

09

NAMMO  
ANNUAL  
REPORT

# Securing the Future

**nammo**

# Securing the Future is Nammo's new vision

Nammo's vision outlines what the organization wants to accomplish. It concentrates on the future. It is the company's source of inspiration, common focus and driving force.

- We will protect our national and allied forces with high quality defense products.
- We will secure the future development of eco-friendly products, processes and services.
- We will secure further growth based on strong financial performance.
- We will develop and secure a long-term sustainable business for our customers and employees.
- Our future development depends on a secure and safe working environment. We must emphasize the importance of every single employee.

## Nammo's values

Nammo's values are the basis for building trust and linking the organization together. It is a set of words chosen to describe the company's culture.

### Dedication:

We are enthusiastic and creative, always searching for the best solutions

### Precision:

We are reliable and accurate in our technology, processes and business

### Care:

We are inclusive and open-minded, always encouraging team spirit and cooperation

# Nammo in brief

The Nammo Group, headquartered in Raufoss, Norway, is an international defense group that specializes in high-end defense products.

Nammo's core business and expertise is in the development and production of military and civilian ammunition, rocket motors for military and space applications, as well as world-leading services and processes for environmentally friendly demilitarization.

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.

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

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

Nammo is present in seven countries with a total of 18 production sites, the oldest of which turned 180 years in 2009.

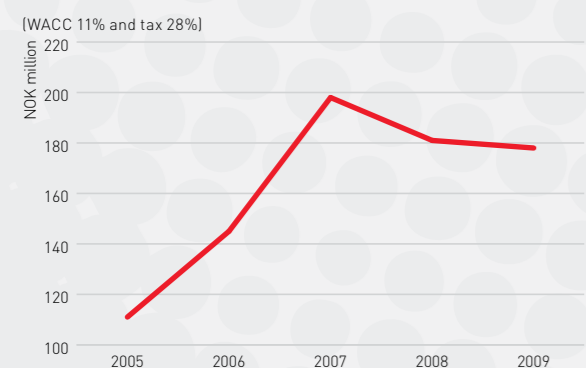
Sales by country 2009



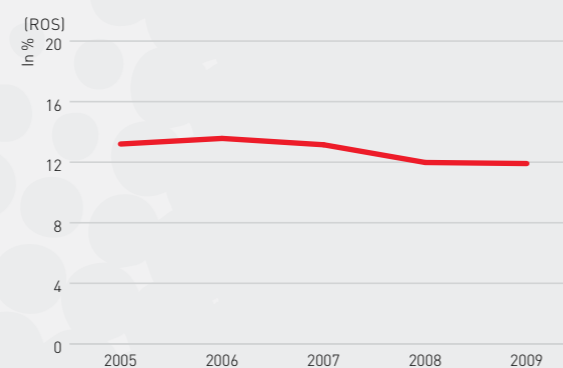
# Key figures

(NOK 1 000)	2005	2006	2007	2008	2009
Order stock	2 445	2 631	3 769	3 662	4 439
Sales	1 641	1 991	2 745	3 130	3 439
Earnings before interest and tax (EBIT)	206	270	390	390	407
Net income before tax (NIBT)	217	270	361	375	410
Net profit of the year	184	186	259	268	268
Total assets	1 508	1 750	2 527	3 087	2 906
Total equity	681	819	886	1 185	1 180
Total liabilities	827	932	1 641	1 901	1 726
Average man-years	1 162	1 258	1 544	1 744	1 872

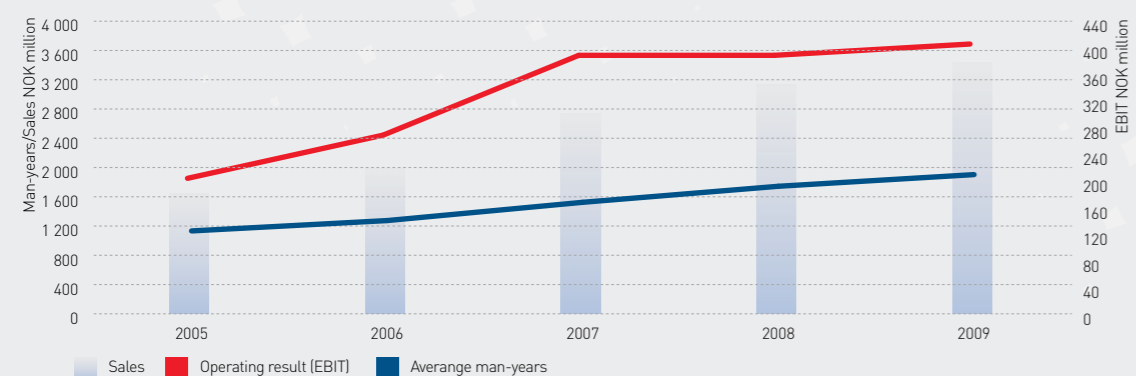
## Economic value added



## Return on sales



## Sales, operating results and average man-years



# Table of contents

CEO about Securing the Future	2
Highlights 2009	4
Divisions	6
Corporate functions	16
Corporate responsibility	24
UN Global Compact	38
Company organizational structure	40
Ownership structure and enlargement	42
Corporate governance	44
Group Management	46
Board of Directors	48
Board of Directors report	50
Nammo Group – consolidated financial statements	58
Income statement	59
Balance sheet	60
Cash flow	62
Accounting policies	63
Notes to the accounts	65
Nammo AS – financial statements	72
Income statement	73
Balance sheet	74
Cash flow	76
Accounting policies	77
Notes to the accounts	79
Auditors report	84
Global Reporting Initiative table (GRI)	86
Contact details	90

*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.*

# Securing the Future

## Doing well

With full speed into 2010, it is good to recognize that Nammo left 2009 in a very competitive position. We have continued to develop our company to be one of the leading players in our area through strong market presence.

## Customer focus

Despite the uncertainty created by the global financial crisis, we deliver solid results and have secured a strong backlog of orders for 2010. We continued our steady growth. But nothing comes by itself. We have to continue our hard work to stay customer focused and be able to understand the customers' needs and deliver high-performance quality products according to their requirements.

By having a leading position within our core business areas and a close dialogue with our customers, we maintain our possibility for balancing research and development with production. In most cases our success has been the result of cooperation with our key customers, often giving us the opportunity to participate in international programs at an early stage.

## Local presence

Our home market is still of great importance to us, but the market outside the Nordic region is the key to further growth. International markets represent more than two-thirds of Nammo's annual revenue today. Our strategy for growth is to meet the demand for close cooperation and strengthen our local presence in all our markets.

## Building competence

In our fast growing organization it has been important to focus on cooperation across organizational lines, functions

and projects within as well as between our divisions. We see the importance and opportunity to transfer experience between different parts of the corporation.

Our employees are dedicated to their work. The strong results in 2009 are a result of the efforts made by Nammo's highly skilled and competent workforce. To meet the continuous challenges in our business we have a systematic development program for employees to enable our organization and individual employees to reach their full potential.

## Vision and values

In 2009 Nammo implemented new vision and values. The new vision, Securing the Future, outlines what the organization wants to accomplish. It is our source of inspiration our common focus and driving force and it concentrates on the future.

The new values: Dedication, Precision and Care are the basis for building trust and linking the organization together. The values describes our company culture and our high-quality working environment. And there is more; by living up to these values we show our customers and the society at large that we are a company with high focus on social responsibility.

## Our commitments

Nammo supports the ten principles of the UN Global Compact. As a natural part of our business we have developed and implemented values and policies within areas of environment, human rights, labor standards and ethics. Over the last year we have met with employees at all sites to present and discuss our ethical guidelines. The guidelines



intend to assist employees if or when encountering ethical dilemmas. It is important that we act responsibly no matter where we do business. And we strive to develop relationships with both customers and suppliers to increase awareness of sustainability and responsible behavior.

## Level playing field

The Nammo Group is used to the changes in a challenging market. The national defense industry in its entirety follows strict national export rules and so it must be. It is essential for Nammo's business to follow any changes of export regulations and national laws in countries where Nammo has its activities and its customers.

Changes in laws and regulations for the defense industry are something Nammo follows closely. We have to be able to

compete both nationally and internationally on equal terms with all other parties. Any attempt on changing the rules in one country just to set an example without a common consensus within NATO and the EU may turn out to have major consequences for our company.

A level playing field for all participants in the defense market is essential also to secure Nammo's position and to develop the company in the future.

Edgar Fossheim  
President & CEO



# Highlights 2009



President of Nammo Canada Inc participating in the Olympic Torch Relay 2010.



Sport motorcycle exhaust pipes.



Nammo employees outside the Science Center at Gjøvik with a hybrid rocket motor.

## Events

- The International Year of Astronomy 2009 - representatives from the Missile Products Division at Nammo participated with a hybrid rocket motor ground fire demonstration outside the Science Center in Gjøvik.
- On 30 April, the Norwegian State Secretary of Defense "pushed the button" to start the demilitarization of Norwegian cluster munitions at Nammo NAD.
- 11th Multipurpose Symposium at Raufoss with 250 guests from 25 nations.

- Nammo's new vision and values were launched at the Nammo Forum in Germany.
- Lapua GmbH (previously SK Jagd und Sportmunition) celebrated its 180th anniversary.
- A strategic cooperation agreement was signed on 22 October between the Polish Bumar Group and the Nammo Group.
- Olympic Torch Relay on 27 December 2009 in London, Ontario. The President of Nammo Canada, had the honor of participating in the Olympic Torch Relay on its way to Vancouver. There were 12 000 torch bearers to cover 45 000 km.

- Launch of the documentary film about Nammo Raufoss "The Norwegian Solution" by Emil Trier.

## Enlargements

- Establishment of a Nammo Canada Inc., a sales office in Ottawa, in February 2009.
- Acquisition of 50% of Primex Security Services Ltd., renamed to Nammo Primex Security Ltd.
- Acquisition of Composite Solutions by Nammo Talley Inc., renamed to Nammo Composite Solutions, LLC.

## Testing – Qualification – Contracts

- First Article Test (FAT) approval for the .338 LM received from the US customer, and first production of .338 rounds started at Nammo Talley.
- Qualification completed for 40mm MK285 airburst.
- In February, Canada's Department of National Defense, Public Works and Government Services Canada, awarded a contract to Nammo for the M72 A5 with an estimated value of NOK 217 million.
- In April 2009, Nammo Raufoss signed the largest space-related contract ever for a Norwegian company with Astrium Space Transportation, part of the EADS Group, for 35 Ariane 5 launches (700 motors). Value of the contract was NOK 150 million.
- In April, Nammo signed an important

demilitarization contract with the Norwegian Armed Forces for the destruction of their stockpiles of 52 000 rounds of ICMs (Improved Conventional Munitions).

- Nammo Lapua Oy signed a multi-year contract with the Finnish Defense Forces 23 April 2009, valued EUR 70 million.
- In June, a significant contract was signed between Nammo Talley and the US Marine Corps for M72 weapon systems.

## Sports

- Nammo Lapua ammunition supplies 80% of the biathlon market.
- US shooter Nancy Tompkins won the Arizona State Metric Small-bore Championship with Lapua MIDAS+ and set a new national record.

## Awards

- Nammo Talley received "The best of the best" award. Nammo Talley was one of the best businesses with regard to safety performance in Arizona, top 99.9% among 56 000 businesses.
- Supplier Score Card received from ATK/Lake City. Nammo's Medium and Large Caliber Division was awarded as the best supplier with a score of 100 out of 100 for the last six months.
- Nammo Talley in Mesa has been selected as the 2009 Large Business of the Year in Mesa by the Chamber of Commerce.



From the right: Norwegian State Secretary of Defense, Mr. Barth Eide together with Nammo's CEO Mr. Fossheim at Nammo NAD



Signing ceremony in Poland by Mr. Novak from the Bumar Group (right) and Mr. Fossheim from the Nammo Group (left).



# Demil Division

## CORE BUSINESS

Disposal and demilitarization of conventional ammunition and explosive products.

## SERVICES

- The division also handles transports and export-import documentation for customers.
- Environmentally correct (EU directives etc.) disposal of ammunition and explosive products, including recycling and reuse of input materials.
- The demilitarization does not include ammunition from nuclear, biological or chemical weapons.

## LOCATIONS

- Nammo Vingåkersverken AB & Nammo Demil Division AB, Vingåker, Sweden
- Nammo Buck GmbH, Pinnow, Germany
- Nammo NAD AS, Løkken Verk, Norway
- Nammo Demil LLC, Rock Island, Illinois, US
- Sanabo Demil Pty. Ltd., Centurion, South Africa

## EMPLOYEES

Around 180 by year end

## Cluster convention opportunity

Nammo's Demil Division is one of the market leaders in terms of market share and environmental technologies for the disposal and demilitarization of conventional ammunition and explosive products. Nammo has world-leading expertise in offering services for the demilitarization of cluster munitions.

The year 2009 was a very important year in terms of new opportunities for the division.

Executive Vice President Reijo Bragberg says: "In view of 104 governments signing the convention on cluster munitions in 2008, our division has continued to develop processes and equipment, mainly targeting the demilitarization of cluster munitions. We have invested heavily in fully automated processes and equipment for this activity, and we are consequently very hopeful about the future. Challenges remain, however, in increasing the demilitarization market through attracting new customers to spend money on demilitarization and thereby increasing our sales. We aim to be the natural choice for several governments that have signed the convention."

There is a high focus on cluster munitions in the marketplace. This is a challenge to the whole demilitarization community, due to large quantities, the complexity of the products, limited capable industry and lack of budgets by the signing nations.

The division continued to win important contracts from the NATO Maintenance and Supply Agency (NAMSA), United Kingdom, US and Sweden, including multi-year contracts for Multiple Launch Rocket System (MLRS) and 155 mm ICM demilitarization from the German defense procurement agency (BWB).

For more than a decade, Nammo's Demil Division has gained experience from the disposal of a large number of bomblets from cluster munitions. This important work has been carried out in the division's facilities in Norway, Sweden and Germany, mainly on behalf of NATO customers. For Nammo, demilitarization is an important part of the company's corporate social responsibility. The company has world-wide

expertise in ensuring an environmentally friendly destruction of cluster munitions.

In the last ten years, Nammo has disposed of several million NATO bomblets in the division's facilities in Norway, Sweden and Germany.

A new division organization was launched in 2009 in order to be prepared for future challenges. The organization is divided into the three main areas: finance, operations and marketing.

### Norwegian cluster munitions soon history

As a result of the convention on cluster munitions, Nammo signed a contract with the Norwegian armed forces for the demilitarization of their stock of 52 000 units of 155 mm improved conventional munitions (ICM). The swift action to destroy the stockpiles sends a positive signal to the other signatory nations.

On 30 April 2009, Norwegian Deputy Minister of Defense Espen Barth Eide visited Nammo's demilitarization facility at Løkken Verk in Norway to "press the button" that started the first disposal of the Norwegian ICMs.

### Facts

The Cluster Munitions Convention prohibits the use, production, stockpiling and transfer of cluster munitions and commits countries to clear affected areas, assist victims and destroy stockpiles. As of 1 January 2010, 104 nations have signed and 26 nations have ratified the convention. The convention is a result of the Oslo Process, an open and time bound diplomatic process that includes, in addition to the signing nations, the Cluster Munitions Coalition, the International Committee of the Red Cross and the United Nations.



# Small Caliber Division

The Small Caliber Division provides a wide range of products and services to military and civilian customers. The division benefits from highly advanced production processes, technologies and test facilities. In 2009, deliveries resulted in a higher capacity than ever before.

Small Caliber Division's Executive Vice President Raimo Helasmäki sees a need for further expansion of their production capacity: "We are currently looking for acquisition or merger opportunities. Our production has increased between 5 to 10 percent in 2009. All the lines are increasing their workload. This is a big challenge. We have been running more than three shifts to meet our delivery demands. The division is in good shape with good backlogs of orders from different countries. New products are under development, and we have successfully produced demos of reduced range (RR) and infrared (IR) product portfolios".

In 2010 the Small Caliber Division will seek to develop and preserve its knowhow and further strengthen research and development.

Customers vary from defense forces and competitive shooters to hunters and law enforcement authorities. The Small Caliber Division is devoted to a process of continuous improvement and consequently production of high quality ammunition in selected niche areas of the market. As such, the division is in a prime position to provide a range of unique and high quality products.

In its home market, the division has a 90 percent market share, and, in the field of military specialties, the division is among the top three suppliers in the world. The centerfire and rimfire products account for around 30 percent of the top global market.

As much as 35 percent of the Small Caliber Division's production capacity is for the civilian market. Nammo Lapua produces commercial small caliber ammunition for sport shooting, special purposes, hunting and reloading. The

Lapua brand had a worldwide reputation for more than 75 years for its commitment to excellence. Since the first Lapua rifle cartridges competed in world championships during the 1920s, the brand has been known as a winner in quality and accuracy. The Lapua brand has also dominated world military shooting championships.

Shooters and hunters who only count hits require ammunition with absolute precision that operates reliably under any conditions. Nammo is a world leader in this market.

In recent years, the environmental requirements for various types of products have become more stringent, and the environmental awareness of both the authorities and armed forces has also increased.

In order to alleviate the armed forces of logistical challenges when going from training directly to operational missions, the Small Caliber Division developed lead free improved standard ammunition for both combat and training for a long time. This successful endeavor was finalized in the year 2000, and the division started full serial production of 5.56 x 45 mm and 7.62 x 51 mm ball and tracer. The high performance combat ammunition has better performance than standard leaded M855 and SS109, while also being functional for indoor and outdoor training.

Today the Nammo lead free ammunition program is NATO qualified in calibers 5.56 x 45 mm and 7.62 x 51 mm ball and tracer, and it has been in service in armed forces, federal agencies and police forces for several years.

## High activity

### CORE BUSINESS

A leading supplier of niche technology and products. The extensive product range includes combat and premium projectiles, cartridge technology, and commercial brands ranging from 4.6 mm to 9.3 mm ammunition.

### PRODUCTS

- Armor piercing ammunition
- Green high performance ammunition
- Tracer and Infrared tracer ammunition
- Accuracy ammunition
- Tactical ammunition
- Centerfire
- Rimfire
- Cases, bullets and powders for self loaders
- Ammunition for:
  - Law enforcement authorities
  - Defense forces
  - Hunters
  - Sport shooters

### LOCATIONS

The head office of the Small Caliber Division is in Vantaa. This division has production facilities and offices in:

- Lapua, Finland Lapua Centerfire (LCF) & Military Home Market (MHM).
- Karlsborg, Sweden Military Specialties & MHM.
- Schönebeck, Germany, Rimfire.
- Mesa, USA, LCF (Loading, packing & testing).
- Schwerte, Germany, Cups for bullets & cases.

### EMPLOYEES

Employees number around 500. In addition, the division has representatives and importers for civil products in more than 70 countries.

# Medium & Large Caliber Division

## CORE BUSINESS

High performance combat and training ammunition for army, navy and air force applications.

## PRODUCTS

- Full-up rounds and components for ammunition ranging from 12.7 mm up to 155 mm artillery
- M72 light shoulder-fired anti-armor and anti-structure weapons
- Hand grenades
- Pyrotechnics and ammunition restoration

## LOCATIONS

- Nammo Raufoss (main office and largest site in Norway)
- Nammo Bakelittfabrikken (Aurskog, Norway)
- Nammo LIAB (Lindesberg and Karlskoga, Sweden)
- Nammo Lapua, (Vihtavuori, Finland)
- Nammo MTH (Hérémence, Switzerland)

## EMPLOYEES

A total of approximately 670 divided between:

- Norway 440
- Sweden 140
- Finland 60
- Switzerland 30

## Excellent performance

The Medium & Large Caliber Division continued to deliver excellent results in 2009. The division produced all time high sales and ended the year with a solid backlog of orders.

The main products are M72, 30 mm and 12.7 mm, but after ten years of research and development on 40 mm, the division is seeing results in additional sales. 2009 was a year with major investments in technology and product development to create a modern product portfolio with several new products.

Efforts to further strengthen our position in the Nordic market had a significant impact in 2009. The Medium & Large Caliber Division won an important Finnish defense industry contract with KOVA, which secures the production of large and medium caliber products and components at Vihtavuori in Finland.

In addition to the KOVA contract, Executive Vice President of the Medium & Large Caliber Division, Kjell Kringsjå, has seen a trend towards smaller but more frequent important contracts in our home market: "It is most satisfying that we are trusted by the Nordic countries to supply them with products not previously sold to these customers. The division signed a contract for 120 mm KE-TP in Norway. We opened a production line for 40 mm and 57 mm in Sweden, and we see that the M72 is becoming more important to us as a product. We expect sales and operating earnings in 2010 to be at the 2009 level or better. The financial crisis has not resulted in any downturn in our main markets. We have a satisfactory backlog of orders, and several new core products are expected to enter the market in 2010, e.g. 40 mm, 120 mm, and 12.7 mm products."

Nammo Raufoss is the largest site in the division and counts for approximately 65% of the total sales. The main products at Raufoss are M72, 30 mm and 12.7 mm.

Nammo LIAB, with its operations in Lindesberg and in Björkborn/Karlskoga, has made several adjustments to its organization over the years and the organization has been significantly strengthened. It is a great pleasure to see that LIAB made all-time-high results in 2009.

