammo Talley has continued its position as a key element of the U.S. industrial base and continues to grow in importance to the customers. It has become qualified to produce many new products for military aircraft escape systems, helping the customers develop a more responsive supply chain. The Division has been selected to design and develop new tactical rocket motors that open a new chapter in the product portfolio. The Division works on new battlefield weapons under the sponsorship of the U.S. Government that promise to increase – by orders of magnitude – the effectiveness of the infantry.

OUTLOOK FOR 2009 The Division enter 2009 with a record order backlog and substantial customer-funded R&D, setting the stage for continued success and growth.





2008 was a remarkable year for the Missile Products Division (MPD). Not only did the Division prepare for a change in leadership after 18 years under the same management (effective 1 February 2009), it also achieved record high revenues and the highest performance award ever received by a subcontractor of one of the major prime contractors in the missile business.

MISSILE PRODUCTS DIVISION


CHALLENGES The Division has vigorously pursued an array of new business opportunities and expects new growth in the coming years, but it has also been facing its greatest technical challenges ever. Starting with the latter; pushing technology to the extreme is sometimes necessary to reach new levels of performance. For the Division's rocket motor and TVC (thrust vector control) responsibility in the IRIS-T program new super-lightweight and high-performance materials and solutions had to be developed. It proved more costly than planned. In this effort, team spirit, analysis capability, technical creativity as well as an open and solid customer relationship had to be brought together. In the end it became a success, and such a process yields very valuable learning.

CHANGE AND FUTURE OUTLOOK The time was ripe for a change of management at the Division. Ola Skrivervik is leaving for a position in business development at Nammo Corporate, and Nammo's current Chief Financial Officer, CFO, Morten Brandtzæg, is taking over a growing business with many challenges but with resources and a team spirit almost beyond belief.

MAIN ACTIVITIES The Division's core business is still missile propulsion with important programs such as ESSM, IRIS-T, Exocet Block 3, Side-winder and NSM. Also space propulsion with Ariane 5 booster separation and acceleration motors as well as warheads for 70mm rocket systems are part of the core business. This is also reflected in the 10-year historical perspective, where some major milestones include ramping up the production of the ESSM and IRIS-T programs and winning the Exocet Block 3 booster competition.

ACHIEVEMENTS IN 2008

The ESSM program is still a major activity for the Division; production has been successful and so has the rocket motor technology transfer to a Japanese company. As a result, the Division received the "Five Star Performance Excellence Award for 2008" from Raytheon Missile Systems, in which the Division takes great pride. Such performance achievement has given a boost to the company's pursuit of new opportunities with current and new customers.



Nammo's Demil Division has been providing industrial demilitarization and disposal services for 40 years in 2009. The Division has specialized in eco-driven, safe methods and cost-effective processes for all conventional ammunitions and explosives products. It can also provide packaging, transport, storage and necessary documentation services for the customers.

DEMIL DIVISION

DEVELOPMENT OF CORE BUSINESS LAST 10 YEARS Nammo's Demil Division has been a groundbreaker in recycling, constantly developing state-of-the-art processes and equipment aiming at minimizing environmental impact and maximizing economic return. Nammo has made significant investments in recent years in fully automated and modern high-speed equipment and processes for the demil of sub-munitions/bomblets from cargo ammunitions. In the past 10 years the demil business has developed from being a local to an increasingly international enterprise. The Division has won a number of important export contracts and started new companies abroad. Along with this, it has been hard work to increase the customer focus and understand their needs and requirements. Consequently, changes have been done in the organization to improve both responsiveness and quality of services.

ACHIEVEMENTS IN 2008

The Division managed to secure a number of important and long-term contracts in a highly competitive environment. It also has a couple of major international projects together with local business partners for establishing demil capabilities and companies abroad. Projects of this type take a long time, but during the year several important steps forward has been made and the Division is confident in achieving future success.