Nammo Lapua at Vihtavuori has, through several contracts with FDF and through use of R&D, built up a modern product portfolio over recent years. The signing of the KOVA contract gives a sound base also for the future.

Nammo Bakelittfabrikken at Aurskog in Norway has invested in a new production line for 12.7 mm blank and short-range plastic training ammunition. Very good results have been achieved, with a tripling of the production. Plastic training ammunition is manufactured in all calibers from 4.6 mm to 40 mm and is supplied by Nammo to military forces and law enforcement communities in Europe, Asia and the US.

Nammo MTH's core technology is micromechanics. The Swiss based company is specialized in the design and assembly of innovative fuze products. Nammo MTH is dedicated to deliver cost effective and innovative fuze solutions with legendary Swiss reliability and quality to a growing base of international customers.



# Nammo Talley

Nammo Talley set company records in 2009 for sales, new orders, and year-end order backlog. Not only did the company operate at a high level of activity, but the stage has also been set to continue this level into 2010.

President of Nammo Talley, Inc., Steve Wegener, says: "We are happy to see that key US customers have made commitments for future production by initiating five-year procurement contracts. Moreover, customer-funded research and development of products and technologies for the future accounted for 20% of our 2009 sales. The new products include the next generation of shoulder-fired weapons for the US Marine Corps and Special Forces, as well as an array of new potential captured by the advanced products group. These accomplishments have created optimism for long-term growth and stability."

Nammo Talley is a niche defense contractor that develops and manufactures components, subsystems, and full systems utilizing solid propellants and explosives. The division's products include shoulder-fired weapon systems, warheads, artillery ammunition range extension components, propulsion products for aircraft ejection seats and tactical missiles, devices that provide pneumatic power, and components made from composite materials. Most of Nammo Talley's sales are for complete systems and are made directly to the military of the US and its allies.

## 50 years of experience

The primary operating location at Mesa is the site where propellants and explosives are manufactured and many products are assembled and tested. It also houses the engineering and propellant research functions. This is the original location for Nammo Talley, which was incorporated to conduct business 50 years ago.

## Nammo Composite Solutions, LLC

In 2009, Nammo Talley acquired Composite Solutions, LLC, now renamed Nammo Composite Solutions, LLC, located in Murray, Utah. This company designs prototypes and

manufactures composite material components, such as tubes used in rocket launchers, sports motorcycle exhaust pipes and mountain bike wheel forks. Nammo Talley uses several of these components in their systems, and sales are also made to other defense contractors as well as commercial customers.

## Nammo Talley in Columbus, Mississippi

This facility was constructed to load, assemble and pack the US Marine Corps Shoulder-launched Multi-purpose Assault Weapon (SMAW). It is also used to assemble warhead parts used on the M72 Light Anti-armor Weapon (LAW), which is integrated by both Nammo Talley and Nammo Medium & Large Caliber Division.

## Nammo Talley in Davidsville, Pennsylvania

This facility assembles the launchers used by Nammo Talley and Nammo Medium & Large Caliber Division for the M72 LAW.

## Operational footprint in the US.

Since joining the Nammo Group in 2007, Nammo Talley has been working in conjunction with the other divisions to establish a US footprint for European products with the goal of increasing total sales for the corporation. Nammo Talley's in-depth knowledge and experience about the US customer and the US market is of utmost value for the other business units in the Nammo Group.

## New records for Talley

### CORE BUSINESS

High performance combat and training ammunition and propulsion products for army, navy, and air force applications

### PRODUCTS

- Leading US producer of shoulder-fired weapons (M72, BDM, SMAW)
- Solid propellant, aircrew escape system, warheads.
- Full design, analysis, development, test and production capabilities
- Design and manufacture of composite structures

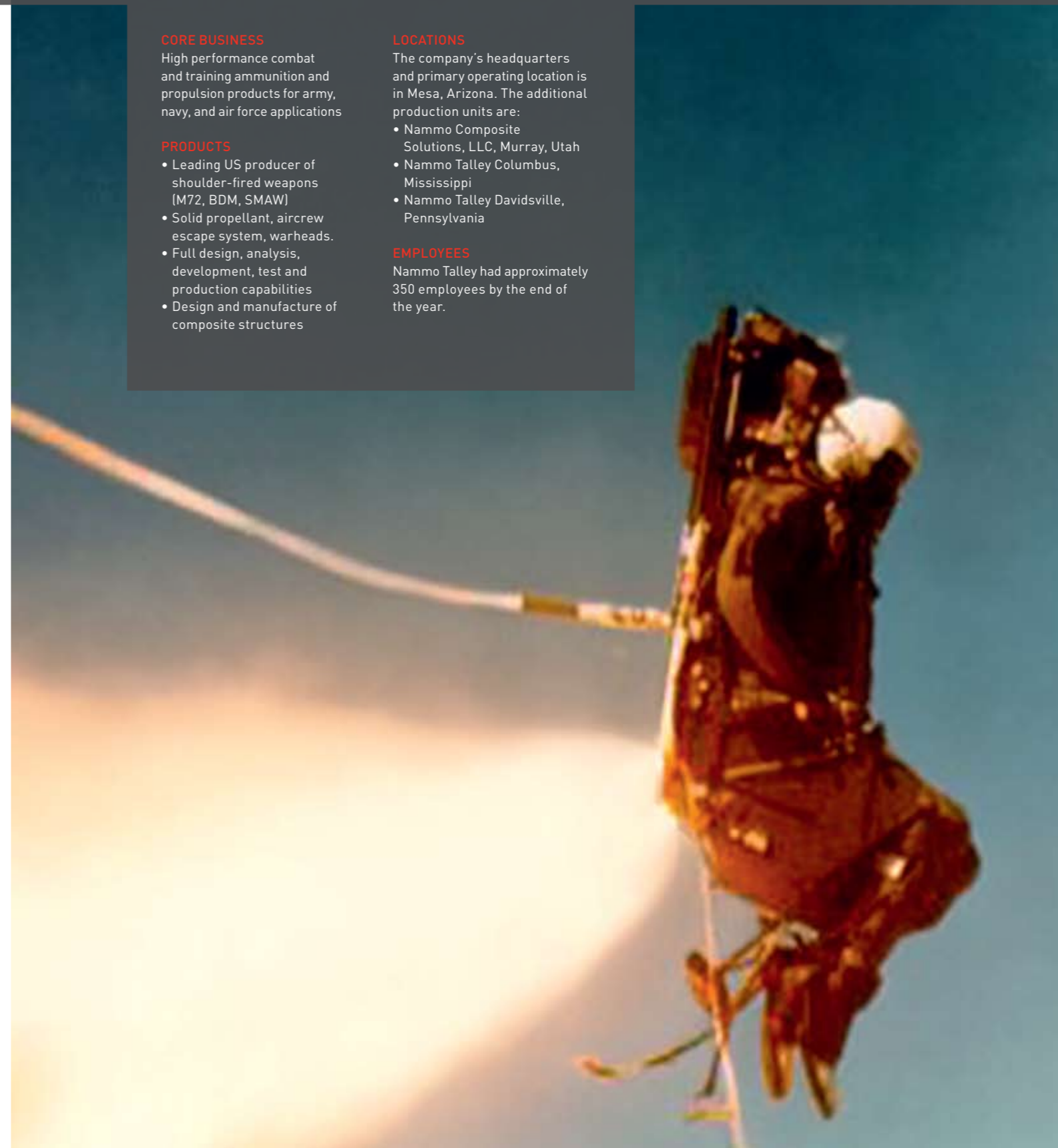
### LOCATIONS

The company's headquarters and primary operating location is in Mesa, Arizona. The additional production units are:

- Nammo Composite Solutions, LLC, Murray, Utah
- Nammo Talley Columbus, Mississippi
- Nammo Talley Davidsville, Pennsylvania

### EMPLOYEES

Nammo Talley had approximately 350 employees by the end of the year.



# Missile Products Division

## CORE BUSINESS

The division is a leading supplier of advanced rocket motors for missile and space applications. The product portfolio includes high performance warheads for 70 mm (2.75") rocket systems.

## PRODUCTS

- Rocket motor for ESSM (Evolved Sea Sparrow Missile)  
– Raytheon
- Rocket motor for IRIS-T (Air to Air Missile with TVC)  
– Diehl BGT Defence
- Booster with TVC for Exocet Block 3 (Anti-ship missile)  
– MBDA
- Rocket motor for Sidewinder AIM 9L (Air to Air Missile)  
– Diehl BGT Defence
- Rocket Motors for Penguin MK2 (Anti Ship Missiles)  
– Kongsberg

- Booster for NSM (Naval Strike Missile)
- –Kongsberg IDAS (Interactive Defence & Attack for Submarines)  
– Diehl BGT Defence
- Separation & Acceleration Booster for ARIANE 5  
– EADS Space Transportation
- Warheads for 70 mm rocket systems

## LOCATIONS

Located in Raufoss, Norway, with engineering, production and test facilities.

## EMPLOYEES

Around 200 employees by year end

## Largest space contract ever in Norway

On 1 April 2009 Nammo Missile Product Division celebrated the signing of its largest ever space production contract with EADS Astrium. The contract includes separation boosters (FE), acceleration boosters (FA) and safe and arm devices (BSA) for 35 launches of the European spacecraft Ariane 5.

Ariane 5 is a European launch system for orbiting satellites in space from Kourou in French Guiana. The system is able to carry one or more satellites that can be positioned in different locations. Nammo has been involved in the Ariane 5 program since 1991.

The Nammo aerospace activities are a spin off of the competence and experience gained in the development and production of high technology products for the military market. Ten percent of the missile division production is for the aerospace market.

Executive vice president Morten Brandtzæg, Missile Products Division says: "This major contract for Nammo represents a significant production volume of high-tech aerospace products over the next five years. We are happy to prove our competitiveness in the demanding aerospace market."

The division has developed and produced advanced rocket motors, primarily for the NATO market, since the early 1960's. Today the advanced rocket motors for missile applications represents around 90 percent of the divisions activities.

The division's order backlog is high and indicates a year with high activity based on the current workforce and existing programs.

### Tactical motor ambitions

The division's ambition is to be a highly profitable, tactical motor provider capable of meeting the most demanding requirements through a culture of responsiveness and close cooperation with the customer. During 2009 the focus on production improvement activities has been strengthened and, combined with continuous stable production in core programs, the operational profitability has improved.

Solving a major technical challenge on a specific production program has reduced the business risk. The organization has been adjusted to optimize project resources and the core development activities.

### Technology focus added customer value

The division is focused on high technology content in its development and production activities. By mastering Trust Vectoring Control (TVC) technology and advanced production methods for applying composite materials into the rocket motor plume, it is securing the close cooperation with its long term customers.

Existing and future rocket motor programs focus more and more on TVC and advanced composite materials in order to maneuver the missile outside the aerodynamic flight envelope. By focusing on these technologies, the division is bringing added value to its customers and actively contributing to a modern missile capability for many nations.

IM (Insensitive Munition) is imperative for all modern weapon systems, and Nammo has been actively working on development of new IM solutions for rocket motors and warheads. In this context, good IM properties mean that even a high explosive Warhead should not detonate when exposed to severe heating from open fire, thus securing our Armed Forces from potential accidents.

### 2010 Outlook

The market situation has developed positively in 2009. We have increased focus on applying our new technologies to missile systems. The outlook for 2010 is positive. Our ambition is to sign one major development contract and continue to develop advanced technologies in close cooperation with our customers. We foresee a growth in sales and increased profitability.

“Nammo strives for efficient use of resources and good profitability through a positive and creative organization.”

### Performance management

Performance management is our main tool for achieving business results and managing our organization and people. Our performance management system integrates setting objectives, 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 varied feedback during performance reviews and development discussions.

Managers need performance management for objective setting, action planning, reviewing results and giving feedback and recognition to their employees. All our employees should be committed to the businesses we are in, what we are planning to achieve together and how they can do their best to contribute to our business goals and actions. Development planning and rewarding employees should take place when the results and achievements are evaluated.

For Nammo, good leadership also implies strong teamwork in our various operations. We believe that strong teamwork

and performance management will give a high level of motivation for our work and have a positive impact on the working environment. We continuously strive to create a positive working environment, and we believe that this will have a positive long-term impact on our ability to meet our targets. Our focus on motivational factors, leadership practices and environmental factors for every single employee has also shown positive results in 2009.

Skilled and motivated staff with a good understanding of our customers needs are a key factor in the efforts to meet our objectives. Nammo strives to ensure that all our employees focus on the customer in their daily work. Meeting the needs and requirements of our customers has a significant impact on how we educate our people and how we organize our various operations and processes. It is essential that our employees, managers, engineers and operators understand that our main focus is to serve our customers in a satisfying manner.

The organization must be flexible so that it can adapt to new challenges and a changing framework. One criteria for the

success of our business is to ensure cooperation across organizational lines, functions and projects within and between the divisions. The transfer of experience between different parts of the organization should be taken care of through formal and informal actions.

### Competence

To ensure use of the organization's overall competence and experience, broad participation in the development and decision-making processes is necessary. It is of great importance that all our employees show enthusiasm and initiative to achieve this. A decentralized decision-making process with broad participation will ensure that decisions are deeply rooted in the organization.

The recruitment of personnel with the right attitude and competence will be a key factor in the future. Good recruitment processes are important to ensure a better demographic balance in the organization and to strengthen the company's overall competence level. Both of these factors are important to ensure our ability to meet our short-term and long-term targets.

In addition to recruiting new competence, retaining critical competence in our organization is also an important factor. The transfer of competence between different departments and among the employees is critical to maintain and develop the company's overall competence platform. To ensure that employees with critical competence and knowledge stay as long as possible, the introduction of an effective and good senior policy is an important step in preparing for future challenges.

High priority has been given to promoting Nammo as a good alternative for young engineer students in 2009, and we will continue to do so in the coming years. We believe that these actions will ensure the competence level for future recruitments. We believe that recruiting new people with the right personality and competence is and will be a critical factor. We must keep up the extremely high level of technological development in our operations to secure the needs of our customers in the future.

# Human Resources





# Communication

The Nammo Group is involved in the group's reputation and will do its utmost to be acknowledged as a professional, credible and ethically driven organization.

Nammo has an open communication policy towards its stakeholders in order to satisfy any relevant questions or requests of importance, as long as they comply with the group's accepted levels of confidentiality.

A clear communication structure is important in a company like Nammo. With more than 1 900 employees spread across seven different countries and cultures, it seems obvious that the company is quite dependent on good communication skills and a precise and steady flow of information from all management levels. The most important task for the managers and leaders in Nammo is to make all our employees understand that we are one unified company and that this fact stands regardless of the country, nationality or division. Thinking communication across lines and borders enables synergy across all the business units and sites and improves the approach between the employees.

We continuously work for a unified promotion and appearance of the Nammo Group, both internally and externally.

After passing the first decade of Nammo's existence it was time for change. Nammo's vision and values had marked the company's first decade. They had served their purpose, and a realization was made that they needed to be updated to more precisely reflect the company of today. During the second quarter of the year, a project group was established and entrusted with the development of a new set of values and a new vision for the group.

## New vision and values

The new vision and values for Nammo was drafted and concluded based on data collected from internal workshops and gatherings during 2008 and first half of 2009.

### New vision; Securing the Future

Nammo's vision outlines what the organization wants to achieve. It should be our source of inspiration, our common focus and driving force. The new vision had to be related to the company's ambitions and day-to-day business. The new vision had to be easy to understand, easy to express and easy to identify with.

At Nammo we believe that our products should safeguard and protect our customers. The customers needs safe and secure products in order to perform at their best during their missions. The end user, whether at home or stationed abroad, deserves the best equipment possible in both training and combat.

The Nammo employees want a long-lasting workplace and an employer who prepares for long-term sustainability, as well as safe and secure working conditions. Having taken these aspects into account, Securing the Future was the obvious choice for the new vision.

### New values: Dedication, Precision, Care

The new internal Nammo values should, with a few words, describe the company's culture, be easy to identify with and be recognizable to the employees. The project group collected a set of words from employee workshops. Nammo's internal values were selected from among the



various sample words. The three values the project group finally decided on were: Dedication, Precision and Care.

The first value, Dedication, was chosen because we have strongly dedicated, enthusiastic and creative people at Nammo. We have people who always search for the best solutions, and a very stable, competent, and responsible workforce.

The second value, Precision, was chosen because precision is simply what Nammo is all about. We are reliable and accurate in our technology, production processes, services and business.

The third value, Care, was chosen because we are inclusive and open-minded at Nammo. We encourage team spirit and cooperation. The employees care about each others and about the customer. Nammo is an employer who really strives to do the best for its employees. The company has

an extraordinary internal culture and strength that is highly appreciated by everyone related to the company.

The new vision and values were launched during the annual "Nammo Forum". Both the vision and the values have been a success, but further implementation is still required. The second phase of the implementation period has started and will continue into the year 2010.

It is important that the employees feel ownership of the vision and the values, and that they really believe it reflects their perception of the company.



# Technology, research & product development

Ammunition, missile propulsion and demilitarization are all areas based on a wide range of technologies. Technologies are not only used for the design, construction and engineering of the products as such, skills are also required for the processes needed to bring the product to a status where it is acceptable to the customer.

One of the important aspects is not only to maintain and develop the existing basic technologies, but also to successfully introduce new technologies to existing and new products in order to develop products and solutions to meet the customers' needs.

## Technology push – market pull

The modification of existing and development of new products must be based on a very fine balance between market pull and technology push. The art of this fine balance is reflected in the balance between lagging behind and overpromising in a very competitive market. Both can be disastrous to business success. Time-to-market in the defense business and other safety-critical areas is normally very long, often up to a decade or even more. Failure to keep up in the area of technology development is not likely to surface until years after. Nammo's focus on technology, including applied research, is based on the understanding of the importance of technology development related to business success in a long-term perspective.

## Novel technologies and driving forces

In the search for new technologies, it is important to understand the combination of the major driving forces that define the direction of the development of product performance and the confinements imposed of a legal or regulatory nature. The latter can be exemplified by the need

for intrinsic properties such as insensitive munitions and the recycling of materials. This requires new solutions for energetic compositions, as well as a new design for the products. Environmental requirements to protect the user, nature or manufacturing personnel are other examples. The direction of product development and market pull is to a large extent defined by experience from the operational theaters in Iraq and Afghanistan, or by the need for the effective training of troops within the limits of cost, time and available training areas.

For Nammo, this has led to increased use of materials such as plastic and composite structures, in addition to product solutions from training ammunition to missile propulsion, as well as the acquisition of a highly competent composite company in the US. Other products have been realized through combining existing technologies with new technologies. One good example is the 40 mm AGL ammunition, where electronics based on in-house competence has resulted in a serial manufactured product.

Nammo's vision, Securing the Future, can also be reflected in the future needs for more specialized products focused on safety and environmental issues, in addition to improved performance, to satisfy customer needs and at the same time meet the regulatory requirements imposed by national authorities from different levels.



# Finance

The overall financial objective of Nammo is to generate a total shareholder return on par with the best companies in the defense industry. Nammo defines the total shareholder return as share value appreciation plus dividends over a period of time.

In order to achieve this overall target, Nammo has developed a financial strategy and defined a set of key performance indicators (KPIs). This strategy governs the work of the financial department at both corporate and divisional levels, while the KPIs indicate to what extent the company is performing in line with its ambitions and objectives.

## Financial strategy

To meet our strategic objectives, Nammo must reinvest profits to ensure long-term growth. Historically, growth has materialized through both organic growth and mergers and acquisitions. It is Nammo's ambition to continue to grow on this basis. To support this strategy, the financial department has defined the following parameters that form the necessary financial framework to support our overall strategy:

- Cash flow to support organic growth and M&A combined
- Continued focus on economic value added (EVA) and further development of key performance indicators (KPIs)

- Improvement of the equity ratio
- Debt management (net gearing)
- Continued reduction of financial risk associated with transactions, assets, interest rates, insurance and credit areas
- Continued growth of the finance organization's competence

Continuous risk assessment is an increasingly important part of the work carried out by the financial department at both corporate and divisional levels.

Nammo is an international company operating in a competitive market. The Board of Directors has emphasized that Nammo should focus, throughout its business operations, on establishing low-risk financial setups, where the focus is on ownership transparency and high ethical standards for the respective industrial partners. These principles serve as overall guidelines for Nammo's corporate

risk management. Nammo's main focus for financial risk management is:

## Currency risk

Approximately ten percent of the Nammo Group's total sales are in Norwegian Kroner (NOK). Nammo reduces its currency risk by hedging revenues and purchases with foreign currency forward contracts. Our currency risk can be further categorized as:

- Balance sheet currency risk, which arises when the group's accounts are consolidated in NOK and translation differences arise due to assets and debt in foreign currencies. It is recommended that the currency of external debt offsets the group's net assets in each currency.
- Transaction risk. The Nammo Group is exposed to currency fluctuations when its cash flow in foreign currencies is translated into the local currency and thereafter consolidated in NOK. Cash flow in foreign currencies comprises cash flow from operations, asset sales and investments and financing activities. The aim is to even out the currency effects and improve the predictability of group earnings. Hedging is based on the individual transactions.