MARKET AND CO-OPERATION 2008 was a year of renewed, new and major contracts from the main customers: NATO/NAMSA, FMV/Sweden, BWB/Germany, MoD/UK and the US. During the year, the Division built and established a demil facility and capability in Poland together with the partner and customer Mesko. An international convention was signed on 3 December 2008 in Oslo, which will result in a great need for the demil of cluster ammunitions containing various types of sub-munitions/bomblets. These types of ammunition have a rather complicated build structure, and thus are relatively costly to demil. Nammo has considerable past performance experience and available technology and equipment for managing this important future demil task.

OUTLOOK FOR 2009 The Division has a solid order backlog, state-of-the-art technologies and processes, a highly experienced and professional work-force, a strong customer-driven culture and a very high environmental focus. These aspects combined make us confident that the Division will not only maintain, but continue to strengthen its position as a world leader in industrial demil services.

CORPORATE SOCIAL RESPONSIBILITY

"Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large"

From "Making Good Business Sense" by Lord Holme and Richard Watts

Corporate Social Responsibility (CSR) is about business giving back to society and has become a subject of increasing global significance. The importance of CSR in our daily business will be in focus and the work of restructuring the long-existing CSR effort in the Nammo Group has now started.

Some tend to say a company's CSR is simply window dressing, but for Nammo, with the Norwegian State and Patria Oyj each owning a 50% stake, we truly believe it is our duty to share parts of the profit with the local communities, the employees and our stakeholders.

GLOBAL COMPACT

Globalization engenders greater awareness of corporate social responsibility. The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles of human rights, labor, environment and anti-corruption. In accordance with Nammo's Ethical Code of Conduct, the Group subscribes to the UN's "Global Compact" – ten principles for ethical/social behavior.

COMMITMENT

Showing concern for the environment, human rights, community development and the welfare of our employees will not necessarily make the company more profitable in the short term, but in the long term we are convinced it will give us a competitive edge and a goodwill by appealing to the growing numbers of socially and environmentally oriented investors, customers and employees.

DIVERSITY

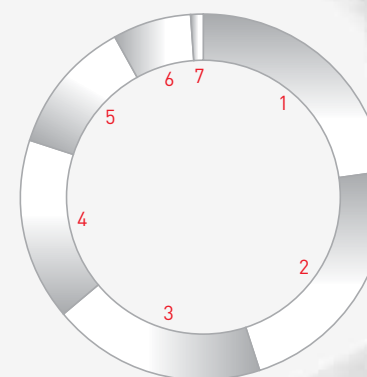
Nammo is a company of diversity. Today we are present in 6 different countries, with a total of 18 production facilities. Different languages and cultures sometimes pose interesting challenges, but we also learn a lot from each other.

Consequently, Nammo practices CSR through different channels – sometimes directly from Headquarters, but often through our local site in each country.

HESS

Health, Environment, Safety and Security (HESS) is handled specifically through our HESS management and is reported on page 20. Our HESS policy requires that all sites be certified according to ISO 14001 or similar environmental standard. Most of the sites have achieved this goal, and the remaining as well as new sites will be certified in the near future. Environmental conditions are registered and personnel exposed to hazardous materials are followed up with regular medical checkups.

We are also highly eco-conscious, replacing business trips with videoconferencing, using more eco-friendly production lines and material technology, producing "green" lead-free ammunition and demolishing old ammunition in an eco-friendly and secure way. A common effort in energy efficiency, special waste, and water consumption will receive special focus in 2009, with plans and goals for continuous improvement.



SPONSORSHIP IN 2008

1. Sport Clubs & Associations
2. Ammunition to competition shooters
3. Health actions for employees and the local communities
4. Humanitarian Aid
5. Culture
6. Defense & Industry Associations
7. Others

EMPLOYEES

Nammo AS is a group of companies with 1,826 employees (1,786 man-years) at year end. On average there were 1,783 employees (1,744 man-years) in 2008.

Sickness absence in Nammo at the end of 2008 was 4.0% compared to 4.1% in 2007 (see graph on page 20) – the company's best result to date. This shows that commitment and follow-up by managements and unions yields results. Various activities, including workplace improvement, attention to the environment, protective equipment, physical training etc., have been on the agenda. There were 37 accidents resulting in absence in 2008, representing an H-value of 11 (Lost Time Injury – LTI: the number of days lost per million work hours) compared to 7 in 2007 (see figures page 20). This is a poorer result than in 2007 and needs continued attention to improve. That gives us an F-value of 197, indicating that the most frequent types of accidents are minor.

EQUAL OPPORTUNITY

Equal opportunity for all employees is a key element of our Human Resources policy. Women account for 31.2% of the Group's total workforce. Nammo gives equal pay for work of equal value. Women and men holding the same position shall have the same salary. When recruiting, there are equal opportunities for both sexes. Women and men have the same working conditions.

The number of employees has increased significantly due to acquisitions and new recruitments. The Nammo Group will continue enforcing its salary policy, which requires equal pay for both women and men employed in the same position.

ETHICAL CODE OF CONDUCT

During 2008 the Group revised and distributed a new version of the Ethical Code of Conduct. The Nammo Group's next logical step after reviewing the Code was to establish an Ethical Committee in 2008. This committee shall ensure that the Nammo Group lives up to its ethical standards and that the Ethical Code of Conduct is implemented and followed up.

SOCIETY

Internally, Nammo is deeply committed to the well-being of our employees. Several initiatives have been taken in recent years to improve working conditions and the health of our employees.

Externally, we have taken social responsibility in most of the local communities where Nammo is represented, by sponsoring culture and/or sports. At national level we have mainly supported humanitarian organizations.

See the graph above, which breaks down the sponsorship/support programs in 2008 into 7 categories.

DEMILITARIZATION

– A PART OF OUR CORPORATE SOCIAL RESPONSIBILITY

On 3 - 4 December 2008, 94 governments signed the Convention on Cluster Munitions at the Signing Conference in Oslo, and the treaty continues to gather signatures.