## Interest rate risk

The interest rate risk has increased in step with the group's increasing debt. The risk is linked primarily to USD and EUR. The interest rate fixing periods in the loan agreement can be determined by Nammo, and these periods have been 1-3 months since March 2007. The gradual reduction in the USD interest rate levels has been favorable to Nammo since the loan was established. Nammo currently has a margin of 0.30% for the credit facility, which is considered low compared to the current market rates.

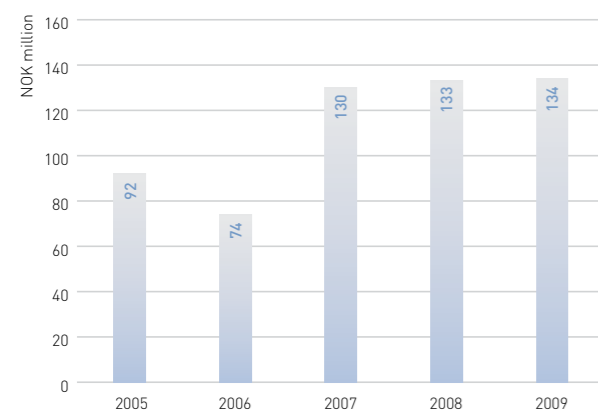
## Credit risk

Nammo's customers are mainly defense ministries in different countries and other major industrial companies in the defense industry. Thus the inherent credit risk is considered low. The credit risk is evaluated annually and the risk associated with the outstanding accounts receivable is considered low for the time being.

## Supplier risk

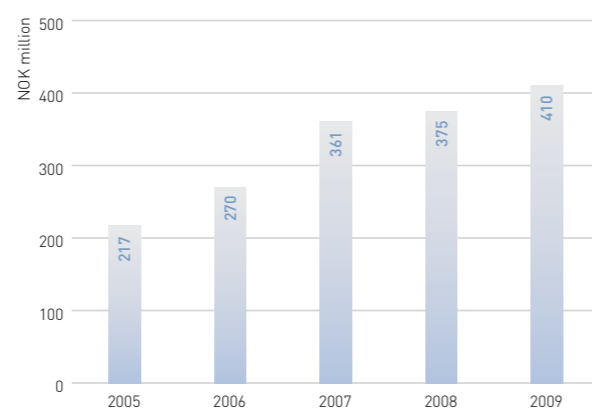
Nammo has some critical suppliers that cannot easily be replaced. These suppliers are monitored and alternative sources are evaluated on a regular basis. Such suppliers are also considered as potential targets for mergers and acquisitions.

## Dividend to shareholders



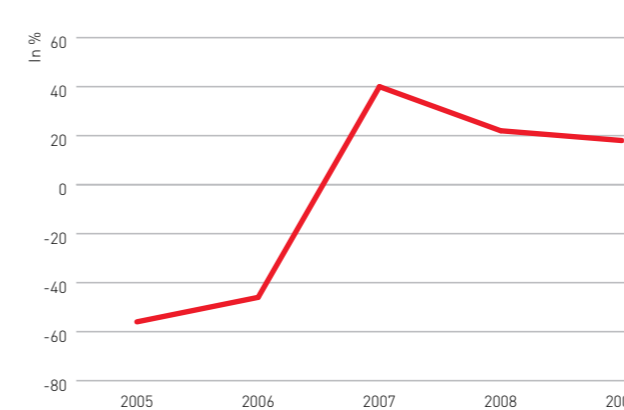
## NIBT

(Net income before tax)



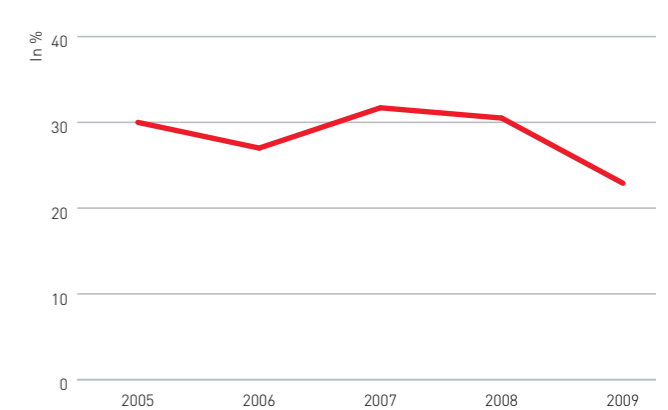
## Net gearing

(Interest-bearing debt - liquid funds) / equity



## Return on equity - ROE

(After tax and measured on book values)





# Corporate social responsibility

## THIS REPORT

In this annual report, Nammo has expanded its reporting on corporate social responsibility. The reporting is structured around the environment, people and society. The company has also taken the first step in reporting in accordance with Global Reporting Initiative (GRI) standards.

Most of the statistics and figures in the environmental area are derived from Nammo Raufoss, where the company is headquartered. In the years to come, the tables and figures will be updated with information from the entire group. This year Nammo is also reporting on the UN Global Compact.

## Environment – laws and regulations as the minimum requirements

“We will carry out our operations in such a manner that they cause the minimum amount of damage to the external environment, either in the local surroundings or in a larger perspective.”

Environmental issues are an essential part of a sustainable business practice for modern production based companies. Nammo is no exception. Not just because of the current climate challenges, but because acting responsibly and respectfully to employees and society also show concern for future generations.

Nammo is dedicated to the use of renewable energy wherever possible. Reducing the use of energy and implementing effective energy saving projects have high priority.

Nammo has set environmental goals and is following up the results systematically. Laws and regulations are adhered to and considered as the minimum requirements. The ambition for all the units is for all the operations in the industrial area to be environmentally friendly. One measure to reach this is to satisfy the requirements in the ISO 14001 certification – or similar standards. Within the end of 2010, all the operational sites in the Nammo Group will be ISO 14001 certified.

### A good neighbor

The Nammo policy states that the company shall be recognized as a good neighbor and that everyone must take a firm and unequivocal stand with regard to the external environment. Employees are trained and educated in the company's environmental standards.

The company follows up and measures wastes and emissions to water and air, as well as the reduction of the noise levels at each site. Systematical reporting of all hazardous conditions, near accidents, and accidents is prioritized to ensure that efficient protection measures are in place to reduce the consequences for people and the environment. One part of this is to avoid the use of materials, chemicals, or processes where the risks cannot be adequately controlled.

Each site reports to the local and state authorities, and no new pollution was detected in 2009.

In order to maintain and improve the environmental standards, the company keeps abreast of technological developments and incorporates new operational knowledge. Every year Nammo's head of environmental affairs visits each and every site to ensure that the environmental protection targets have been established and are updated. The environmental conditions for personnel exposed to hazardous materials are registered, and the personnel are followed up with preventive medical examinations.

Suppliers strategic to the Nammo range of products are visited and their environmental standards are reviewed due to the certification requirements.

## Demilitarization

Demilitarization activities are an important part of Nammo's corporate social responsibility. Nammo has world-leading expertise in ensuring eco-friendly disposal of cluster munitions. The demilitarization division has disposed of several million bomblets from cluster munitions over the last ten years in its facilities in Norway, Sweden and

Germany on behalf of NATO customers. This demilitarization market is expecting a growth due to the 2008 convention on cluster munitions. Investments have been made in specialized machinery and technical processes in order to ensure the most eco-friendly demilitarization process for employees and the community.

## Environmental reporting 2009

	Energy consumption (kWh)						Special waste (kg)***			Water consumption (l)****		
	2008		2009		Goal 2010		2008	2009	Goal 2010	2008	2009	Goal 2010
	Fossile	Renewable	Fossile	Renewable	Fossile	Renewable						
Lapua*												
Vihtavuori	1 562 810	2 451 995	1 630 090	2 557 555	1 600 000	2 500 000	3 881	4 640	4 000	300 000	300 000	300 000
Lapua GmbH*												
Lindesberg	290 084	5 511 614	281 296	5 334 632	267 000	5 079 000	1 130 400	24 056	20 000	6 200 000	7 342 000	6 500 000
Karlskoga	1 210 000	4 840 000	1 125 200	4 500 800	1 100 000	4 400 000	5 800	6 000	5 500	24 500 000	23 594 000	23 000 000
Vingåker	6 740 000	1 289 000	7 933 400	1 386 450	"	"	35 040	51 983	" <sup>1)</sup>	" <sup>3)</sup>	"	"
Vanås	4 125	3 938	4 385	5 000			22 640	59 850		31 740	28 222	
Presstec**	903 281	699 314	817 405	632 830	900 000	700 000	45 300	41 050	40 000	8 009 000	8 000 000	
MTH*												
Nammo Buck	2 053 807		1 992 177		2 000 000		833	1 118	900	12 850	12 998	12 500
Nammo Talley <sup>4)</sup>	286 049		242 436		230 230		323 516	403 786	363 407	4 587 420	10 787 250	14 408 750
NAD	0	1 846 820	0	1 679 379	0	1 500 000		863	600	2 438 000	1 255 000	1 200 000
Nammo BF	260 000	521 394	334 000	575 545	334 000	575 545	1 931	4 484	4 484	347 000	333 000	333 000
Raufoss	276 546	28 422 856	259 640	28 009 534	233 676	26 609 057	238 893	262 711	250 000	251 626 000	232 541 000	220 000 000
<b>Total</b>	<b>13 586 702</b>	<b>45 586 931</b>	<b>14 620 029</b>	<b>44 681 725</b>	<b>6 664 906</b>	<b>41 363 602</b>	<b>1 808 234</b>	<b>860 541</b>	<b>688 891</b>	<b>290 043 010</b>	<b>284 202 470</b>	<b>273 754 250</b>

\* There exists no data  
 \*\* Presstec: Energy consumption (kWh), nuclear power: 2008; 1 374 195. 2009; 1 433 355. Goal 2010; 1 400 000  
 \*\*\* Special waste means explosives waste  
 \*\*\*\* Water consumption has been calculated

- Vingåker
- 1) Difficult to set goals as consumption depends on total amount of incoming product to be demilitarized during the year as well as methods needed to process the different product types.
  - 2) No explosives is included in special waste from Vingåker
  - 3) Water consumption is not measured today since the company has their own wells and water from the lake is used after some purification.
- Nammo Talley
- 4) Energy decrease is primarily due to a pollution prevention project at plant #1 building where old light fixtures are converted to energy efficient fluorescent lighting in the High-Bay office areas and the warehouse. New solar covers are installed in roof access points allowing natural sunlight help to illuminate the building during the day. All of Nammo Talley's energy comes from an electric power company. No manufacturing energy is generated on-site with fossil fuels.

Figures stated are limited to the specific waste streams identified by Nammo Corporate HESS and does not include explosive wastes.

Significant change in water usage from 2008 to 2009 is attributable to Nammo Talley taking over responsibility for the water utilities at our plant #1 facility from the buildings former owner (TRW). Plant #1 is cooled primarily with a large water cooling tower system which Nammo Talley rebuilt in 2008 to greatly reduce energy and water usage. However, we did not start paying for water until mid-2009 and have no usage records prior to when we took over responsibility from TRW. Therefore, usage in 2010 is likely to go up due to our responsibility being increased to a full 12 month period with the plant #1 system.

## Change of mind

In recent years, the issue of energy consumption and greenhouse gas emissions has become even more pressing. Nammo production does not create any greenhouse gas emissions. Nevertheless, the company works continuously to reduce energy consumption at each site. Energy constitutes a major expense in our total budget, and there is a great potential for improvement.

To exploit this potential, Nammo has launched an energy saving program at Nammo Raufoss in Norway, and similar activities have been given high priority at all the other company sites. It is primarily a matter of change of mind, systematic follow up and some investments. Around NOK 1.5 million has been invested in the program. To motivate energy savings, the company has put up electronic information boards, where the management and employees can follow the day-to-day energy consumption and savings.

At Nammo Raufoss they have reduced energy consumption by 200 000 kWh or NOK 120 000 in 2009. The focus here has been on motivation, control of the heating and ventilation, and upgrading the district heating supply.



These boards demonstrate to employees that energy saving works! Its the day to day statistics that are shown here represented by the project manager for the energy saving project at Nammo Raufoss.



# People – dedication to continuous improvement

“People are the key to our future success.”

The implementation of a code of ethics, introduction of new values, focus on leadership development, and integration of new companies to comply with Nammo standards have been one of many important issues for Nammo’s human resources management in 2009.

Health, environment, safety and security (HESS) is the umbrella for the prioritized areas within the HR department, and they are handled specifically by the HESS management. Environmental and security activities are reported in separate chapters.

## Health and safety

Nammo AS is a group of companies with 1 967 employees (1 921 man-years) at year-end. In 2009, 1 919 employees were employed on average, in Norway (705 employees), Sweden (443 employees), Finland (211 employees), Germany (200 employees), Switzerland (32 employees), and USA/Canada (328 employees).

Sickness absence at Nammo was 4.1 percent at the end of 2009, compared with 4.0 percent in 2008, a slight increase from last year’s best result in the history of the company.

Senior Vice President of HR Bertil Pålrsrud says: “This shows that commitment and follow-up by the management and unions yields results. Both management and the employees are dedicated to continuous improvement. The stable, low sickness absence rates show that we take care of our employees and have succeeded in creating a good working environment through our cooperation programs.”

Nammo has various activities on its agenda. These include workplace improvement, attention to the environment, protective equipment and physical training. Every year, the HESS managers meets to discuss health, environment and safety within Nammo. Several operational sites have working groups and programs for education and training to maintain and improve our health and safety records.

## Company culture

Activities to integrate the new employees from the acquired companies include introducing them to the Nammo culture, values, ethical standards and leadership thinking, as well as employment development and the company strategy. To develop a single company culture, the Nammo Forum plays an important role as an annual event. Focusing on strategy

has priority, but there are other cross company issues on the agenda as well.

“We have many different events similar to the Nammo Forum, such as the Finance Forum and HR Forum, all of which are designed to strengthen our common organizational structure. A criteria for the success of our business is to ensure cooperation across organizational lines, functions and projects within as well as between the divisions. The transfer of experience between different parts of the organization should be taken care of through formal and informal actions,” says Pålrsrud.

## Performance management

Nammo works continuously to improve leadership performance and to identify potential managers at all levels. The performance management system is essential in these training programs. It involves objective setting, communication about performance levels and actions, performance reviews and individual appraisals on an annual basis. Its purpose is also to support the continuous development of individuals and teams by providing direct and varied feedback during performance reviews and development discussions.

Managers need performance management for setting goals, planning actions, reviewing results and giving feedback and recognition to their employees. All employees must be committed to the business areas, plans, and strategies, and find ways to best contribute to our business goals and actions. A strong performance management system and teamwork boost motivation among employees and have a positive impact on the working environment.

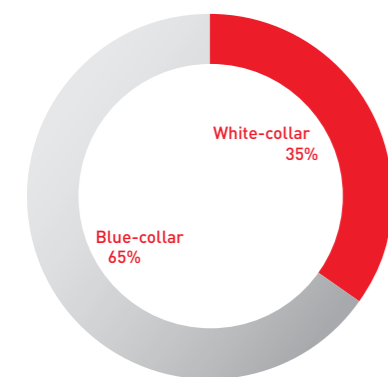
## Employee development

Nammo strives for efficient use of resources and good profitability through a positive and creative organization.



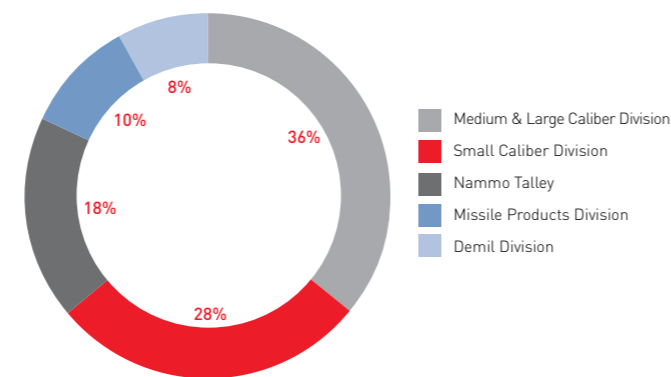
Dedicated people working on a rocket motor.

## Group distribution between white-collar and blue-collar



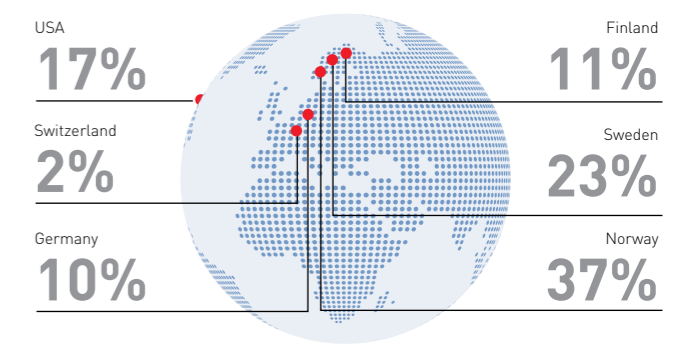
## Employees pr. division

Total number of employees in average = 1 919



## Employees pr. country

Total number of employees in average = 1 919





Precision through measurements.

The organization needs to be flexible to adapt to new challenges and a changing framework.

Nammo has introduced and will develop a systematic development program for employees further to enable the organization and individual employees to reach their full potential.

To ensure use of the organization's overall competence and experience, broad participation in the development and decision-making processes is required. To achieve this, it is of great importance that all employees show enthusiasm and initiative. A decentralized decision-making process with broad participation will ensure that decisions are deeply rooted in the organization.

### Recruitment

The recruitment of new competence and retaining critical competence in the organization is important. The transfer of competence between different departments and among the employees is critical to maintain and develop the company's overall competence platform.

### Equal opportunities

Equal opportunities for all employees forms an important platform for our human resources policy. This applies in particular to recruitment, career development, equal pay for equal work and working conditions. Activities to encourage female university graduates to join our business will be an important action in the future.

### Key numbers

- Women account for 30.1 percent 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 at present.
- Nammo has equal pay for work of equal value. Women and men holding the same positions should have the same salary.
- When recruiting, there are equal opportunities for both women and men.
- Women and men have the same working conditions.
- The group has grown by 130 employees during this period.
- Nammo 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 recruitment will continue to encourage women to apply.

It is the company's policy to recruit on merit, regardless of gender, pregnancy, trade union membership, sexual orientation, race, disability, age, or religion. Gender equality is an important part of our personnel policy. This is due to the belief that the elimination of unfair discrimination in the workplace contributes to productivity and performance, as it allows the most effective utilization of people's talents.

### Lost time injuries and sickness absence

There are still areas that need improving, such as the reporting of incidents and accidents and risk analysis. The company works systematically with health and safety

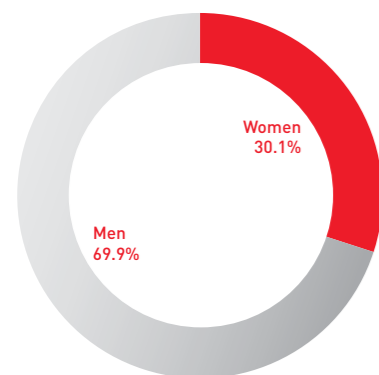
in all parts of the organization and operations in order to prevent serious accidents. This is a never-ending project that needs our constant attention every day. We always strive to be on the alert and never lean back after great achievements.

There were 37 accidents resulting in absence in 2009, representing an H-value of 11 (Lost Time Injury (LTI): the number of days lost per million work hours). This is the same result as in 2008 and needs continued attention for improvement. This gives us an F-value of 197, which indicates that the most frequent accident types are minor. Most of the injuries are to fingers and hands as a result of handling materials and machinery. Injuries caused by falls due to icy or slippery ground are another type of frequent injury. The group will continue its preventive work in all areas and maintains a particular focus on the attitude of employees.

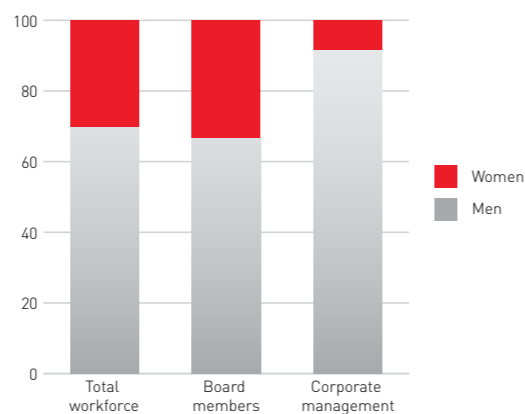
Sickness absence at Nammo was 4.1 percent at the end of 2009, compared with 4.0 percent in 2008 (graph below). However, some of our operational sites experienced a decrease in sickness absence in 2009 and achieved the best result ever at Nammo, even though it is not reflected in the total numbers. This development shows that the management's and unions' focus and follow-up are producing results. Various activities, including workplace improvement, attention to the environment, protective equipment and physical training, have been on the agenda.