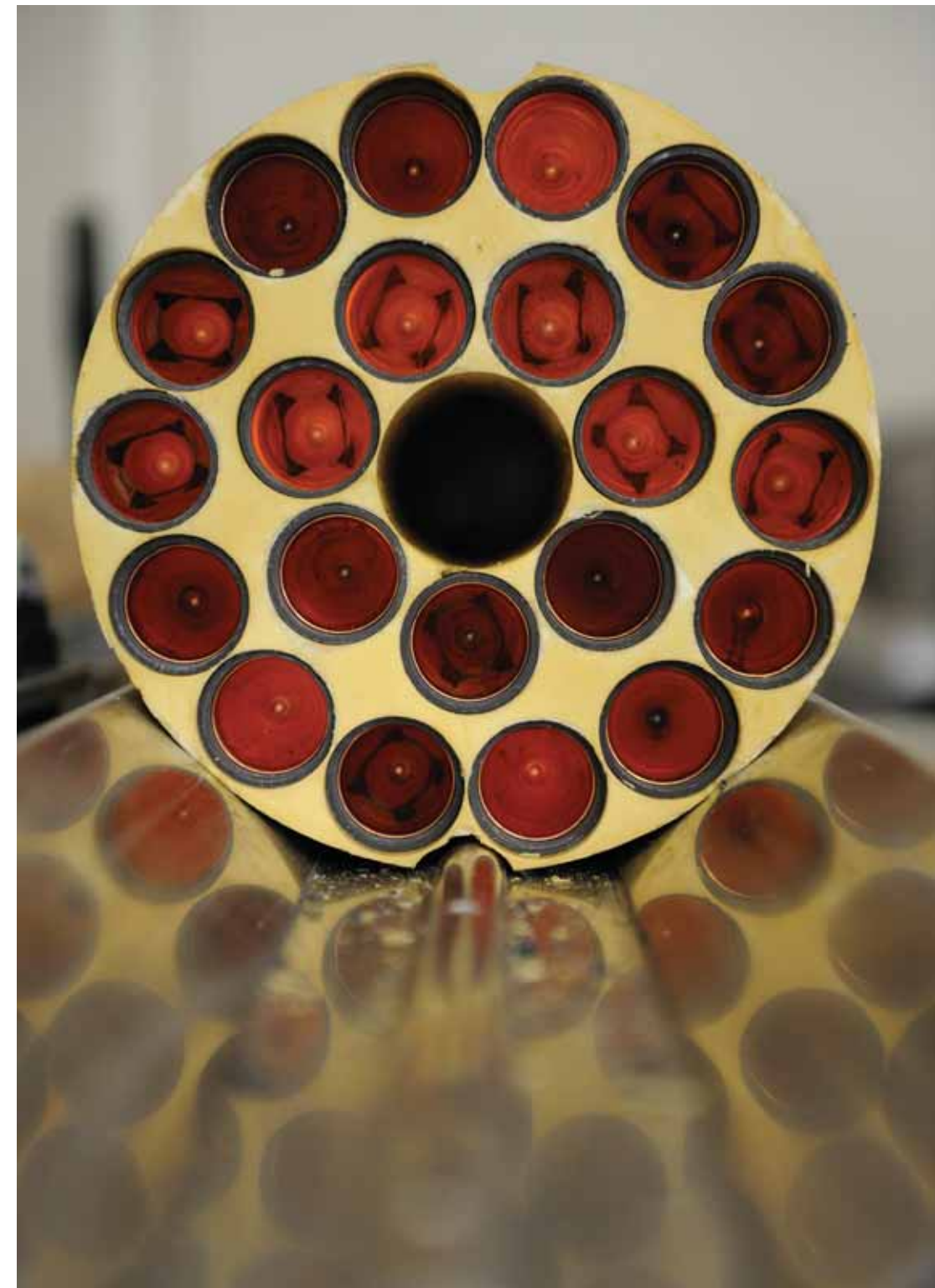
The Cluster Munitions Coalition (CMC) is an international organization working to protect civilians from the effects of cluster munitions by promoting universal adherence to and full implementation of the Convention on Cluster Munitions.

The Convention prohibits the use, production, stockpiling and transfer of cluster munitions and obligates countries to clear affected areas, assist victims and destroy stockpiles.

Nammo has world-leading expertise in secure and eco-friendly demilitarization of cluster munitions, and aims to be the natural choice of partner for several governments that have signed the Convention as well as for those intending to sign at a later date and who need assistance destroying their stockpiles of cluster munitions in the future.

Nammo's demil division has over the last ten years disposed of several million bomblets from cluster munitions in the divisions facilities in Norway, Sweden and Germany on behalf of NATO customers.

Development of specialized machines and technical processes has been necessary in order to carry out the disposal process in an eco-friendly and safe manner for employees and the local communities.



RETROSPECTIVE ON HESS (HEALTH, ENVIRONMENT, SAFETY AND SECURITY)

When looking back on what we have done the past 10 years in Nammo, we must start at the beginning, when the company was formed. At that time there was major disparity between the companies that merged in 1998. We came from different cultures with different languages. HESS resources available at each site differed and were often inadequate.

However, we must not forget that some of the companies were very old and had been working with HESS in their own way for years.

The first task in coordinating the companies was to survey their HESS status. A task force with representatives from several countries was established in November 1998. Its mission was to evaluate the actual situation, propose short-term actions at each site and report needs for necessary adjustment to the Group Management. The task force finalized the work in May 1999 and in the report they suggested a number of improvements.

After this period, most of the open actions from the survey were closed. Nammo's HESS policy was defined and common rules and regulations were drawn up. The structure of proactive HESS work in the Nammo Group was established and a HESS representative from Nammo AS was appointed HESS Manager. The HESS Manager's job was to conduct, on behalf of the President & CEO of Nammo AS, an annual safety audit of all wholly-owned subsidiaries and work for continuous

improvements to prevent accidents. The HESS Manager submits monthly status reports from all sites to the CEO concerning actual HESS parameters. It was important to collect the knowledge from all sites and to share this knowledge with the rest of the Group.

ENVIRONMENT

Several Nammo subsidiaries are old and face different challenges involving old polluted areas. In its beginnings, Nammo had less focus on preventive work, but since then most of its companies have become certified according to ISO or similar standards.

HESS SEMINARS

One of the important events for sharing common knowledge is the annual HESS seminar, where representatives from all sites gather to discuss and share their experience of difficult issues of common interest. The topics and locations for this important seminar vary from year to year.

HEALTH

In this 10-year period Nammo has expanded with the acquisition of several new companies. This has naturally impacted the HESS organization, bringing new knowledge and challenges to the Group.

To summarize in a few sentences, we could say the HESS level at Nammo has gradually improved and that cooperation among the various sites is going much better.

The statistics show that we have made great progress in several areas. In 2008 the sickness absence rate was the lowest ever since our founding in 1998 (4.0%).

We still have many areas that need improving, such as reporting of incidents and accidents, risk analyses and a common internal HESS system across borders.

Unfortunately, sometimes we have learned the hard way, with serious accidents and some fatalities. This reminds us that we must always think HESS in all parts of the organization and operations in order to prevent serious accidents. HESS is a never-ending project that needs our constant attention every day. We should always be on the alert and never lean back after great achievements.

R&D, 10 YEARS AND INTO THE FUTURE

Over the last ten years, Nammo has developed into a significant multidisciplinary player in the field of advanced energetics. Nammo has not only consolidated its position as a valued component of the Nordic Defense Industry structure, but has successfully expanded beyond.

The stability of the owners and the company's success the past decade have enabled us to stay true to Nammo's vision of developing and manufacturing advanced niche products in a customer-driven culture.

CONSOLIDATION OF COMBINED EXPERTISE

After a consolidation period just after Nammo was founded, the new company structure of product-focused divisions across borders and company sites has led into a new period of innovation and growth. Nammo has become a dynamic and professional organization based on the combined expertise of the best engineering skills present in the founding companies. New companies with exciting technologies have joined the Nammo family since. Working with our customers and partners, we have solved many technical challenges and created new smart products and efficient production methods.