### Percentage men vs. women

Total number of employees in average = 1 919

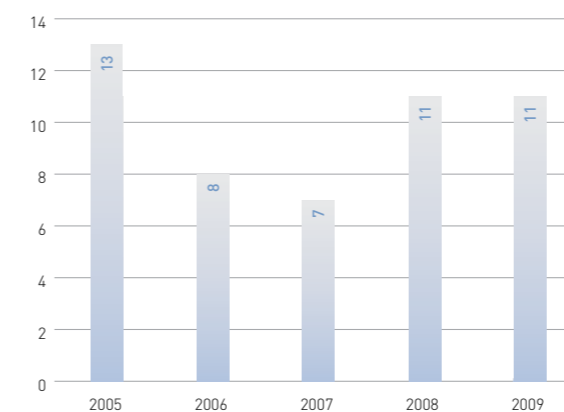


### Gender percentages



### H-value in Nammo 2005-2009

H-value: Number of accidents with absence pr. million working hours



### Sickness absence in Nammo 2005-2009

Sickness in %





## Talent Factory Building management competence and a Nammo team.

The goal of the Talent Factory is to establish and strengthen a common platform for operational management based on management by objectives and people management. The program is based on Nammo's vision, values, ethics and preferred management attitudes. Nammo wants to improve management performance and prepare managers for greater responsibility.



SVP Human Resources Bertil Pålstrud in enthusiastic discussions with two of Nammo's future talents; Maritta and Per-Ivar.

Senior Vice President of Human Resources Bertil Pålstrud, says: "Division directors nominate 14 to 17 managers from different levels of the organization to participate in the program. The Talent Factory was established in 2002 and has proved to be a success. Our achievements have inspired us to continue these training sessions. After five gatherings and four modules, we achieve a stronger team with more knowledge about all of Nammo's activities. An important added value from the program is the transfer of knowledge, experience, methods and practices."

The main areas for the program include finance, customers, innovation, organization and management in relation to these areas. The first session introduced the themes of finance and management by objectives. The reason for this is the fact that Nammo's financial goals and ambitions form the basis for objectives and initiatives in all of Nammo's divisions and departments.

office, I have defined objectives for my responsibilities. My ambition is to deliver more informative and relevant information to the management. Personally, I would also like to qualify for work in other parts of Nammo in another country in Europe.

### "An opportunity and inspiration"



*Per-Ivar Dokset, Norway,  
Technical manager  
Division: Medium and Large Caliber  
Joined Nammo in 2007  
Talent Factory 2009/2010*

I see the Talent Factory as an opportunity and inspiration to develop my skills as a manager at Nammo.

My personal ambitions for the future are to lead in a more professional manner and gain better working conditions for my employees, and an even higher level of efficiency.

My experience from the first session of the talent program met my expectations. For me as an engineer, financial matters are very important in order to learn more about the financial processes in Nammo. The Talent Factory strengthens Nammo as a team and gives us a deeper understanding of all the company's activities.

When I was hired by Nammo a couple of years ago, the company's caring environment and positive culture stunned me. Seeing your colleagues enjoy work and life in general is very encouraging.

### "Better than my expectations"



*Maritta Kuismäen, Finland  
Finance and administration manager  
Division: Small Caliber  
Joined Nammo in 2005  
Talent Factory 2009/2010*

So far, the Talent Factory has proven to be a lot more interesting and fun than my expectations. I am really looking forward to the next modules.

After this experience I am more inspired and qualified to find creative solutions in my daily work as a manager. This is an important personal outcome from the first Talent Factory session.

I would also like to underline the importance of learning more about the way other colleagues work, acknowledging Nammo as one big team, and last, but not least, gaining more knowledge about management by objectives. On return to my





## Society - commitment to employees and communities

Running a sustainable and profitable business is the best way for a company to be socially responsible. This is what Nammo does. The company has a long-term strategy for the development of its business and employees.

Nammo applies and follows all the laws and regulations set forth by the national authorities. The whole group works hard to earn the trust and support of the local communities. The company's values of Dedication, Precision and Care are the guiding principles.

### Stakeholders

Nammo maintains a focus on the group's external reputation and will do its utmost to be acknowledged as a professional, credible and ethically driven organization. In general, Nammo has an open communication policy in order to satisfy any relevant questions or requests of importance, as long as it complies with the necessary and accepted levels of confidentiality.

Corporate responsibility is above all the company's own perception of responsibility in relation to its employees,

shareholders, customers and suppliers as well as the local, regional and national authorities, consumers, NGOs and the media.

Nammo is deeply committed to the wellbeing of our employees and has taken several initiatives in recent years to improve the working conditions and health of our employees.

### Cluster case

A group of signatory states, United Nations organizations, the International Committee of the Red Cross, the Cluster Munitions Coalition, and other humanitarian organizations met in Oslo on 22 to 23 February 2007 to discuss how to effectively address the humanitarian problems caused by cluster munitions. A convention was agreed on.

Nammo is strongly engaged in the demilitarization of cluster munitions and participated in different forums to transfer our expertise and knowledge to the process prior to the Oslo meeting on 3 December 2008. At these meetings Nammo presented how to eliminate the cluster munitions in the most environmentally friendly way.

The convention will enter into force on 1 August 2010. The countries that ratify the convention will be obligated *never under any circumstances to:*

- use cluster munitions;
- develop, produce, otherwise acquire, stockpile, retain or transfer to anyone, directly or indirectly, cluster munitions; or
- assist, encourage or induce anyone to engage in any activity prohibited for a state party under this convention.

### A responsible citizen

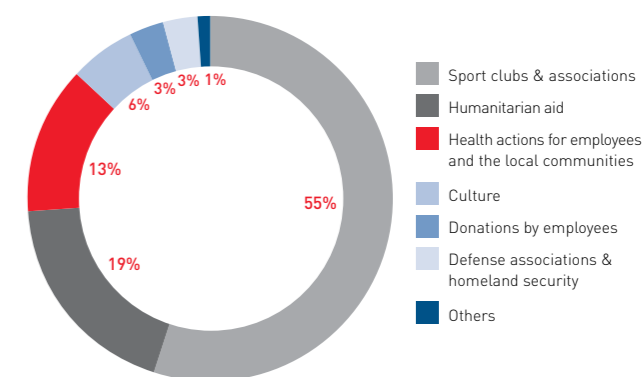
Nammo has been socially responsible by sponsoring culture and sports in most of the local communities where the company is represented.

At the national level we have mainly supported humanitarian organizations.

Every site has a sponsorship program, but the objective is more than just supporting positive activities in the community. Activities that benefit our employees and business-related activities are prioritized. Nammo encourages employees to take part in community activities, to be engaged in health actions, sport clubs, social programs, cultural events and humanitarian aid.

The group sponsorship program contains a wide range of different activities that includes cancer society, people in poverty, ski associations, shooting competitions and events, war veterans, fire departments, different activities for young people, support for engineering students and much more.

Sponsoring programs 2009



## Ethical conduct is part of our core business

Four times a year the Nammo Ethical Committee meets according to a fixed agenda to be updated on ethical issues and report on the implementation of the company's ethical standards. In 2009 there has not been any reported violations of the ethical code of conduct.

The committee has three members from the group management team that are nominated by the Nammo management for a period of two years. The committee reports directly to the President and CEO, and all ethical issues are treated as confidential.

Implementation of the ethical code of conduct has had high priority in 2009. A representative from both HR and Communication have visited each of the ten major Nammo sites. The purpose of these visits has been to present the ethical guidelines and good examples of dilemmas. There have been meetings with both management groups and employees. How to act when discovering unethical conduct and how the committee shall handle whistle blowing have been among the important issues at these meetings.

Nammo's ethical committee should ensure a strong focus on a common understanding of and compliance with Nammo's ethical requirements, as well as the implementation and follow-up of the ethical code of conduct within the Nammo Group.

In addition, the ethical committee is responsible for the annual review of the ethical code of conduct, and they have the authority to consult external competence and expertise as required.

The Nammo Group has also committed to the Global Principles of Business Ethics established by the European Association of the Aerospace and Defense Industries.



## Ethical code of conduct

The ethical code of conduct (ECC) describes Nammo's commitment and requirements in connection with issues of an ethical nature related to business practices and personal conduct. The ethical code of conduct describes the Nammo Group's commitment and requirements in connection with issues of an ethical nature related to business practices and personal conduct.

Nammo will comply with any applicable laws and regulations and act in an ethical, sustainable and socially responsible manner in its business activities. Nammo does not tolerate the use of forced or child labor. Nammo supports the UN Universal Declaration of Human Rights.

The target group for the ECC is all the employees, members of the board of directors and all of Nammo's subsidiaries, hired personnel, consultants, representatives, lobbyists and others who act on Nammo's behalf.

### Quotes from the ECC

- The ECC describes Nammo's ethical standards and requirements. The intention is to be as clear and direct as possible in terms of difficult issues individuals may face when working for Nammo. When handling ethical issues, it is important to follow a number of simple rules.
- Make sure your actions are within the law and comfortably within Nammo's own ethical requirements.
- Be open and transparent with regard to ethical issues. If in doubt, contact your superior and/or the Nammo Ethical Committee.
- Spend sufficient time and consult with colleagues and superiors in connection with difficult decisions.
- Nammo should be recognized for its high ethical standards. Breaches of laws and ethical requirements are therefore a threat to the group's future development, competitiveness and reputation in the market.

Every employee or representatives who assigns duties that are likely to lead to involvement in or exposure to any areas covered by this code of conduct, should familiarize themselves with such regulations. They are also obligated to

comply with the ECC. The areas addressed in particular by the code of conduct include:

- Anti-corruption
- Export control
- Products and services
- Employees

### Export control

Nammo must comply with the laws and regulations of the export rules of the respective countries from which Nammo exports its products and services. It is the responsibility of Nammo to provide all the required information to the export authorities.

### Products and services

Nammo must comply with the laws and regulations of the respective countries where Nammo operates, with respect to the development, production, marketing and sales of products and services.

### Code of personal conduct

Nammo sets high ethical standards for everyone who acts on behalf of the group. Each individual must abide by the applicable laws and regulations and carry out their duties in accordance with the requirements and standards that apply within Nammo.

Nammo expects each individual to treat everyone with whom they come into contact through their work or work-related activities with courtesy and respect. Each individual must refrain from all conduct that may have an unnecessarily negative effect on colleagues, the working environment or Nammo.

This includes any form of harassment, discrimination, or other conduct that colleagues or business associates may regard as threatening or degrading. No individual must behave in a manner that can offend local customs or culture.

### Confidentiality

The duty of confidentiality should prevent unauthorized persons from gaining access to information that may harm

Nammo's business or reputation. This duty should also protect the privacy and integrity of individuals. Careful consideration should therefore be given to how, where, and with whom Nammo-related matters are discussed, in order to ensure that unauthorized persons do not gain access to internal Nammo information. Each individual must comply with the requirements for the confidential treatment of all such information, except when disclosure is authorized or required by law.

### Whistle blowers

Nammo will not implement sanctions in any form against any individual who responsibly informs persons in a position of responsibility or internal entities about possible breaches of Nammo's ethical guidelines, applicable laws, or other reprehensible circumstances in Nammo's business.

*<these quotes are limited and from the handbook>*

## Product responsibility

- Nammo's products are mainly exported to NATO and EU countries
- The authorities license all export
- Ammunition produced by Nammo is identified in compliance with International and NATO standards
- Nammo does not accept the sale of its products to third countries without approval
- Export to countries that are not NATO members demands an end-user declaration

## Nammo Talley awarded for community service

Outstanding community service was truly a positive factor when the chamber of commerce selected Nammo Talley in Mesa as the 2009 Large Business of the Year. The criteria for the award included having a long-standing presence in the city and demonstrating commitment to community involvement and support.

This is an acknowledgment of the work performed for Nammo Talley customers and the community.

The population of Mesa is 460 000. The chamber of commerce is comprised of over 1 100 members, so there were many other companies in the running.

For the third consecutive year, Nammo Talley was also honored with "The best of the best award" for workplace safety by the insurance company SCF Arizona in 2009. The company insures more than 56 000 businesses.

# UN Global Compact

## Nammo supports the ten principles of the UN Global Compact.

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 in the areas of human rights, labor, environment and anti-corruption.

As a natural part of our business, Nammo has developed and implemented values and policies for the environment, human rights, labor standards and ethics. Our code of conduct is intended to assist employees when encountering ethical dilemmas such as bribery, facilitation payments and

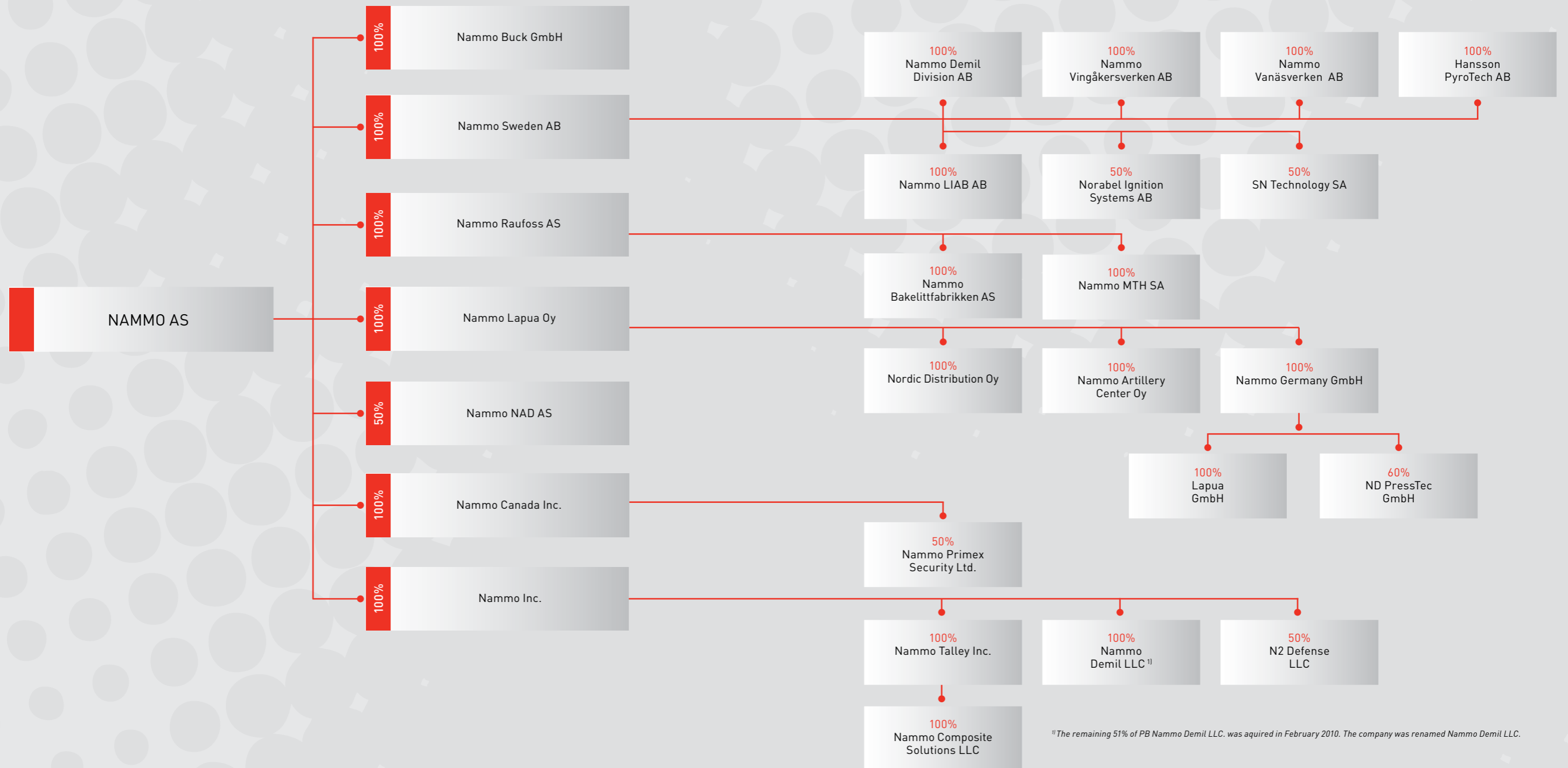
gift giving. It is important that we act responsibly no matter where we do business. We strive to develop relationships with suppliers to increase awareness of sustainability and responsible behavior.

The UN Global Compact initiative is global and local; private and public; voluntary, yet accountable for our business. Our commitment is based on a greater awareness of corporate social responsibility; guided by our values of Dedication, Precision and Care; and in the spirit of the ten principles:

<b>Human Rights</b>		<b>Page number</b>
<i>Principle 1:</i>	Businesses should support and respect the protection of internationally proclaimed human rights; and	2-3, 18-19, 28-33
<i>Principle 2:</i>	make sure that they are not complicit in human rights abuses.	30-31
<b>Labor Standards</b>		
<i>Principle 3:</i>	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	34
<i>Principle 4:</i>	the elimination of all forms of forced and compulsory labor;	30-31
<i>Principle 5:</i>	the effective abolition of child labor; and	39
<i>Principle 6:</i>	the elimination of discrimination in respect of employment and occupation.	28-31
<b>Environment</b>		
<i>Principle 7:</i>	Businesses should support a precautionary approach to environmental challenges;	2-3, 26, 55-56
<i>Principle 8:</i>	undertake initiatives to promote greater environmental responsibility; and	26, 55-56
<i>Principle 9:</i>	encourage the development and diffusion of environmentally friendly technologies.	20, 25-27, 37
<b>Anti-Corruption</b>		
<i>Principle 10:</i>	Businesses should work against corruption in all its forms, including extortion and bribery.	35-37



# Company organizational structure



<sup>1)</sup> The remaining 51% of PB Nammo Demil LLC, was acquired in February 2010. The company was renamed Nammo Demil LLC.

# Ownership structure

Nammo is owned equally (50/50) by the Finnish Defense and Aerospace Group, Patria Oyj, and the Norwegian State represented by the Norwegian Ministry of Trade and Industry.

## Patria Group

Patria is a defense and aerospace group with international operations that delivers competitive solutions to its customers based on its own specialist know-how and partnerships. Patria is owned by the State of Finland (73.2%) and the European Aeronautic Defense and Space Company EADS N.V. (26.8%).

### Patria's key business areas are:

- Life cycle support services for aircraft and helicopters, as well as pilot training.
- Development and integration of systems for command and control, and situational awareness, as well as the associated life cycle support services.
- Armored wheeled vehicles, mortar systems, and ammunition products, as well as the associated life cycle support services.
- Maintenance of army material for the Finnish Defense Forces.

The Patria Groups' net sales at year end 2009 totaled EUR 539,5 million.

## Norwegian Ministry of Trade and Industry

The state's direct ownership in a number of companies is important to the Norwegian government. It ensures, for example, that companies of national significance continue to keep their head office in Norway, contributing to a sound and stable development of trade and industry in Norway.

The state-owned companies possess large amounts of economic potential on behalf of the country, making these companies important players in society. The state is concerned about exercising beneficial corporate governance, including the organization of state-ownership, so that the state's different roles are kept clearly separate, and so that there is

transparency with respect to the administration of state-ownership.

In Storting White Paper No. 13 (2006-2007) Active and Long-term Ownership, the government expresses clear expectations that companies in which the state holds a stake should be leaders in the field of ethics and corporate social responsibility. In the ownership report, the government specified its expectations for corporate social responsibility in a total of nine areas, referred to as overall considerations. These areas are: health, working environment and safety; the environment; ethics; work against corruption; gender equality; reorganization; research and development; integration and career opportunities for other groups; and national security. These are aspects that the government expects the companies to include in their assessments, which are intended to support the companies' long-term return and industrial development.

The state emphasizes good corporate governance of the enterprises in accordance with the Norwegian Code of Practice for Corporate Governance, and the state also focuses on how the companies meet the expectations of their stakeholders and society in general. Strategies in connection with corporate social responsibility must have a solid foundation on the boards of the companies. The follow-up of corporate social responsibility has become a more important part of the state's ownership dialog with the companies.



**Patria**



# Enlargement

During the year 2009 Nammo has continued to strengthen its foothold in the USA and Canada.

## Enlargement in the US

### Nammo Talley acquired Composite Solutions LLC

Composite Solutions has over 20 years of experience in the design and manufacture of technically challenging composite structures for commercial, aerospace and defense markets.

The addition of Composite Solutions to the Nammo family expands the technical offerings that Nammo Talley can offer its aerospace and defense customer base and further diversifies the company through addition of Composite Solutions commercial customers.

Nammo Composite Solutions, LLC is a wholly owned subsidiary of Nammo Talley and its operations will remain in Murray, Utah.

## Two steps in Canada

### Establishment of Nammo Canada Inc.

In February 2009 Nammo decided to establish Nammo Canada Inc. in Ottawa to be more present and provide better services to the Canadian customers.

### Acquisition of 50% share of Primex Security Systems Ltd.

At the same time as Nammo established Nammo Canada Inc. the company also acquired 50% of Primex Security Systems Ltd., which was first established in 1999. Its primary business has been sales of security services and systems including installations and training. The company is renamed Nammo Primex Security Ltd.



## Introduction

Nammo AS is a limited liability company established under Norwegian law with a governance structure based on Norwegian corporate law (Aksjeloven) and similar laws in the six other countries where we operate: Finland, Sweden, Germany, Switzerland, USA and Canada. Our governance system has been developed through cooperation between the Board of Directors and the Nammo group management in order to ensure compliance with the relevant laws and regulations. Our governance system is also important in order to ensure efficient controls for the business processes. There is continuous ongoing work to improve our corporate governance system. Corporate governance is regarded as a key element in the short-term sustainment of business operations, as well as preparation for a longer term development of the company. Corporate governance encompasses the leadership culture, vision and values, ethical code of conduct, risk management, reporting and control mechanisms.