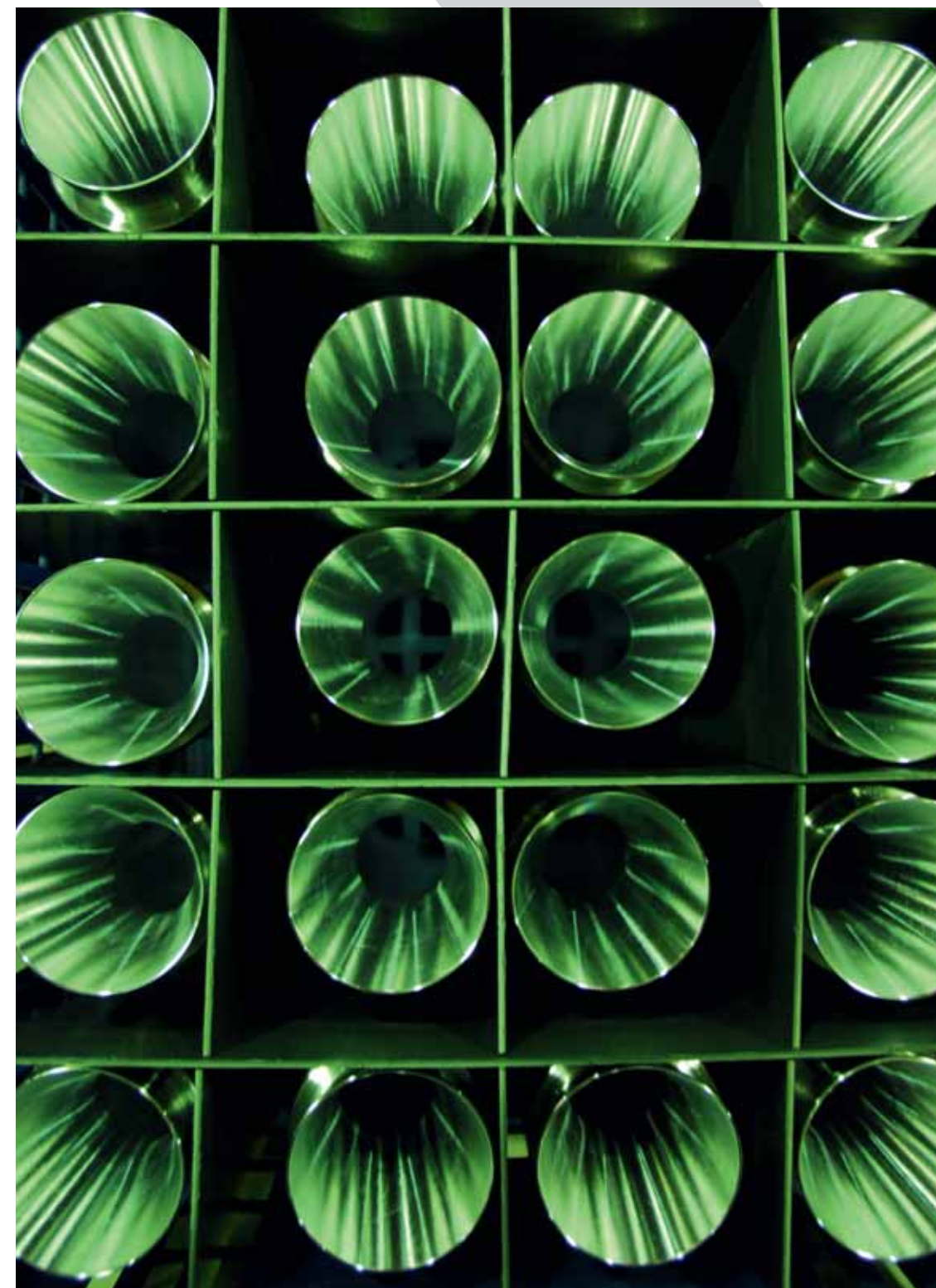
CORE TECHNOLOGIES WITH AN ENVIRONMENTAL TOUCH

Without meaning to be exhaustive, the following examples demonstrate the achievements obtained based on Nammo's core technologies. Nammo has seen enormous success for its small caliber ammunition for military non-toxic, armor piercing and dim-tracing rounds, and has earned a solid reputation for the performance of its civilian product brands. New and improved versions of the shoulder fired anti-tank families in both Europe and the US have been developed and introduced to the customer. The demand for intelligent medium caliber ammunition has resulted in the build-up

of a totally new area of expertise in programmable ammunition and intelligent fuzes. The development of a new Insensitive Munitions (IM) 120mm tank round has been a good example of Nammo technologies crossing borders, solving the most stringent requirements on performance combined with excellent safety features (IM) for our national and international customers. Nammo has also built up complete designing and manufacturing skills to take on system responsibility for developing rocket motors with thrust vector control. From initial material screening tests about a decade ago, Nammo now produces its own jet vanes made of advanced ceramic composites for the production of these motors. In Demil, the environmental friendly demilitarization of an ever increasing group of military surplus materials is within range. New technologies are emerging allowing energetic materials to be reclaimed from the recycled energetic into its original constituents. Up to now, energetic materials could only be recycled if new use for the energetics could be found.

A BRIGHT TECHNO FUTURE

The future for Nammo's technology based products is looking bright. The above mentioned successes have created opportunities for more extensive international collaboration with the most significant players in the marketplace, enabling us to participate in larger joint projects, both in Europe and globally. Close relations with our primary customers provide the opportunity to take an active part in defining new products for the future soldier.



ACQUISITIONS 2008



MTH SA

Nammo Raufoss AS at Raufoss, Norway, announced its completed acquisition of Microtechnologie Hérémece SA (MTH SA) in Hérémece, Switzerland, effective 8 April 2008. MTH was renamed Nammo MTH SA. MTH's main activities and product portfolio at take-over were development and manufacture of fuzes for Nammo's 40mm high velocity grenade-launched ammunition. The company's core technology is, as its name

implies, micromechanics. The company has approximately 30 employees.

Nammo has already had a long-lasting business relationship with MTH and its predecessors, representing more than 25 years' experience developing and manufacturing fuzes for various types of ammunition. The acquisition of MTH is a strategic step toward securing the supply and control of technology and ownership of fuzes for 40mm grenade-launched ammunition.

OWNERSHIP STRUCTURE

PATRIA GROUP

Patria is a defense and aerospace group with international operations delivering competitive solutions based on own specialist know-how and partnerships. Its key business areas are:

- Armored wheeled vehicles, mortar systems and ammunition products as well as their life cycle support.
- Life cycle support and training services for military/governmental aircraft and helicopters.
- Development and integration of systems for command and control, and situational awareness.

Patria is owned by the State of Finland (73.2%) and the European Aeronautic Defense and Space Company EADS N.V. (26.8%).

The Patria Groups' net sales at year end 2008 totalled 534,6 million Euro.

THE NORWEGIAN MINISTRY OF TRADE AND INDUSTRY

Report No. 13 (2006-2007) to the Storting, An active and long-term ownership, and last year's edition of the Government's Ownership Policy laid down clear expectations with respect to sector-independent considerations of companies in which the state has an ownership interest. The Government's expectations include factors such as restructuring, R&D/competence building, health, safety and working environment, ethics, combating corruption, gender equality, integration and civil protection. These are matters it is expected the boards of directors will take

into consideration in their deliberations and which are intended to underpin a long-term high rate of return and good, sustainable industrial development. It is the responsibility of the boards and companies' management to ensure that the companies take these sector-independent considerations into account. The boards must ensure a balancing of the different considerations in a manner that furthers the interests of the shareholders as a whole.

Showing active social responsibility means combining financial and ethical considerations in all areas of operation, ranging from a company's choice of partners to its investment in, for example, employees' working conditions, locally as well as globally. Social responsibility is not, and should not be seen as, a distinct element unrelated to business strategy and business development.