## Corporate directives

The framework for leadership, organization and culture is the foundation of our governance system. The system is based on the delegation of responsibility to our legal subsidiaries and business units, as well as corporate functions, such as finance, human resources, communication and business development. In order to maintain uniform standards and control, we have defined common requirements in the form of corporate directives that are mandatory for all parts of our organization. The directives address areas such as

strategy and business planning, finance, risk management, organizational and employee development, intermediary relations, legal affairs, patenting, auditing, health, the environment, safety and security, ethics and social responsibility. The directives are available to all Nammo employees.

## Controls and procedures

Nammo's internal procedures for financial control and reporting are designed to provide reasonable assurance to Nammo's group management and the Board of Directors regarding the preparation and presentation of our financial statements. The management of Nammo AS is responsible for establishing and maintaining adequate internal control for financial reporting. Our internal control of financial reporting is a process designed under the supervision of the Group CEO and the Group CFO. The accounting policies applied by the group follow the Norwegian General Accepted Accounting Principles (N GAAP).

In the finance area, there are directives for planning and budgeting, financial reporting, investments, treasury management, as well as a directive for acquisitions and divestments. As an integral part of the directives in the financial area, over the last two years we have implemented an accounting manual that regulates the accounting treatments for all of the applicable accounting processes at Nammo. This work has also resulted in an internal control handbook that states the minimum requirements for the internal control activities to be performed in the respective financial areas.

## General Meeting of Shareholders

The shareholders of Nammo AS have the ultimate authority through the General Meeting. The shareholders are Patria Oyj and the Norwegian State represented by the Norwegian Ministry of Trade and Industry. The Annual General Meeting is normally held in the second quarter each year. The Shareholders' Agreement outlines the number of representatives on the Board of Directors for each of the owners and guidelines for the election of the Chairman of the Board.

The Annual General Meeting approves the annual report based on the Norwegian requirements and financial statements, including the dividend proposed by the Board of Directors and recommended by the group management. The General Meeting also elects the external auditors and determines the auditors' remuneration. In addition, the General Meeting deals with all other matters listed in the notice convening the meeting.

## Board of Directors

The Board of Directors of Nammo AS shall consist of six to eight directors in accordance with the Shareholders' Agreement, three from each owner, and two directors representing the employees. The employees may also nominate one additional observer, so that all the employees from Norway, Sweden and Finland are represented. The Chairman of the Board alternates annually between the two owners. The Board of Directors meets regularly with a minimum of four meetings per year.

In accordance with Norwegian law, the Board of Directors exercises overall governance of the company, including ensuring that appropriate management and control systems are in place. The Board of Directors supervises the daily management carried out by the Group CEO.

## President and CEO

The President and CEO constitutes a formal corporate body in accordance with Norwegian Corporate Law (Aksjeloven). The CEO is responsible for the 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 the internally established corporate directives described above, current corporate policies, management meetings and business reviews. Management meetings are held about eight times a year and called by the CEO. The Executive Vice Presidents and Senior Vice Presidents on the CEO's staff participate. These meetings focus on monitoring the status of operations and key performance indicators. The market situation and business development issues are also addressed, as well as health, the environment, safety and security indicators and human resource issues. The business review meetings are conducted regularly with the divisions individually. These meetings are a vehicle for scrutiny of the divisions' performance relative to budgets and targets. The market situation, order intake and new opportunities are also addressed.

# Corporate governance



# Group Management

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



Edgar Fossheim  
*President & CEO*



Peter Lerche Raadal  
*Senior Vice President  
Finance & CFO*



Sissel Solum  
*Senior Vice President  
Communication*



A. Erland Pausrud  
*Vice President Business Development &  
President Nammo Raufoss AS*



Reijo Bragberg  
*Exec. Vice President  
Demil Division*



Kjell I. Kringsjå  
*Exec. Vice President  
Medium & Large Caliber Division*



Ola Skrivervik  
*Senior Vice President  
Business Development*



Bertil Pålrsrud  
*Senior Vice President  
Human Resources*



Raimo Helasmäki  
*Exec. Vice President  
Small Caliber Division*



Steve Wegener  
*President Nammo Talley Inc.*



Morten Brandtzaeg  
*Exec. Vice president  
Missile Products Division*



# Board of Directors

The Board of Directors of Nammo AS consists of eight directors, three from each owner, and two directors representing the employees. The chairman and the vice chairman alternate every year. The employees also nominate one additional observer, so that all the employees from Norway, Sweden and Finland are represented.



**Jan T. Jørgensen**  
*Chairman*

Jan started as a member of the Board of Directors in 2006, but has alternated as the vice chairman and is currently chairman since 2009. Jan has a M.Sc. degree from NTNU in Trondheim. Among other additional education, he has completed a management program at the Harvard Business School. Jan has several years of experience as a CEO in different high technology and defense related industries.



**Heikki Allonen**  
*Vice Chairman*

Heikki was appointed Chairman of the Board of Directors in 2008. Since then he has been alternating as chairman and is currently vice chairman. Heikki has a M.Sc. [Eng] degree from the University of Technology in Helsinki. He has held several management and board positions within the engineering and construction materials industries in Finland and was the CEO of a OMX-listed consumer goods company before joining Patria in 2008 as President and CEO.



**Annika Tanttinen**  
*Board Member*

Annika was appointed as a member of the Board of Directors in 2008. Annika has a M.Sc. degree in Economics from the Helsinki School of Economics and Business Administration. She also holds an MBA from the University of South Carolina, USA. Annika has several years of international experience from Microsoft and Accenture before she joined Patria in 2006. She has been responsible for Patria's Training Business Unit for civilian and military pilot training. Annika works as an Executive Vice President of Patria Oyj and is currently responsible for M&As, as well as business development.



**Kai Nurmio**  
*Board Member*

Kai was appointed as a member of the Board of Directors in 2007. Kai has a M.Sc. degree in Economics from the Helsinki School of Economics. Kai has broad competence and experience within finance and as the CFO of several Finnish corporations before he joined Patria Oyj in 2005. Today Kai holds the post of Executive Vice President and Chief Financial Officer of Patria Oyj.



**Tone M. Lindberg**  
*Board Member*

Tone has been a member of the Board of Directors since 2006. Tone has an educational background from human resources development, and project and quality management. She has varied work experience from logistics, and project and program management. Tone has also worked actively within the Home Guard as an instructor, lieutenant and troop commander. Today she holds the post of Managing Director of Natech NSV AS.



**Karl Glad**  
*Board Member*

Karl has been on the Nammo Board since 2000, alternating as chairman and vice chairman. He has served as a member of the Board of Directors since 2008. Karl is a lawyer by education and has experience from Norway and Japan. Today he is engaged as member of several company boards.



**Einar Linnerud**  
*Board Member*

Einar has been a member of the Board of Directors since 1999. He is an employee representative on the Board. He has experience as an employee representative since the 1970s and became the leader of the Metal Union in 2000. Einar is a member of the Steering Committee of NCE Raufoss and is also a representative on the European Work Council.



**Petri Kontola**  
*Board Member*

Petri was elected as an employee observer to the Nammo Board of Directors in 2007. He has alternated every second year between employee observer and employee representative. Petri is a mechanical engineer with a M.Sc. [Tech] degree from the Tampere University of Technology (TUT). He has been employed by Nammo Lapua Oy since 2002, where he works as a quality engineer with special focus on quality assurance and customer requirements.



**Astrid Berg Ardesjö**  
*Observer*

Astrid was elected as an employee observer to the Nammo Board of Directors in 2006. She has alternated every second year between employee observer and employee representative. Astrid has varied work experience within the defense industry since she started at Bofors in 1979 as an Administration Officer and Marketing Coordinator until Bofors became Nammo in 1998. Today she works within economy and human resources in Nammo LIAB in Lindsberg, Sweden.

# Board of Directors report 2009

**For the Nammo Group, 2009 has been a year characterized by positive development, and the last part of the year in particular gives grounds for continued optimism.**

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 Nordic customers, as well as a highly competitive supplier of specialty products to international customers. Since its establishment, Nammo has made significant steps in that direction.

The year 2009 was challenging for the world economy and most markets. Nevertheless, Nammo managed to continue its steady growth. The company showed record high sales of NOK 3 439 million, up 9.9% from last year, as well as a pretax profit of NOK 410 million. These results were achieved primarily due to the performance of the company's ammunition divisions. Generally, most of the challenges affecting performance in the first part of the year were solved during the second part of 2009. The Board reiterates the ambition of maintaining a strong financial position and thus being able to grow both organically and through acquisitions in the future.

## Strategy and implementation

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 and maintain an important balance between R&D and ongoing production. This will continue to be a key factor for Nammo's success in the future as well. A long-term strategy of developing Nammo's position and presence in the international market has gradually generated positive results. The company aims to continue this strategy through

partnering with suitable companies in several countries and through acquisitions.

In 2009 Nammo continued its efforts in line with the strategy of strengthening its position in the markets where the company already has a presence. The US market, where the 2007 acquisition of Talley Defense Systems Inc. (today Nammo Talley Inc.) secured and enhanced Nammo's already well-established position, continued to show a positive development. In other markets, where Nammo has been active through M&As over the past years, the company continues to make progress. Acquisitions like ND PressTec in Germany (60% ownership), MTH in Switzerland and Composite Solutions in the US have been positive for the group. Similar initiatives will continue to be part of Nammo's strategy.

Through this M&A activity, Nammo has become an even stronger, more dedicated and focused supplier of ammunition, missile products and demilitarization services to customers internationally, at the same time as it has managed to maintain its strong position in the Nordic countries.

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

As a developer, manufacturer and supplier of ammunition and missile products to the international market, Nammo is conscious of the necessity of maintaining the highest

ethical standards, as well as the responsibilities associated with our business activities. The company therefore cooperates closely with the respective national authorities to ensure that its operations are in full compliance with the relevant laws and regulations. Nammo also operates consistently within its established ethical code of conduct. In accordance with the company policy, Nammo reviews its ethical guidelines on an annual basis, and it has a proactive approach to these issues, in addition to ensuring that the guidelines are implemented and continuously followed up in the day-to-day operations.

Nammo's operations are based to a large extent on high-end niche technology solutions to the benefit of our customers. These development and production contracts imply a technical risk in the success of delivering the promised technical solution to the customers. This risk is handled on a day-to-day basis in the projects through overall risk management.

## Market approach

Nammo started in the Nordic countries, but the group has grown over the years and today Nammo has operating companies in Norway, Sweden, Finland, Germany, Switzerland, Canada and the US. The headquarter is located at Raufoss, Norway.

The Nammo Group's vision, is Securing the Future, will be achieved through the company's values: Dedication, Precision and Care. This vision serves as a guideline for the company's employees on the corporate and divisional level in their day-to-day efforts to develop Nammo in line with the company's strategy.

## Nordic platform

Success and progress internationally are based on strong positions in the home markets. Nammo, as a player in a regulated market, benefits from having demanding domestic customers that form a platform from which to develop. New

technology and new products are being developed on this basis, and create a production base from which to compete in the international market.

The Nordic markets' share of Nammo's total sales has been declining, but it is still vital to be a part of new developments and the future structure in these countries, and to feature in the plans of their armed forces.

The organizational development programs of the Nordic countries' armed forces are progressing based on separate plans and objectives for each country. Nammo has developed a constructive dialog in relation to the role and interests it has in this complex and difficult process. However, Nammo has also experienced an increased focus on the Nordic perspective and cooperation among the armed forces of Finland, Norway and Sweden. The Board continues to 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 Finnish Defense Forces (FDF) have continued to contract Nammo and Finnish industry for their long-term small and large caliber ammunition needs, and Nammo is cooperating with Patria and Eurenco to fulfill these requirements.

In Sweden, the transition and restructuring of the defense forces has led to reduced defense budgets with a corresponding reduction in new business opportunities. However, the prospective ammunition life cycle management and services, and the possible partnering between FMV and industry, represent a significant opportunity in Sweden still under pursuit.

In Norway, the restructuring of the defense forces seems to be undergoing a second iteration and needs time to adjust and



settle. After a period of budget uncertainties and cutbacks, an increase in the defense budget is foreseen, but far from enough to compensate for the real needs in light of the resources required for the planned fighter aircraft procurement. This is a considerable challenge for Norway's defense organizations and industry. With regard to fighter aircraft, the candidate is the US F-35 fighter, and Nammo is making significant efforts to exploit this situation to achieve new business.

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 the respective authorities, the customers, the Nordic defense industry and international partners.

#### International market

Nammo's growth since its establishment in 1998 has primarily taken place outside the Nordic region, and today these markets represent around two-thirds of Nammo's annual revenues. In order to be accepted as a preferred supplier, there is an increased demand for close cooperation and a local presence in international markets. This applies to both small countries supporting their local industry and major countries protecting their domestic industrial base. Nammo has thus secured a presence in markets where the company currently has its major sales. Early in 2009 the company established a business in Canada, which strengthens the presence of Nammo in North America.

The US armed forces continue to be an important customer for Nammo. The country has 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 goal of building a stronger operational presence in the US in the future. The successful acquisition and implementation of Nammo Talley is consistent with this strategy, and Nammo works persistently to become a recognized domestic supplier to US customers. The

development and results achieved by Nammo Talley during the three-year period following the acquisition in 2007 has been in line with our plans and expectations, which supports that the strategy should be developed further.

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 cooperation with national suppliers or by direct deliveries, and Europe as a whole still remains a key market for Nammo. The company has established a wide network of cooperation with both the armed forces and the local industry in the new NATO countries.

The countries in South East Asia and the Pacific have become important markets for Nammo. Key contracts have been awarded and additional potential is being developed. The positive results from these efforts provide the basis for further follow-up and concentration of our presence in this area.

In accordance with its long-term goals of continued growth and positive profit results, Nammo's position in the majority of the international markets has shown an overall positive development. Nammo's operations and level of business activity have shown solid development throughout 2009, despite the global financial slowdown. In general, increased government lending to stabilize economies worldwide may lead to the countries reducing their investments going forward. Nammo has so far not seen any such effects, but we cannot rule out that such market effects may arise over time.

#### Financial statements

Pursuant to Section 3-3a of the Norwegian Accounting Act, the directors confirm that the financial statements have been prepared under the assumption that the enterprise is a going concern and that this assumption was realistic as of the date of the financial statements.

The Nammo Group's annual accounts have been prepared in accordance with the Norwegian Accounting Act and the Generally Accepted Accounting Principles in Norway (N GAAP). The accounting principles used by the Nammo Group

have also been applied by Nammo AS and all subsidiaries. For more information, please refer to the financial statements and note disclosures.

#### Income statement

The Nammo Group had revenues of NOK 3 439 million in 2009, an increase of 9.9% from NOK 3 130 million in 2008. The ammunition divisions continue to dominate the group's business composition, and they also showed the strongest performance.

The operating profit increased by 4.3% to NOK 407 million in 2009, while the EBIT margin decreased somewhat from 12.5% to 11.8%.

Net financial items were positive at NOK 2.5 million in 2009, compared with negative NOK 15.2 million in 2008. The change was primarily due to lower interest expenses and net positive agio.

The reported profit before tax was NOK 409.6 million in 2009, compared with NOK 375.1 million in 2008, whereas the net profit after tax was NOK 267.7 million, the same level as in 2008.

#### Cash flow and liquidity

The net cash flow from operating activities was NOK 241 million in 2009, compared with NOK 478 million in 2008. The change reflects an increased level of working capital. Net cash flow from investment activities amounted to NOK -139 million in 2009, which is at the same level as in 2008 (NOK -132 million). Net cash flow from financing activities was NOK -151 million in 2009, compared with NOK -180 million in 2008. This mainly reflects dividend to the owners. Cash and cash equivalents were NOK 292 million at 31 December 2009, which was a decrease from NOK 341 million at the end of 2008. Net debt was NOK 1 726 million at 31 December 2009, compared with NOK 1 901 million in 2008. At 31 December 2009, the Nammo Group had unutilized credit facilities and loan commitments of NOK 258.4 million measured at 31 December 2009 exchange rates.

#### Balance sheet

The total assets of the Nammo Group were NOK 2 906 million at the end of 2009, which was a decrease of NOK

180 million during the year. The balance sheet changes have only been minor, with a decrease in long-term assets, higher short-term receivables, reduced long-term debt and reduced cash and bank deposits as the main developments. This reflects the growth the company has experienced, thus leading to increased working capital. Net working capital increased by NOK 103 million to NOK 534 million.

Equity decreased by NOK 10 million to NOK 1 161 million, primarily reflecting the profit for the period reduced by dividend. Currency translation differences also had a significant effect on equity. The equity ratio at year-end 2009 was 40%, compared with 38% at 31 December 2008.

Total interest bearing financial liabilities amounted to NOK 495 million at 31 December 2009. This was a change from NOK 604 million at 31 December 2008.

As mentioned above, the Nammo Group had unused credit facilities amounting to NOK 258.4 million at 31 December 2009. This provides the group with a financial flexibility that allows for further growth, both organically as well as through M&A's.

#### Risk factors

Nammo operates in a global market, characterized by rapid technological shifts in product and service offerings and strong competitive pressures. The company is hence exposed to a number of risk factors. Risk management is therefore an integral part of the strategic business management, with the aim of supporting both strategic and financial goals.

The Board of Directors seeks to ensure that the Nammo Group deploys proper risk management systems and measures to survey all the significant risk areas and reduce the consequences of undesired incidents in strategic, operational and financial areas to acceptable levels through a structured and continuous process.

#### Market risk factors

The operational and financial developments of the Nammo Group depend on the general development in the defense markets. Although investments in the industry have

increased over time, the investment levels have varied significantly from year to year.

The Nammo Group seeks to minimize the exposure to these variations through a continuous cost focus, and by developing and phasing-in cost-efficient product lines in a timely manner. The market always represents risks of various kinds and magnitudes. Nammo's market is no exception, and it is very important to be aware of those risks and manage or minimize them as much as possible. One significant advantage is the fact that Nammo has five divisions and each has several business areas and many products. In other words, the risk is spread over a broad platform of many "legs". This is very different from other defense companies that are much more exposed to risk if a major program is threatened or cancelled. If Nammo is exposed to a program or contract cancellation, the risk is normally tolerable.

In addition, Nammo is involved in multi-national programs of great importance to the business, and the likelihood of program cancellations is much less for such programs than in a single nation program. Programs or contracts may be cancelled or delayed for many reasons, i.e. political, financial, postponements etc.

A significant element of the market approach is nourishing existing and developing new customer relationships. The best way of ensuring good customer relations is to perform and deliver precision and quality. Nammo has been successful to a large extent in this aspect. It takes years to build a strong and solid customer relationship, but the customer relationship can quite quickly be impaired through weak performance or lack of responsiveness. Thus, we must continue to do our utmost to demonstrate performance and timely deliveries to minimize our market risk exposure.

Nammo's many products and businesses have economic margins that vary greatly depending on where we are in the life cycle and the learning curve for the products/activities. This is normal, and having a good balance between products under development and both new and well-established products in production minimizes our risk.

### Financial risk factors

Nammo has established guidelines for financial risk management both at the corporate as well as the divisional level. The following areas are identified as the key financial risk factors in the Nammo Group.

Financial risk can be divided into credit risk, interest rate risk, currency risk, commodity price risk and liquidity risk.

#### Credit risk

Nammo's customers are mainly defense ministries in different countries and other big industrial companies in the defense industry in NATO and EU-countries, thus the inherent credit risk is considered to be low. The credit risk is evaluated annually, and for the time being the risk associated with outstanding accounts receivables is considered to be low.

#### Interest rate risk

The interest rate risk for the Nammo Group is monitored and continuously evaluated during the year. The long-term credit facility is in USD and EUR. Both currencies have experienced declining 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.

#### Currency risk

Nammo's currency risk is continuously monitored and reduced.

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. The hedging of forecasted currency cash flows is carried out continuously, and the strategy is to secure the calculated earnings on industrial contracts and thereby reduce exposure to fluctuations. Nammo has experienced more volatile currency and interest rate markets than seen in many years. This has been managed in accordance with 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 currencies. The risk is hedged in part through the hedge accounting of the long term debt. Interest rate volatility is a potential risk area for Nammo. The focus area for 2009 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 in accordance with Norwegian GAAP.

#### Commodity price risk

Commodity price volatility in general has increased in recent years. Price volatility related to some raw materials can impact our operating costs directly and can also have an effect on our reported operating results. Nammo reduces this risk by consistently evaluate commodity hedges for all significant purchase transactions of metals which is possible to hedge in the market.

#### Liquidity risk

Liquidity risk management implies maintaining sufficient cash and cash equivalents and having funding available through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Nammo aims to maintain a high degree of financial flexibility by keeping sufficient cash and cash equivalents or committed credit facilities available.

For companies experiencing strong organic growth, it is vital to manage the liquidity in order not to limit the company's growth opportunities. Nammo's growth has increased the company's working capital, thus providing a more challenging liquidity situation.