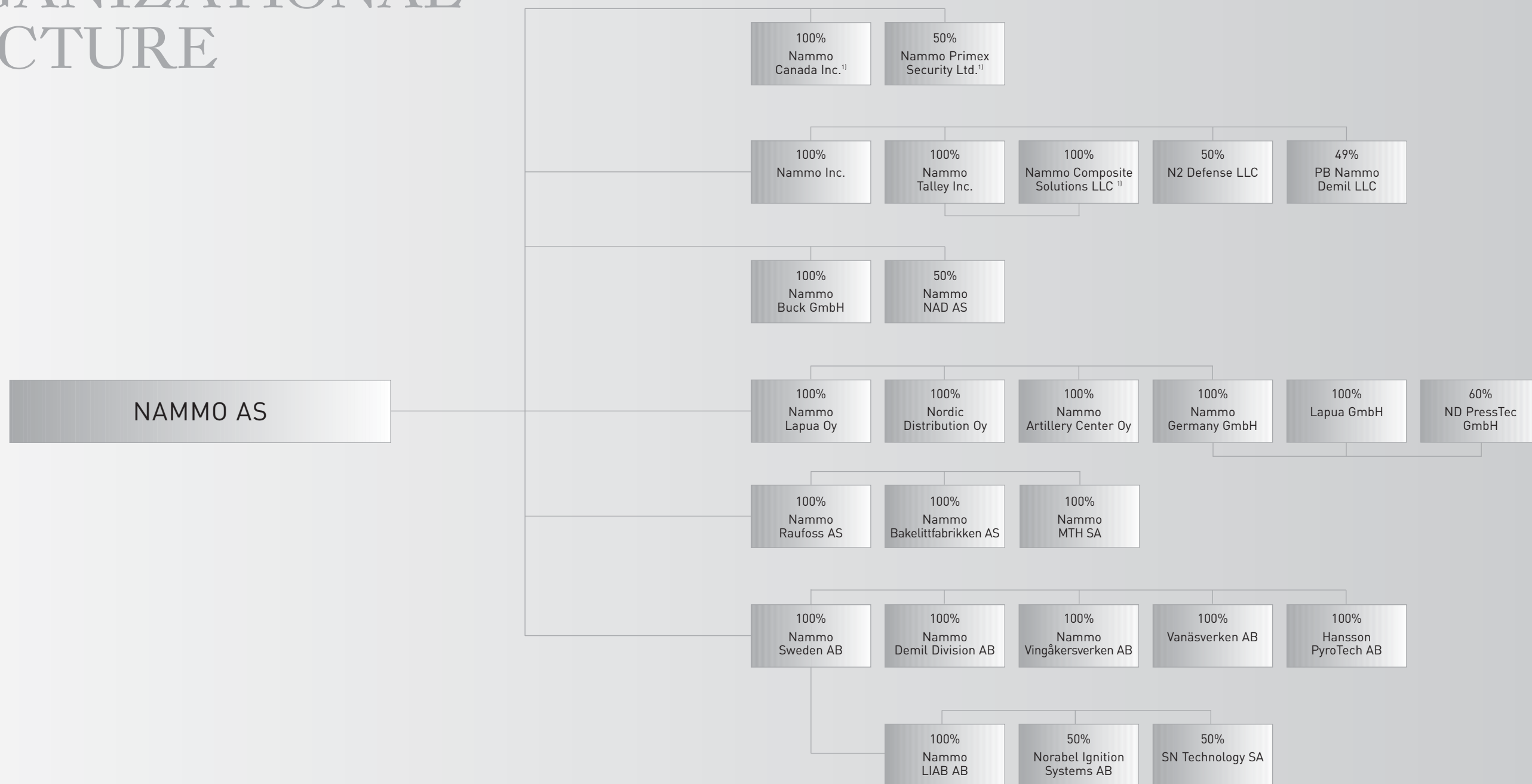
All together the ministries administrate state-ownership interests in several, fully or partially owned companies, which together employ over 280 000 people. The state-owned companies manage large amounts of economic potential on behalf of the country, making these companies important operators in society. The Government is concerned with exercising good corporate Governance, including organizing state ownership such that the Government's different roles are kept clearly separate and that there is transparency with respect to the administration of state ownership.

An active ownership policy means that the Government formulates clear expectations as to the development in these areas, and that this is openly communicated to the companies.

Patria



COMPANY ORGANIZATIONAL STRUCTURE



1) From February 2009



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LAWS & REGULATIONS

A synopsis of the most common guidelines within the defense business

- Nammo has operations with production lines and sales offices in 6 different countries. In Nammo we always act according to laws and regulations in the respective countries of our operations.
- Every Nammo facility producing defense products must comply with the export regulations of its respective country.
- Nammo's export of defense materiel will always require an export license from the national authorities where we operates from.
- End user certificate is usually required by the respective national authorities when we apply for an export license.
- Export of defense materiel to NATO member states and other like minded countries requires documentation substantiating the end user.
- Nammo mark all products according to customer requirements and/or NATO standards.

VI

NAMMO IS PRESENT IN 6
DIFFERENT COUNTRIES

XXXIII

SALES TO THE HOME MARKET WAS
33% (FINLAND, NORWAY, SWEDEN)

DC

CCCXC

NAMMO HAD AN OPERATING RESULT
OF 390 MILLIONS IN 2008

XLV

THE AVERAGE AGE OF AN EMPLOYEE
IN NAMMO IS 45 YEARS OLD

MDCCLXVII

MII

XVIII

X

IT IS 10 YEARS SINCE NAMMO
WAS ESTABLISHED

www.nammo.com