### Dividend distribution

The Board proposes a dividend payment of NOK 133.8 million for 2009 to the General Meeting of Shareholders. The profit in the parent company Nammo AS will be distributed as follows:

Dividend	133.8 NOK million
Other equity	92.8 NOK million
<b>Total</b>	<b>226.6 NOK million</b>

The proposed dividend represents 59% 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 2009, the recognized equity in both Nammo AS and Nammo Group will remain strong.

### Health, environment, safety and security (HESS)

#### Policy

Nammo operates in the explosives industry and handles high-energetic materials. The company's policy is therefore that HESS has priority over all other business objectives and goals. For the people working at Nammo, HESS is a highly prioritized and important issue, and it is 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 actions are taken. Monthly reports are sent to all the sites for information and action. HESS audits have been conducted at the sites in 2009.

#### Education and training

In 2009 the focus has been on proactive work, training and education. Nammo AS was a partner in the EU-Excert program for the training and education of operators in the explosives industry. This project is a collaboration among several EU countries. The aim for Nammo is to build new training and education programs based on the EU-Excert standard and to increase the know-how needed to prevent and reduce accidents. In 2010, Nammo will be involved in a new EU program. The EU-Excert partnership has proposed a new Leonardo da Vinci project that aims to start a European association and a network of independent national nodes, which will be licensed to use the EU-Excert logo for certificates of explosive competence. As a contractor, KCEM (Kompetens Centrum Energetiska Material) will lead this work, which will initially include partners from the Czech Republic, Estonia, Germany, Italy, Latvia, Lithuania, Malta, Norway, Portugal, the United Kingdom and Sweden

EU-Excert will continue the work to establish a transferable certificate of explosive competence, which will be recognized inside and outside the EU.



### The environment

Nammo's HESS policy requires that all the sites must be certified in accordance with ISO 14001 or similar environmental standard. Most of the sites have achieved this goal, and the remaining sites, as well as the new sites, will be certified in the near future. The 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 analysis of potential environmental liabilities at all the operational sites. Based on this review, the necessary actions and the owners' 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 a constant focus on environmental issues, such as preventing pollution to water, air, and ground. Any issues will be followed up in accordance with the national regulations. Each site reports to the local and state authorities. No new pollution has been detected.

A common effort is to focus in the area of energy efficiency, special waste and water consumption and there are plans and goals for continuous improvement.

### Safety and security

At the annual HESS seminar in Sweden, common accident and incident experiences were discussed. An action plan for 2009-2010 was worked out as a guideline for continuous HESS improvements at all the sites. The main topics are: reduced sickness absence, environmental issues, safety and security, improvement of common HESS systems, explosives education/training and the transfer of know-how. One of the seminar topics was security and how to be better prepared to handle threats. In Norway, regulations for the handling and storage of explosives have been amended to prevent burglary. Security systems for all the production and storage areas for explosives have been altered and improved.

### Health, environment, safety and security results

Sickness absence at Nammo at the end of 2009 was 4.1%, compared with 4.0% in 2008. The low sickness absence number shows that the management's and unions' focus and follow-up

are producing results. Various activities, including workplace improvement, attention to the environment, protective equipment and physical training, have been on the agenda.

There were 38 accidents resulting in absence in 2009, representing an H-value of 11 (number of accidents resulting in absence per million working hours), same level as in 2008. This gives an F-value of 137, 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 or machinery. Another type of frequent injury is caused by falls due to icy or slippery ground. The group will continue its preventive work in all areas and maintain a particular focus on the attitudes of the employees.

### Human resources

Equal opportunities for all employees are a key element of the human resources policy. This applies in particular to recruitment, career development, equal pay for equal work and working conditions. Activities to motivate female university graduates to join the company will continue to be an important endeavor in the future. Nammo does not tolerate discrimination on the basis of gender, race, religion, national or ethnic origin, cultural background, social group, disability, family status, age or political views. However, when recruiting personnel the process must be performed in accordance with national security in the respective country.

The Board encourages all Nammo subsidiaries to pursue this aim in order to ensure diversity within the company.

### Outlook for the Nammo Group

Nammo has developed into a financially robust company with balanced business activities in the European community and in the US, all of which is based on a strong Nordic foundation. The company plans to continue to grow along the lines set based on the current strategy. In the markets where Nammo is present today, the company will evaluate any growth opportunities that emerge, both organic and through M&A, that can support the existing business. In addition, Nammo continuously evaluates entering into new markets. On the basis of the solid development seen during 2009, especially at the end of the year, the Board expects that the

group will maintain its strong market positions and thus deliver solid results. Through a continued high level of R&D activity and further development of industrial and governmental partnerships, Nammo is expected to further strengthen its position in the Nordic region as well as internationally.

The strong results posted by Nammo in 2009 are a result of the hard and dedicated efforts made by a highly skilled and competent workforce. The Board expresses its appreciation to all employees for their commitment and strong individual efforts during a challenging 2009.

Even if Nammo holds a solid market position, the Board emphasizes that the long-term effects of the global financial turmoil experienced during the past year and a half may have an impact on Nammo and the company's markets. To offset such effects, a continued focus on all parts of the company's value chain and optimization of all the processes will continue to be a key. At the start of 2010, the order books are at a good level and the outlook for the coming year gives grounds for continued optimism. Nammo will continue to focus on profitable growth in selected niche markets, and the Board foresees a positive development for the Nammo Group in 2010.

Helsinki, 25 March 2010

Heikki Allonen  
Vice Chairman

Jan T. Jørgensen  
Chairman

Tone M. Lindberg  
Board Member

Annika Tanttinen  
Board Member

Karl Glad  
Board Member

Kai Nurmio  
Board Member

Petri Kontola  
Board Member

Einar Linnerud  
Board Member

Edgár Fosshem  
President & CEO

# Nammo Group 2009

## Consolidated financial statements

### Income statement Nammo Group

(NOK 1 000)	Notes	2009	2008
<b>Operating income</b>	1	<b>3 439 156</b>	<b>3 130 096</b>
<b>Operating expenses</b>			
Changes in stock of work in progress and finished goods		64 712	(135 018)
Changes in self-manufactured fixed assets		(692)	(701)
Cost of goods sold		1 232 727	1 338 519
Payroll expenses	3, 11	954 342	860 245
Depreciation of tangible and intangible fixed assets	6	143 801	137 456
Other operating expenses		637 252	539 272
<b>Total operating expenses</b>		<b>3 032 142</b>	<b>2 739 773</b>
<b>Operating profit</b>		<b>407 014</b>	<b>390 323</b>
<b>Financial income and expenses</b>			
Income from associates and joint ventures - equity method	5	1 832	243
Interest income		2 641	17 719
Other financial income	4	36 239	49 701
Interest expenses		(9 100)	(35 864)
Other financial expenses	4	(29 066)	(47 049)
<b>Net financial income (expense)</b>		<b>2 546</b>	<b>(15 250)</b>
<b>Ordinary result before tax</b>		<b>409 560</b>	<b>375 073</b>
<b>Taxes on ordinary result</b>	12	<b>(132 614)</b>	<b>(103 441)</b>
<b>Ordinary result</b>		<b>276 946</b>	<b>271 632</b>
<b>Minority share</b>		<b>(9 271)</b>	<b>(3 864)</b>
<b>Profit (loss) for the year</b>		<b>267 675</b>	<b>267 768</b>



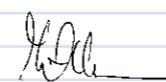
# Balance sheet

## Nammo Group

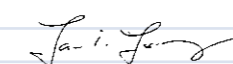
[NOK 1 000]				
Assets	Notes	As of 31.12.09	As of 31.12.08	As of 31.12.07
<b>Fixed assets</b>				
<b>Intangible assets</b>				
Deferred tax asset	12	53 264	103 792	65 836
Licenses, trademarks and other intangible assets	6	316 528	402 595	342 462
Goodwill	6	54 474	91 781	81 300
<b>Total intangible assets</b>		<b>424 266</b>	<b>598 168</b>	<b>489 598</b>
<b>Tangible assets</b>				
Buildings	6	183 699	171 291	146 009
Property	6	15 198	16 799	15 440
Machinery and equipment	6	249 316	228 649	173 539
Fixtures and fittings, tools, office machinery etc.	6	32 604	38 473	31 727
Fixed assets under construction	6	20 673	66 741	62 057
<b>Total tangible assets</b>		<b>501 490</b>	<b>521 953</b>	<b>428 772</b>
<b>Financial fixed assets</b>				
Shares in joint ventures	5	14 307	10 257	10 130
Investments in other shares and participations	5	1 844	1 554	9 043
Other receivables	7	16 491	10 786	11 251
<b>Total financial fixed assets</b>		<b>32 642</b>	<b>22 597</b>	<b>30 424</b>
<b>Total fixed assets</b>		<b>958 398</b>	<b>1 142 718</b>	<b>948 794</b>
<b>Current assets</b>				
<b>Stocks</b>				
Stocks of raw materials		276 865	322 756	327 527
Stocks of work in progress		414 908	407 017	282 653
Stocks of finished goods		114 575	141 286	125 861
<b>Total stocks</b>		<b>806 348</b>	<b>871 059</b>	<b>736 041</b>
<b>Receivables</b>				
Advance payments to suppliers		17 077	29 773	41 626
Accounts receivables	8	559 292	578 581	584 731
Other receivables	7	273 266	123 346	40 321
<b>Total receivables</b>		<b>849 635</b>	<b>731 700</b>	<b>666 678</b>
<b>Cash and cash equivalents</b>	9	<b>291 637</b>	<b>341 068</b>	<b>175 808</b>
<b>Total current assets</b>		<b>1 947 620</b>	<b>1 943 827</b>	<b>1 578 527</b>
<b>Total assets</b>		<b>2 906 018</b>	<b>3 086 545</b>	<b>2 527 321</b>

[NOK 1 000]				
Shareholders equity and liabilities	Notes	As of 31.12.09	As of 31.12.08	As of 31.12.07
<b>Equity</b>				
Subscribed share capital	10	100 000	100 000	100 000
Share premium reserve		258 670	258 670	258 670
Other equity	10	802 257	812 340	518 285
<b>Total equity</b>		<b>1 160 927</b>	<b>1 171 010</b>	<b>876 955</b>
<b>Minority share</b>		<b>18 883</b>	<b>14 492</b>	<b>9 099</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Pension liabilities	11	105 426	125 216	113 583
Deferred tax	12	130	179	-
<b>Total non-current liabilities</b>		<b>105 556</b>	<b>125 395</b>	<b>113 583</b>
<b>Other non-current liabilities</b>				
Liabilities to financial institutions	13	495 162	603 545	524 986
Other non-current liabilities		3 646	-	-
<b>Total other non-current liabilities</b>		<b>498 808</b>	<b>603 545</b>	<b>524 986</b>
<b>Current liabilities</b>				
Allocation for guarantee liabilities		101 509	93 866	82 106
Prepayments from customers		247 451	266 792	234 510
Accounts payable		175 420	248 508	207 771
Taxes payable	12	71 533	57 682	70 048
Public duties payable		162 306	132 943	75 727
Dividend payable to shareholders		133 800	133 000	129 600
Other current liabilities		229 825	239 312	202 936
<b>Total current liabilities</b>		<b>1 121 844</b>	<b>1 172 103</b>	<b>1 002 698</b>
<b>Total liabilities</b>		<b>1 726 208</b>	<b>1 901 043</b>	<b>1 641 267</b>
<b>Total shareholders equity and liabilities</b>		<b>2 906 018</b>	<b>3 086 545</b>	<b>2 527 321</b>

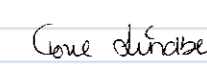
Helsinki, 25 March 2010



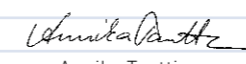
Heikki Allonen  
Vice Chairman



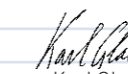
Jan T. Jørgensen  
Chairman



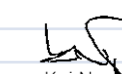
Tone M. Lindberg  
Board Member



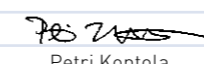
Annika Tanttinen  
Board Member



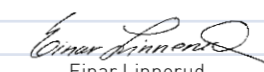
Karl Glad  
Board Member



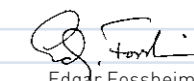
Kai Nurmio  
Board Member



Petri Kontola  
Board Member



Einar Linnerud  
Board Member



Edgar Fossheim  
President & CEO

# Cash flow

## Nammo Group

(NOK 1 000)	2009	2008	2007
<b>Cash flow from operational activities</b>			
Result before tax	409 560	375 073	360 948
Tax payments	(108 490)	(135 183)	(99 134)
Profit and loss on sale of fixed assets	-	[2 299]	8 474
Ordinary depreciations	143 801	137 456	131 002
Changes in stock	64 711	(135 018)	(374 989)
Changes regarding debtors	19 289	6 150	(86 118)
Changes regarding creditors	(44 374)	11 147	71 743
Changes in other depositions	(243 993)	220 603	97 805
<b>Net cash flow from operational activities (a)</b>	<b>240 504</b>	<b>477 929</b>	<b>109 731</b>
<b>Cash flow from investment activities</b>			
Payments received from sales of long-term assets	-	404	72
Purchase of long-term assets	(138 969)	(131 646)	(88 582)
Payments received from sale of other long-term investments	-	21 532	-
Purchase of other long-term investments	(200)	(22 485)	(643 513)
<b>Net cash flow from investment activities (b)</b>	<b>(139 169)</b>	<b>(132 195)</b>	<b>(732 023)</b>
<b>Cash flow from financing activities</b>			
Payments received regarding new long term loans	698	149 213	660 828
Installments on long-term loans	(9 670)	(185 626)	(147 827)
Net payment of interest	(8 794)	(14 461)	(17 824)
Paid dividend	(133 000)	(129 600)	(74 300)
<b>Net cash flow from financing activities (c)</b>	<b>(150 766)</b>	<b>(180 474)</b>	<b>420 877</b>
Net changes in cash and bank accounts (a+b+c)	(49 431)	165 260	(201 415)
Cash and bank accounts as of 01.01	341 068	175 808	377 223
<b>Cash and bank accounts as of 31.12.</b>	<b>291 637</b>	<b>341 068</b>	<b>175 808</b>

Total unused cash credits as of December 2009 is NOK 258.4 million. See note 13.

## Index to the accounting notes

Accounting policies	4 Financial items	10 Equity – changes in equity
Nammo Group	5 Shares in other companies	11 Pension commitments – pension costs
1 Operational income for Nammo Group	6 Fixed and intangible assets	12 Tax calculations
2 Financial market risk	7 Other receivables (long and short term)	13 Interest bearing loans and guarantees
3 Salaries and social cost	8 Receivables and losses on bad debts	
	9 Cash reserve	

## Accounting policies Nammo Group

### General

The Nammo Group consists of Nammo AS and its subsidiaries. Nammo AS is a public limited company (Aksjeselskap). The Nammo AS headquarter is located at Raufoss, Norway.

The consolidated financial statements consist of the group and the group's interests in associated companies and joint ventures.

The consolidated financial statements have been prepared in accordance with the Norwegian Accounting Act and the Norwegian General Accepted Accounting Principles.

### Basis of consolidation

The consolidated financial statements include Nammo AS and subsidiaries where the group holds, directly or indirectly, the majority of voting rights. Controlling interest is usually achieved when Nammo has more than 50% of voting rights. In some situations de facto control of an entity may be achieved through contractual agreements. 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. All inter-company transactions and balances between group companies are eliminated.

Minority interests of consolidated subsidiaries are identified separately from the group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination.

### Foreign currencies

The individual financial statements of a subsidiary company are prepared in the company's functional currency, normally the currency of the country where the company is located. Nammo AS uses NOK as its functional currency, which is also used as the presentation currency for the consolidated financial statements.

In preparing the consolidated financial statements, the financial statements of foreign operations are translated using the exchange rates at year-end for balance sheet items and yearly average exchange rates for income statement items. Translation gains and losses, including effects of exchange rate changes on transactions designated as hedges of net foreign investments, are included in shareholder's equity.

In individual companies, transactions in currencies other than the entity's functional currency are

recorded at the exchange rate at the date of the transaction.

Gains and losses arising on transactions, assets and liabilities other than the translation gains/losses, are recognized in the income statement, except for gains and losses on transactions designated and effective as hedge accounting.

To hedge the group's currency exposure the group enters into currency-based derivative financial instruments. The group's accounting policies for such hedge contracts are explained below in these accounting policies.

### Business combinations

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, 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 at cost and then depreciated according to the economic lifetime.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for products provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of products is recognized when all the following conditions are satisfied:

- the group has transferred to the buyer the significant risks and rewards of ownership of the goods
- the group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold

- the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the group
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

### Dividends received

Dividends from investments are recognized in the income statement when the group has a right to receive the dividends.

### Interest income

Interest income is recognized in the income statement as it is accrued.

### Government grants

Government grants are recognized in the consolidated financial statement when the group has reasonable assurance that it will receive them and comply with conditions attached to them. Government grants that compensate the group for expenses are recognized in the income statement as the expenses are incurred. Government grants that compensate the group for the cost of an asset are recognized as a reduction to the total investment and thus also the future depreciations of the asset.

### Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill that is not deductible for tax purposes.

Current and deferred tax are recognized as expense or income in the income statement, except when they relate to items recognized directly to equity, in which case the tax is also recognized directly in equity.

In the case of a business combination, the tax effect is taken into account in calculating goodwill or



determining the excess of Nammo's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

#### Intangible assets

Separately acquired intangible assets are recognized at cost at the time of acquisition. As part of business combinations, intangible assets acquired as a result of contracts or legal rights, or rights that can be separated from the acquired entity, are recognized at fair value.

Research costs are normally expensed as they incur.

Intangible assets are amortized on a straight-line basis over their expected useful life.

#### Property, plant and equipment

Property, plant and equipment are measured at historic cost less accumulated depreciation and any impairment loss.

Expenses in connection with ordinary maintenance and repairs are recognized in the income statement as they are incurred. Expenses incurred in connection with major replacements and renewals are capitalized and depreciated on a systematic basis.

Property, plant and equipment are depreciated on a straight-line basis over their expected useful life.

Gain or loss due to sale or retirement of property, plant and equipment is calculated as the difference between sales proceeds and carrying value and is recognized in the income statement.

Interest is capitalized as part of the historical cost of major assets constructed.

#### Associated companies

Associated companies are investments in companies where the group has significant influence, but not control. Significant influence normally exists when the group controls between 20% and 50% of the voting rights. The share of results, assets and liabilities of associated companies are incorporated into the consolidated financial statements using the equity method of accounting.

#### Joint ventures

A joint venture is a contractual arrangement whereby the group and one or more parties undertake an economic activity that is subject to joint control, which is when the strategic and financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control. Participation in joint ventures is accounted for on an equity accounted basis as described under the accounting principles for associated companies.

#### Inventory

Inventories are stated at the lower of cost, using the first-in, first-out method (FIFO) and net realizable value. Net realizable value is estimated sales price reduced by costs of completion and other sales costs. Recognized value for work in progress or finished goods are all appropriate direct and indirect production costs, while raw materials and other inventory are recognized at purchase price (historic cost).

#### Impairment of non-current assets other than goodwill

The group assesses the carrying amount of tangible assets and identifiable intangible assets annually, or more frequently if events or changes in circumstances indicate that such carrying amounts may not be recoverable. Factors considered material by the group trigger an impairment test include:

- significant underperformance relative to historical or projected future results, or
- significant changes in the manner of the group's use of the assets or the strategy for the overall business, or
- significant negative industry or economic trends.

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less cost to sell and value in use. When it is determined that the carrying amount of tangible assets and identifiable intangible assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, any impairment is measured based on discounted projected cash flows. An impairment loss is recognized to the extent that the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Previously recognized impairment losses are reversed if the assumptions for impairment are no longer present.

#### Dividend liability

Dividends are recognized as a liability in the period that they are declared by the Annual General Meeting.

#### Defined benefit plans

The group's net obligation in respect of defined benefit plans are calculated separately for each plan, based on the legislation in the respective countries where group companies have defined benefit plans. The amount is an estimation of future benefits that the employees have earned in return for their service in current and prior periods. The benefit is discounted to determine its present value, and the fair value of the plan assets and unvested past service cost is deducted. The discount rate is based on the risk free rate (interest rate on long term government bonds) and the recommendation from The Norwegian Accounting Standards Board (Norsk Regnskapsstiftelse), plus a risk premium. Qualified actuaries perform the calculations.

The actuarial gains or losses are recognized using a corridor. The corridor is defined as 10% of the highest of the Defined Benefit Obligation (DBO) and total plan assets. The net actuarial gain or loss exceeding the corridor is amortized in the profit and loss over the estimated remaining period of service from the members in the plan.

#### Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an expense in the income statement when employees have rendered services entitling them to the contributions.

#### Restructuring

A restructuring provision is recognized when the group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

#### Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as a provision. An onerous contract is considered to exist where the group has a contract under which the unavoidable costs of meeting the obligations under the contract exceeds the economic benefits expected to be received from it.

#### Guarantees

A provision for guarantees is recognized when the products or services are sold. This is done

to meet future claims on already sold products and services. The provision is based on business Nammo operate in, historical information on actual guarantee payments incurred and the probability claims will be made.

#### Cash and cash equivalents

Cash and cash equivalents include cash and bank deposits.

#### Trade receivables and other short-term receivables

Trade receivables and other short-term receivables are recognized at the lower of the transaction amount (historic cost) and the fair value at the time of reporting.

Trade payables and other short-term liabilities Trade payables are recognized at the higher of the transaction amount (historic cost) and the fair value at the time of reporting.

#### Impairment of financial assets

Financial assets, other than those recognized at fair value through the income statement, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at historic cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows.

#### Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at historic costs including transaction costs.

#### Financial instruments

The group uses financial instruments to hedge exposure against foreign exchange risk in operating, financing and investment activities. The financial instruments are entered into based on a "back-to-back" system, meaning that we normally make a hedge based on a specific underlying sale- or purchase contract.

#### Hedge accounting

The group designates certain financial instruments as either hedges of foreign currency risk of future cash flows (cash flow hedges), or hedges of net investments in foreign operations.

#### Cash flow hedges

The effect of the financial instruments used as hedging instrument in a cash flow hedge are recognized in the profit and loss in the same period as the hedged transaction is recognized.

#### Hedge of net investment

Changes in book value of financial instruments used as hedges of net investment in foreign operations are recognized directly in equity.

#### Leasing

Property, plant and equipment which is leased on conditions which substantially transfer all the economic risks and rewards to Nammo (finance lease) are accounted for as property, plant and equipment at the present value of minimum lease payments or fair value if this is lower. The corresponding finance lease liabilities are included in long-term debt. Property, plant and equipment is depreciated over the estimated useful lives of the assets. The related liabilities are reduced by the amount of lease payments less the effective interest expense. Other leases are accounted for as operating leases with lease payments recognized as an expense over the lease terms.

# Notes to the accounts Nammo Group

## 1. OPERATIONAL INCOME FOR THE NAMMO GROUP

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

### Turnover from Nammo subsidiaries pr. country

(NOK 1 000)	2009
Norway	1 203 683
Sweden	741 892
Finland	411 618
Germany	412 789
Switzerland	36
USA	669 139
<b>Total</b>	<b>3 439 156</b>

### Turnover pr. geographical location of customers

(NOK 1 000)	2009
Norway	313 539
Sweden	452 396
Finland	281 133
Germany	295 338
Denmark	53 179
Great Britain	139 573
France	45 452
Netherlands	25 317
Belgium	21 027
Other European countries	303 119
USA	1 296 181
Canada	86 191
Australia	3 814
Asia	70 033
Other countries	52 863
<b>Total</b>	<b>3 439 156</b>

## 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 (forwards contracts) are used to hedge substantial contracts in foreign currency with both the customers and suppliers. Transactions are recorded at the hedged rates of exchange.

### 3. SALARIES AND SOCIAL COST

[NOK 1 000]	2009	2008
Salaries	735 707	650 351
Social security taxes	119 839	109 536
Pension costs	57 204	57 375
Other personnel costs	41 591	42 982
<b>Total</b>	<b>954 342</b>	<b>860 245</b>
Average number of man years	1 872	1 744

#### Remuneration to CEO and Board of Directors

	Function	Salary and other remuneration	Prepaid pension	Bonus	Total
Edgar Fosshem	President and CEO	2 831 034	1 271 676	953 327	5 056 037
Nammo AS Board	Board of Directors	1 132 237	-	-	1 132 237

Loan to the CEO has a balance of NOK 333 000 as of 31.12.2009. The loan is due in 6 years and the interest rate was 0.75% p.a. in 2009.

The CEO is included in Nammo AS collective pension scheme, limited to 12G. The prepaid pension in 2009 is the calculated difference between collective pension and 60% of salary at retirement by the age of 65.

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

#### Auditor's fee

All numbers are presented exclusive VAT.

[NOK 1 000]	2009
Auditor's fee	2 954
Fees for other assurance work, including IFRS	276
Tax advisory services	1 105
Other services	587
<b>Total</b>	<b>4 922</b>

### 4. FINANCIAL ITEMS

[NOK 1 000]	2009	2008
<b>Other financial income</b>		
Gain on exchange	36 231	49 686
Other financial income	7	14
<b>Total other financial income</b>	<b>36 239</b>	<b>49 701</b>
<b>Other financial expense</b>		
Exchange costs	(27 065)	(45 733)
Other financial expenses	(2 001)	(1 316)
<b>Total other financial expenses</b>	<b>(29 066)</b>	<b>(47 049)</b>

### 5. SHARES IN OTHER COMPANIES

[NOK 1 000]	Company's share capital	Number of shares owned	Nominal value	Booked value	Owner-ship
<b>Joint controlled companies:</b>					
PB Nammo Demil, Virginia, USA	-	-	-	-	49%
Nammo NAD AS, Løkken Verk, Norway	NOK 4 782 000	23 910	NOK 2 391 000	6 240	50%
Norabel Ignition Systems AB, Lindesberg, Sweden	SEK 400 000	2 000	SEK 200 000	5 219	50%
Nammo Primex Inc, Canada	-	-	-	1 267	50%
SN Technologies SA, Meyrin, Switzerland	CHF 200 000	100	CHF 100 000	595	50%
DrawTech Oy, Finland	EUR 36 000	533	-	524	33%
N2 Defense, USA	USD 120 000	-	-	462	50%
<b>Total</b>				<b>14 307</b>	

#### Other shares and participations:

Sintef Raufoss Manufacturing AS, Raufoss, Norway	1 302	14%
Raufoss Næringspark AS, Raufoss, Norway	28	7%
Lean Lab, Gjøvik, Norway	200	13%
Others	314	-
<b>Total</b>	<b>1 844</b>	

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 considered material to group accounts. Other are included according to the equity-method.

### 6. FIXED AND INTANGIBLE ASSETS

[NOK 1 000]	Other intangible assets	Goodwill	Buildings	Other fixed assets	Machinery	Fittings and office equipment	Fixed assets under construction	Total
Acquisition cost as of 01.01.09	392 828	134 295	291 007	15 115	877 895	116 432	63 898	1 891 470
Additions during the year	18 494	7 313	45 182	91	96 049	10 120	-	177 249
Disposal's during the year	-	-	98	-	10 652	47	43 225	54 022
Acquisition cost as of 31.12.09	411 322	141 608	336 091	15 206	963 292	126 505	20 673	2 014 697
Accumulated depreciations	94 794	87 134	152 392	8	713 976	93 901	-	1 142 205
<b>Balance value as of 31.12.09</b>	<b>316 528</b>	<b>54 474</b>	<b>183 699</b>	<b>15 198</b>	<b>249 316</b>	<b>32 604</b>	<b>20 673</b>	<b>872 492</b>
Ordinary depreciations for the year	37 833	29 598	15 208	8	49 038	12 116	-	143 801
Economic life time (years)	1 - 20	5	10 - 30	7 -->	5 - 10	3 - 10	-	-
Depreciation plan	linear	linear	linear	linear	linear	linear	-	-
Annual leasing cost of assets not recognized in the balance sheet	-	-	36 098	-	-	-	-	36 098

## 7. OTHER RECEIVABLES (LONG AND SHORT TERM)

These items include receivables concerning employees, prepayments and accruals.

## 8. RECEIVABLES AND LOSSES ON BAD DEBTS

[NOK 1 000]	2009	2008
Accounts receivable	560 660	579 332
Provision for bad debt	1 367	751
<b>Book value of accounts receivables</b>	<b>559 292</b>	<b>578 581</b>

Our assessment of accounts receivables concluded that the provision for bad debts is sufficient to meet future potential losses on bad debts as of 31.12.2009.

## 9. CASH RESERVE

[NOK 1 000]	2009	2008
Cash and cash equivalents	291 637	341 068
Unused cash credits	258 400	31 742
<b>Net cash reserve</b>	<b>550 037</b>	<b>372 810</b>

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

## 10. EQUITY - CHANGES IN EQUITY

[NOK 1 000]	Share capital	Funds	Net result	Dividend <sup>2)</sup>	Total
Equity as of 01.01.09	100 000	1 071 010	-	-	1 171 010
Net result	-	-	267 675	-	267 675
Application of net result	-	133 875	(267 675)	133 800	(133 800)
Transferred direct to equity <sup>1)</sup>	-	(143 958)	-	-	(143 958)
<b>Equity as of 31.12.09</b>	<b>100 000</b>	<b>1 060 927</b>	<b>-</b>	<b>133 800</b>	<b>1 160 927</b>

<sup>1)</sup> Exchange rate adjustments from translation of foreign subsidiaries, bookings regarding previous years and consolidation adjustments.

<sup>2)</sup> Board of Directors proposal to the General Meeting of shareholders

## 11. PENSION LIABILITIES - PENSION COSTS

The companies with pension arrangements, which provide the employees with the right to determined future pension payments, are included in the calculations of the pension liability (defined benefit plans). The pension liability at December 2009 was NOK 105.4 million which is derived from the companies in Norway, Sweden and Germany. In addition there exist contribution plans in the other countries where we operate.

The total periodic pension costs for both defined benefit plans and contribution plans are included in personnel costs in the profit and loss statement.

The different pension plans are structured and based upon the laws and regulation in the respective countries.

Pension costs	2009	2008
[NOK 1 000]		
Service costs	29 006	27 503
Amortization of net actuarial losses (gains)	1 202	6 386
Interest costs	14 461	12 583
Expected return on plan assets	(9 608)	(8 648)
Pension cost related to defined contribution plans	22 143	19 551
<b>Net periodic pension costs</b>	<b>57 204</b>	<b>57 375</b>

Pension liabilities	2009	2008
[NOK 1 000]		
Defined benefit obligation incl. social security tax	363 097	351 374
- Fair value of plan assets	185 319	154 151
Net pension obligation	177 778	197 223
Items not recorded in the profit and loss:		
Unrecognized net actuarial gain (loss)	(72 352)	(72 007)
<b>Net amount recognized in the balance sheet</b>	<b>105 426</b>	<b>125 216</b>

## 12. TAX CALCULATIONS

12.1. This year's tax cost	2009
[NOK 1 000]	
Tax payable	111 225
Changes in temporary differences	21 389
<b>This year's tax cost</b>	<b>132 614</b>

Tax payable in the balance sheet is reduced by prepaid taxes. Net amount recognized is NOK 71.5 million.



## 12.2. Calculations 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 advantages as at the end of the accounting year.

### 12.3. Deferred tax liability (-deferred tax asset)

	2009	2008
Differences in:		
Stock-in-trade	42 817	3 885
Guarantee liabilities	(89 822)	(85 623)
Other reservations pursuant to generally accepted accounting principles	(3 257)	(6 037)
<b>Total short-term items</b>	<b>(50 262)</b>	<b>(87 775)</b>
Fixed assets	15 511	(29 724)
<b>Total long-term items</b>	<b>15 511</b>	<b>(29 724)</b>
Tax losses carried forward	(83 150)	(140 010)
Adjustments for consolidation items	(19 160)	(24 385)
<b>Basis for calculation of deferred tax liabilities</b>	<b>(137 060)</b>	<b>(281 894)</b>
<b>Deferred tax liability (-deferred tax asset)</b>	<b>(45 184)</b>	<b>(91 134)</b>
Classified as deferred tax asset	45 314	91 313
<b>Deferred tax liability in the balance sheet</b>	<b>130</b>	<b>179</b>

Deferred tax in the balance sheet refers to business combinations.

### 12.4. Deferred tax asset

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

(NOK 1 000)	2009	2008
Pension liabilities	28 462	44 685
<b>Basis for calculation of deferred tax assets</b>	<b>28 462</b>	<b>44 685</b>
<b>Deferred tax asset</b>	<b>7 950</b>	<b>12 479</b>
<b>Deferred tax asset from other items (ref. 12.3)</b>	<b>45 314</b>	<b>91 313</b>
<b>Deferred tax asset in the balance sheet</b>	<b>53 264</b>	<b>103 792</b>

## 13. INTEREST BEARING LOANS AND GUARANTEES

(NOK 1 000)	2009	2008
Mortgage loan	20 771	35 287
Loan from credit institutions	474 391	568 258
<b>Total interest bearing loans</b>	<b>495 162</b>	<b>603 545</b>

Loan from credit institutions is mainly a credit facility of NOK 600 million which was set up in 2007. The facility is from 2009 reduced by NOK 75 million annually and is then at NOK 525 million at December 2009. The facility will terminate at the end of March 2014. In addition Nammo has unused cash credits of NOK 207.8 million.

Inventory in ND PressTec GmbH is used as collateral for the mortgage loan. The book value of the inventory is NOK 29.4 million.

Guarantees not recognized in the balance sheet as of 31.12.2009 are NOK 210.1 million.

# Nammo AS 2009

## Financial statements

## Income statement Nammo AS

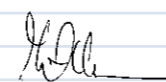
(NOK 1 000)	Notes	2009	2008
<b>Operating income</b>		<b>42 103</b>	<b>42 155</b>
<b>Operating expenses</b>			
Payroll expenses	1	21 268	22 160
Depreciation of tangible and intangible fixed assets	3	413	331
Other operating expenses		33 894	38 578
<b>Total operating expenses</b>		<b>55 575</b>	<b>61 069</b>
<b>Operating profit</b>		<b>(13 472)</b>	<b>(18 914)</b>
<b>Financial income and expenses</b>			
Received group contribution		100 000	100 000
Interest income	2	11 560	26 869
Other financial income	2	168 210	150 789
Interest expense	2	(4 468)	(28 442)
Other financial expenses	2	(10 388)	(2 383)
<b>Net financial income (expenses)</b>		<b>264 914</b>	<b>246 833</b>
<b>Ordinary result before tax</b>	10	<b>251 442</b>	<b>227 919</b>
Taxes on ordinary result		(24 878)	(31 516)
<b>Profit (loss) for the year</b>		<b>226 564</b>	<b>196 403</b>
<b>The Board's proposal for allocation of the profit</b>			
Dividend		133 800	133 000
Other equity		92 764	63 403
<b>Total</b>		<b>226 564</b>	<b>196 403</b>

# Balance sheet

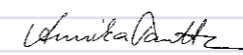
## Nammo AS

(NOK 1 000)									
Assets	Notes	As of 31.12.09	As of 31.12.08	As of 31.12.07	Shareholders equity and liabilities	Notes	As of 31.12.09	As of 31.12.08	As of 31.12.07
<b>Fixed assets</b>					<b>Equity</b>				
<b>Intangible assets</b>					Subscribed share capital	7, 8	100 000	100 000	100 000
Deferred tax asset	10	1 445	2 211	1 627	Share premium reserve	8	258 670	258 670	258 670
<b>Total intangible assets</b>		<b>1 445</b>	<b>2 211</b>	<b>1 627</b>	<b>Total paid in capital</b>		<b>358 670</b>	<b>358 670</b>	<b>358 670</b>
<b>Tangible assets</b>					Other equity	8	164 064	71 205	7 802
Buildings	3	788	-	-	<b>Total earned equity</b>		<b>164 064</b>	<b>71 205</b>	<b>7 802</b>
Fixtures and fittings, office machines, etc.	3	666	648	979	<b>Total equity</b>		<b>522 734</b>	<b>429 875</b>	<b>366 472</b>
Fixed assets under construction	3	4 059	2 309	-	<b>Liabilities</b>				
<b>Total tangible assets</b>		<b>5 513</b>	<b>2 957</b>	<b>979</b>	<b>Non-current liabilities</b>				
<b>Financial assets</b>					Pension liabilities	9	4 907	7 750	5 811
Investments in subsidiaries	4	588 958	587 195	587 191	Deferred tax	10	-	-	3
Investments in other shares and participations	4	4 033	4 033	4 033	<b>Total non-current liabilities</b>		<b>4 907</b>	<b>7 750</b>	<b>5 814</b>
Loans to group companies		418 474	489 274	369 167	<b>Other non-current liabilities</b>				
Other receivables		3 044	3 346	3 525	Liabilities to financial institutions	11	474 391	568 258	485 513
<b>Total financial assets</b>		<b>1 014 509</b>	<b>1 083 848</b>	<b>963 916</b>	<b>Total other non-current liabilities</b>		<b>474 391</b>	<b>568 258</b>	<b>485 513</b>
<b>Total fixed assets</b>		<b>1 021 467</b>	<b>1 089 016</b>	<b>966 522</b>	<b>Current liabilities</b>				
<b>Current assets</b>					Prepayments from customers		20 414	49 023	22 104
<b>Receivables</b>					Accounts payable		1 797	4 034	6 383
Accounts receivables	5	2 157	8 753	14 824	Payables to group companies		249 395	369 884	222 389
Receivables from group companies		79 293	110 964	95 676	Taxes payable	10	24 113	32 096	23 070
Receivables related to group contributions		100 000	100 000	90 000	Public duties payable		3 428	2 391	2 326
Other receivables		6 585	2 178	3 270	Dividend payable to shareholders		133 800	133 000	129 600
<b>Total receivables</b>		<b>188 035</b>	<b>221 895</b>	<b>203 770</b>	Other current liabilities		6 025	5 037	4 823
<b>Cash and cash equivalents</b>	6	<b>231 502</b>	<b>290 437</b>	<b>98 202</b>	<b>Total current liabilities</b>		<b>438 972</b>	<b>595 465</b>	<b>410 695</b>
<b>Total current assets</b>		<b>419 537</b>	<b>512 332</b>	<b>301 972</b>	<b>Total liabilities</b>		<b>918 270</b>	<b>1 171 473</b>	<b>902 022</b>
<b>Total assets</b>		<b>1 441 004</b>	<b>1 601 348</b>	<b>1 268 494</b>	<b>Total shareholders equity and liabilities</b>		<b>1 441 004</b>	<b>1 601 348</b>	<b>1 268 494</b>

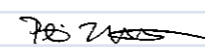
Helsinki, 25 March 2010



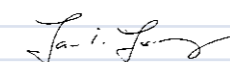
Heikki Allonen  
Vice Chairman



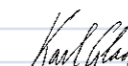
Annika Tanttinen  
Board Member



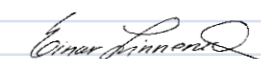
Petri Kontola  
Board Member



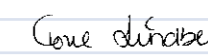
Jan T. Jørgensen  
Chairman



Karl Glad  
Board Member



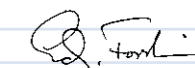
Einar Linnerud  
Board Member



Tone M. Lindberg  
Board Member



Kai Nurmio  
Board Member



Edgar Fossheim  
President & CEO



# Cash flow Nammo AS

[NOK 1 000]	2009	2008	2007
<b>Cash flow from operational activities</b>			
Result before tax and group contribution	151 442	127 919	24 184
Tax payments	(32 096)	(23 070)	-
Ordinary depreciation	413	331	260
Changes in accounts receivable	38 267	(5 670)	(23 932)
Changes regarding creditors	3 595	(2 349)	(1 142)
Pension cost less paid pension premium	(2 842)	1 955	223
Changes in loans to group and joint control companies	(13 770)	(9 659)	(299 749)
Changes in other depositions	(161 920)	205 837	(112 241)
<b>Net cash flow from operational activities (a)</b>	<b>(16 911)</b>	<b>295 294</b>	<b>(412 397)</b>
<b>Cash flow from investment activities</b>			
Investments in tangible assets	(2 969)	(2 309)	(1 239)
Investments in other assets	(1 763)	-	(239 942)
<b>Net cash flow from investment activities (b)</b>	<b>(4 732)</b>	<b>(2 309)</b>	<b>(241 181)</b>
<b>Cash flow from financing activities</b>			
Payments from new bank loans	-	149 213	660 828
Installments on long-term loans	-	(183 081)	(144 754)
Net payment of interest	(4 292)	(27 282)	(13 216)
Received concern contribution	100 000	90 000	19 613
Paid dividend	(133 000)	(129 600)	(74 300)
<b>Net cash flow from financing activities (c)</b>	<b>(37 292)</b>	<b>(100 750)</b>	<b>448 171</b>
Net changes in cash and bank accounts (a+b+c)	(58 935)	192 235	(205 407)
Cash and bank accounts as of 01.01	290 437	98 202	303 609
<b>Cash and bank accounts as of 31.12.</b>	<b>231 502</b>	<b>290 437</b>	<b>98 202</b>

Unused credit facilities is NOK 258.4 million. See note 11.

## Index to the accounting notes

Accounting policies Nammo AS	5 Accounting receivable	10 Tax
1 Salaries and social cost	6 Cash reserve	11 Interest bearing loans & guarantees
2 Financial items	7 Share capital	12 Credit facility
3 Fixed and intangible assets	8 Equity - alternations to equity	
4 Nammo AS shares in other companies	9 Pension commitments – pension costs	

## Accounting policies Nammo AS

### General

Nammo AS is a public limited company (Aksjeselskap). The Nammo AS headquarter is located at Raufoss, Norway.

The financial statements for Nammo AS have been prepared in accordance with the Norwegian Accounting Act and the Norwegian General Accepted Accounting Principles.

Nammo AS provides financing to most of subsidiary companies in the Nammo Group.

### Foreign currencies

Realized and unrealized gains and losses on transactions, assets and liabilities denominated in a currency other than the functional currency (NOK) of Nammo AS that do not qualify for hedge accounting treatment, are included in net income.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for products provided in the normal course of business, net of discounts and sales related taxes. Revenue from services is recognized as the services are rendered.

### Dividends received

Dividends from investments are recognized in the income statement when Nammo AS has a right to receive the dividends.

### Interest income

Interest income is recognized in the income statement as it is accrued.

### Government grants

Government grants are recognized in the consolidated financial statement when the Nammo AS has reasonable assurance that it

will receive them and comply with conditions attached to them. Government grants that compensate Nammo AS for expenses are recognized in the income statement as the expenses are incurred. Government grants that compensate Nammo AS for the cost of an asset are recognized as a reduction to the total investment and thus also the future depreciations of the asset.

### Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Current and deferred tax are recognized as expense or income in the income statement, except when they relate to items recognized directly to equity, in which case the tax is also recognized directly in equity.

In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of Nammo's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

### Intangible assets

Separately acquired intangible assets are recognized at cost at the time of acquisition. As part of business combinations, intangible assets acquired as a result of contracts or legal rights, or rights that can be separated from the acquired entity, are recognized at fair value.

Research costs are normally expensed as they incur.

Intangible assets are amortized on a straight-line basis over their expected useful life.

### Property, plant and equipment

Property, plant and equipment are measured at historic cost less accumulated depreciation and any impairment loss.

Expenses in connection with ordinary maintenance and repairs are recognized in the income statement as they are incurred. Expenses incurred in connection with major replacements and renewals are capitalized and depreciated on a systematic basis.

Property, plant and equipment are depreciated on a straight-line basis over their expected useful life.

Gain or loss due to sale or retirement of property, plant and equipment is calculated as the difference between sales proceeds and carrying value and is recognized in the income statement.

Subsidiaries and associated companies Shares in subsidiaries and associated companies are recognized according to the historic cost method.

# Notes to the accounts

## Nammo AS

### Impairment of non-current assets other than goodwill

Nammo AS assesses the carrying amount of tangible assets and identifiable intangible assets annually, or more frequently if events or changes in circumstances indicate that such carrying amounts may not be recoverable. Factors considered material which trigger an impairment test include:

- significant underperformance relative to historical or projected future results, or
- significant changes in the manner of the company's use of the assets or the strategy for the overall business, or
- significant negative industry or economic trends.

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less cost to sell and value in use. When it is determined that the carrying amount of tangible assets and identifiable intangible assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, any impairment is measured based on discounted projected cash flows. An impairment loss is recognized to the extent that the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Previously recognized impairment losses are reversed if the assumptions for impairment are no longer present.

### Defined benefit plans

The net obligation in respect of defined benefit plans are calculated separately for each plan. The amount is an estimation of future benefits that the employees have earned in return for their service in current and prior periods. The benefit is discounted to determine its present value, and the fair value of the plan assets and unvested past service cost is deducted. The discount rate is based on the risk free rate (interest rate on long term government bonds) and the recommendation from The Norwegian Accounting Standards Board (Norsk Regnskapsstiftelse), plus a risk premium. Qualified actuaries perform the calculations.

The actuarial gains or losses are recognized using a corridor. The corridor is defined as 10% of the highest of the Defined Benefit Obligation (DBO) and total plan assets. The net actuarial gain or loss exceeding the corridor is amortized in the profit and loss over the estimated remaining period of service from the members in the plan.

### Cash and cash equivalents

Cash and cash equivalents include cash and bank deposits.

### Trade receivables and other short-term receivables

Trade receivables and other short-term receivables are recognized at the lower of the transaction amount (historic cost) and the fair value at the time of reporting.

### Trade payables and other short-term liabilities

Trade payables are recognized at the higher of the transaction amount (historic cost) and the fair value at the time of reporting.

### Impairment of financial assets

Financial assets, other than those recognized at fair value through the income statement, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at historic cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows.

### Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at historic costs including transaction costs.

### Financial instruments

Nammo AS uses financial instruments to hedge exposure against foreign exchange risk in operating, financing and investment activities. These are mainly forward currency contracts to hedge risk of currency fluctuations (cash flow hedges). The effect of the financial instruments used as hedging instrument in a cash flow hedge are recognized in the profit and loss in the same period as the hedged transaction is recognized (hedge accounting).

## 1. SALARIES AND SOCIAL COST

(NOK 1 000)	2009	2008
Salaries	18 507	15 838
Social security tax	2 839	2 137
Pension costs	(607)	3 265
Other social costs	529	920
<b>Total</b>	<b>21 268</b>	<b>22 160</b>

<b>Average number of man years</b>	<b>11</b>	<b>11</b>
------------------------------------	-----------	-----------

	2009
<b>Auditors fee</b>	<b>2009</b>
Auditors fee	337
Fees for other attestation services	206
Tax advisory services	842
Other services	48
<b>Total</b>	<b>1 433</b>

## 2. FINANCIAL ITEMS

(NOK 1 000)	2009	2008
Interest income from group companies	11 544	26 852
Other interest income	16	17
<b>Total interest income</b>	<b>11 560</b>	<b>26 869</b>

Gain on exchange	-	32 194
Dividend from group company	168 135	118 595
Other financial income	75	-
<b>Total other financial income</b>	<b>168 210</b>	<b>150 789</b>

Other interest cost	(4 468)	(28 442)
<b>Total interest cost</b>	<b>(4 468)</b>	<b>(28 442)</b>

Exchange costs	(10 365)	(2 263)
Other financial expenses	(23)	(120)
<b>Total other financial expenses</b>	<b>(10 388)</b>	<b>(2 383)</b>

### 3. FIXED ASSETS

[NOK 1 000]	Fittings and office		Assets under
	Buildings	equipment	construction
Acquisition cost as of 01.01.09	-	1 239	2 309
Additions during the year	844	375	1 750
Disposal's during the year	-	-	-
Acquisition cost as of 31.12.09	844	1 614	4 059
Accumulated depreciations	56	948	-
<b>Balance value as of 31.12.09</b>	<b>788</b>	<b>666</b>	<b>4 059</b>
Ordinary depreciations for the year	56	357	-
Annual leasing cost on assets not in the balance sheet (buildings)	328	-	-
Economic life time (years)	5 years	3 - 10 years	
Depreciation plan	linear	linear	

### 4. SHARES IN OTHER COMPANIES

[NOK 1 000]	Company's share capital	Number of shares owned	Nominal value	Booked value NOK	Ownership
<b>Group companies:</b>					
	NOK 150 000 000	150 000	150 000	175 000	100%
	SEK 10 000 000	100 000	10 000	59 961	100%
	EUR 4 793 000	285 000	-	105 006	100%
	EUR 26 000	1	26	7 246	100%
	USD 38 380 000	-	-	239 982	100%
	CAD 322 000	-	-	1 763	100%
<b>Total</b>				<b>588 958</b>	
<b>Other shares and participations:</b>					
	NOK 4 782 000	23 910	2 391	3 938	50%
	-	-	-	95	-
<b>Total</b>				<b>4 033</b>	

### 5. ACCOUNTS RECEIVABLE

[NOK 1 000]	2009	2008
<b>Accounts receivable</b>	<b>2 157</b>	<b>8 753</b>

Accounts receivable are booked at nominal value. There have been no losses on accounts receivable in 2009.

### 6. CASH RESERVE

This amount includes bank balances of group companies that participate in the international cash pool by NOK 239.5 million. See note 12.

### 7. SHARE CAPITAL

As of 31.12.2009 Nammo AS' share capital is NOK 100 million, split on 1 000 000 shares of NOK 100 each.

#### Nammo AS shareholders as of 31.12.2009

	Shareholders	Number of shares	Number Ownership
The Norwegian State, represented by Ministry of Trade and Industry		500 000	50%
Patria Oyj, Finland		500 000	50%
<b>Total</b>	<b>2</b>	<b>1 000 000</b>	<b>100%</b>

### 8. EQUITY – ALTERATIONS TO EQUITY

[NOK 1 000]	Share capital	Other paid in capital	Other equity	Net result	Total
Equity as of 01.01.09	100 000	258 670	71 205	-	429 875
Net result	-	-	-	226 564	226 564
Allocation of the net result <sup>1)</sup>	-	-	226 564	(226 564)	-
Dividend <sup>1)</sup>	-	-	(133 800)	-	(133 800)
Changes concerning previous years	-	-	95	-	95
<b>Equity as of 31.12.09</b>	<b>100 000</b>	<b>258 670</b>	<b>164 064</b>	<b>-</b>	<b>522 734</b>

<sup>1)</sup> Board of Directors proposal for the General Meeting

### 9. PENSION COMMITMENTS – PENSION COSTS

The accounting principles for calculation of pension liability are in accordance with Norwegian accounting standards. Nammo AS has established a collective pension plan according to the Norwegian tax law and the law for pensions for all employees (Lov om foretakspensjon). The plan includes 11 active members. The company's membership in the L0/NHO AFP-system is also included in the calculation of the pension liability. 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 periodic pension cost is based on an actuarial calculation of this year's earning of pension rights and is included in payroll expenses in the profit and loss.

The actuarial calculation was performed in December 2009 with the following assumptions:

Yield from pension funds	5.60%
Interest rate used to discount future cash flows	5.40%
Annual salary increase	4.25%
Annual increase in G	4.00%
Annual change in pension	2.50%

Deferred tax asset is NOK 1.37 million. See note 10.



<b>Pension cost</b>		
(NOK 1 000)	<b>2009</b>	<b>2008</b>
Service costs	1 333	1 179
Amortization of net actuarial losses (gains)	(2 197)	1 875
Interest costs	612	474
Expected return on plan assets	(355)	(263)
<b>Net pension costs</b>	<b>(607)</b>	<b>3 265</b>
<b>Pension commitments</b>		
(NOK 1 000)	<b>2009</b>	<b>2008</b>
Defined benefit obligation incl. payroll tax	15 565	12 674
- Fair value of plan assets	9 002	4 924
<b>Net pension liability</b>	<b>6 563</b>	<b>7 750</b>
Items not recognized in the profit and loss		
Unrecognized net actuarial gain (loss)	(1 656)	-
<b>Net amount recognized in the balance sheet</b>	<b>4 907</b>	<b>7 750</b>

## 10. TAX

### 10.1. This year's tax cost

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

(NOK 1 000)	<b>2009</b>	<b>2008</b>
Net income before tax	251 442	227 919
Permanent differences	(162 591)	(115 361)
Changes in temporary differences	(2 734)	2 072
<b>Basis for the tax calculation</b>	<b>86 117</b>	<b>114 630</b>

### Specification of the tax cost in the profit and loss

Tax payable	24 113	32 096
Changes in temporary differences	765	(580)
<b>This year's tax cost</b>	<b>24 878</b>	<b>31 516</b>

### 10.2. Deferred taxes

The deferred tax liabilities/tax assets have 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.

<b>Deferred tax calculation</b>		
(NOK 1 000)	<b>31.12.09</b>	<b>31.12.08</b>
Fixed assets	(254)	(146)
<b>Deferred tax in the balance sheet at 28%</b>	<b>(71)</b>	<b>(41)</b>

Negative deferred tax is classified as deferred tax asset in the balance sheet

### 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.

(NOK 1 000)	<b>31.12.09</b>	<b>31.12.08</b>
Pension liability	4 907	7 750
<b>Deferred tax asset (28%)</b>	<b>1 374</b>	<b>2 170</b>
Deferred tax asset, ref note 10.2	71	41
<b>Deferred tax asset in the balance sheet</b>	<b>1 445</b>	<b>2 211</b>

## 11. INTEREST BEARING LOANS AND GUARANTEES

	<b>2009</b>	<b>2008</b>
<b>Loans from banks</b>	<b>474 391</b>	<b>568 258</b>

Loan from credit institutions is mainly a credit facility of NOK 600 million which was set up in 2007. The facility is from 2009 reduced by NOK 75 million annually and is then at NOK 525 million at December 2009. The facility will terminate at the end of March 2014.

In addition, Nammo AS has unused cash credits of NOK 207.8 million.

Guarantees not in the balance sheet as of 31.12.2009 are NOK 207.8 million.

## 12. CREDIT FACILITY

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

Nammo AS subsidiaries' balance on the overdraft facility is included in payables to group companies. This amounts to NOK 239.5 million. See note 6.



# Auditors report for 2009



**KPMG AS**  
P.O. Box 214  
Torggata 22  
N-2302 Hamar

Telephone +47 62 59 87 50  
Fax +47 62 59 87 60  
Internet [www.kpmg.no](http://www.kpmg.no)  
Enterprise 935 174 627MVA

To the Annual Shareholders' Meeting of Nammo AS

## AUDITOR'S REPORT FOR 2009

### Respective Responsibilities of Directors and Auditors

We have audited the annual financial statements of the Nammo AS as of 31 December 2009, showing a profit of NOK 226.564.000 for the parent company and a profit of NOK 267.675.000 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, cash flows and the accompanying notes. The group accounts comprise the balance sheet, the statements of income, 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 2009, 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, March 25, 2010  
KPMG AS

Thore Kleppen  
State Authorised Public Accountant

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

KPMG AS is the Norwegian firm of KPMG International,  
a Swiss cooperative  
Statsautoriserte revisorer - medlemmer av Den norske Revisorforening

Offices in:

Oslo	Haugesund	Sandnessjøen
Bodo	Kristiansund	Stavanger
Alta	Lilleshammer	Stord
Arendal	Mo i Rana	Tromsø
Bergen	Molde	Trondheim
Bæverum	Rene	Tønsberg
Finnås	Sandefjord	Ålesund
Hamar		







The Nammo group has taken the first steps to report according to the Global Reporting Initiative (GRI) standard for sustainable reporting. GRI is a network-based organization that has pioneered the development of the most widely used sustainable reporting framework.

This framework sets out the principles and indicators that organizations can use to measure and report their economic, environmental and social performance. The first step for Nammo is a self-declaration reporting at the B-level.

GRI element/indicator	Comments and page references
<b>PROFILE</b>	
<b>Strategy and analysis</b>	
1.1	Statement from the most senior decision maker of the organization 2-3
1.2	Description of key impacts, risks and opportunities 50-57, 22-23
<b>Organizational profile</b>	
2.1	Name of the organization Front cover, inside cover
2.2	Primary brands, products and/or services Inside cover, 6-23
2.3	Operational structure of the organization Inside back cover, 6-15
2.4	Location of organization's headquarters Inside cover
2.5	Countries where the organization operates Inside back cover, 29, 65
2.6	Nature of ownership and legal form Inside back cover, 40-43
2.7	Markets served Inside cover, 65
2.8	Scale of the reporting organization Inside cover, 40-41, 44-45
2.9	Significant changes in size, structure or ownership 43
2.10	Awards received in the reporting period 5, 37
<b>Report parameters</b>	
3.1	Reporting period 2009
3.2	Date of most recent previous report (if any) 2008
3.3	Reporting cycle (annual, biennial, etc.) Annual
3.4	Contact point for questions regarding the report or its content CFO, SVP Communication
3.5	Process for defining report content 50-57
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, etc) 40-41
3.7	Limitations on the scope of boundary of the report Table of contents
3.8	Basis for reporting on joint ventures, subsidiaries, etc Nammo Group, 58-71
3.9	Data measurements techniques 22-23

GRI element/indicator	Comments and page references
3.10	Effect of any re-statements of information 43, 50-57, 68-89
3.11	Changes in the scope, boundary or measurement methods More extensive CSR reporting
3.12	GRI index table 86-89
3.13	External assurance for the report 84
<b>Governance, commitments and engagement</b>	
4.1	Governance structure of the organization 44-49
4.2	Whether the chair of the highest governance body is also an executive officer No
4.3	For unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members 48-49
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body 48-49
4.5	Compensation for the highest governance body, senior managers and executives 66
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided 44-45
4.7	Process for determining the qualifications and expertise of the members of the highest governance body 44-49
4.8	Internally developed statements of mission or values, codes of conduct and principles Inside cover, 2, 18-19, 36-37
4.9	Procedures of the highest governance body for overseeing the organization 50-57
4.10	Processes for evaluating the highest governance body's own performance 50-57, 44-45
4.11	Whether and how the precautionary approach or principles is addressed by the organization 2-3, 18-19, 34-37
4.12	Externally developed charters, principles or other initiatives to which the organization subscribes or endorses 7, 34, 39, 86-89
4.13	Memberships in associations and/or national/international advocacy organizations 35
4.14	List of stakeholder groups engaged by the organization 34-35
4.15	Basis for identification and selection of stakeholders with whom to engage 34-35
4.16	Approaches to stakeholder engagement 35
4.17	Key topics and concerns that have been raised through stakeholder engagement 34-35
<b>ECONOMIC PERFORMANCE INDICATORS</b>	
<b>Management approach</b> 2-3, 22-23	
EC1	Direct economic value generated and distributed 58-83
EC2	Financial implications and other risks and opportunities due to climate change 26-27
EC3	Coverage of the organization's defined benefit plan obligations 66, 69, 79, 81
EC4	Significant financial assistance received from government None
EC6	Spending on locally-based suppliers at significant location of operation Not reported
EC7	Procedures for local hiring proportion of senior management Not reported
EC8	Infrastructure investments and services provided primarily for public benefit 6-7, 34-35, 37
<b>ENVIRONMENTAL PERFORMANCE INDICATORS</b>	
<b>Management approach</b> 2-3, 50-57	
EN1	Materials used by weight or volume Not reported
EN2	Percentage of materials used that are recycled input materials Not reported
EN3	Direct energy consumption by primary energy source 26-27
EN4	Indirect energy consumption by primary source 26-27



GRI element/indicator		Comments and page references
EN5*	Energy saved due to conservation and efficiency improvements	27
EN6*	Initiatives for energy-efficiency and renewable energy-based products and services	25-27
EN8	Total water withdrawal by source	26
EN11	Location and size of land in areas of high biodiversity value outside protected areas	Not relevant
EN12	Impacts on biodiversity in protected areas and areas of high biodiversity	Not relevant
EN16	Total direct and indirect greenhouse gas emissions by weight	Not relevant
EN17	Other relevant indirect greenhouse gas emissions by weight	Not relevant
EN18*	Initiatives to reduce greenhouse gas emissions and reductions achieved	Not relevant
EN19	Emissions of ozone-depleting substances by weight	Not relevant
EN20	NOx, SOx and other significant air emissions by type and weight	Not reported for total group, figures available for Raufoss
EN21	Total water discharge by quality and destination	Not reported for total group, figures available for Raufoss
EN22	Total weight of waste by type and disposal method	26
EN23	Total amount of land owned, leased and managed for production activities or extractive use	Not reported
EN26	Environmental impacts of products and services and extent of impact mitigation	11-37
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	Not reported
EN28	Significant fines and sanctions for non-compliance with environmental laws and regulations	None
EN29*	Environmental impacts of transporting products, materials and members of the workforce	Not reported
EN30*	Total environmental protection expenditures and investments by type	27
<b>SOCIAL PERFORMANCE INDICATORS</b>		
<b>Labor practices and decent work</b>		
<b>Management approach</b>		2-3, 18-19, 50-57
LA1	Total workforce by employment type, employment contract and region	28-30
LA2	Employee turnover by age group, gender and region	Not reported
LA4	Percentage of employees covered by collective bargaining agreements	Not reported
LA5	Minimum notice period(s) regarding operational changes	Follow national laws and regulations
LA6*	Formal joint management-worker health and safety committees	29, 50-57
LA7	Injuries, occupational diseases, lost days, absenteeism and work-related fatalities	28-31
LA8	Education, training, prevention, and risk-control programs in place regarding serious diseases	Not reported
LA9*	Health and safety topics covered in formal agreements with trade unions	Follow national laws and regulations
LA10	Average hours of training per year per employee by employee category	6-17, 32-33
LA13	Diversity within governance bodies and employee categories	30
LA14	Ratio of basic salary of men to women by employee category	Not reported

GRI element/indicator		Comments and page references
<b>Human rights</b>		
<b>Management approach</b>		2-3, 18-19, 39, 50-57
HR1	Human rights clauses or screening related to investment agreements	Not reported
HR2	Screening of suppliers and contractors regarding human rights	35
HR4	Total number of discrimination and actions taken	None
HR5	Freedom of association and collective bargaining	Follow national laws and regulations
HR6	Child labor, and measures taken to contribute to the elimination of child labor	39
HR7	Forced or compulsory labor	39
<b>Society</b>		
<b>Management approach</b>		2-3, 34-37, 50-57
S01	Impacts of operations on communities, including entering, operating, and exiting	34-37
S02	Percentage and total number of business units analyzed for risks related to corruption	34-37
S03	Percentage of employees trained in organization's anti-corruption policies and procedures	19, 35
S04	Actions taken in response to incidents of corruption	35, nothing to report
S05	Public policy positions and participation in public policy development and lobbying	7, 34-37
S07*	Legal actions for anti-competitive behavior, anti-trust and monopoly practices	Nothing to report
S08	Fines and non-monetary sanctions for non-compliance with laws and regulations	Nothing to report
<b>Product responsibility</b>		
<b>Management approach</b>		2-3, 11, 37, 50-57
PR1	Health and safety impacts of products and services assessed for improvement	11, 37
PR3	Product and service subject to information requirements	37
PR5*	Practices related to customer satisfaction	Not reported
PR6	Adherence to laws, standards, and voluntary codes related to marketing communications	Follow national laws and regulations
PR7*	Non-compliance with regulations and voluntary codes concerning marketing communications	Nothing to report
PR8*	Complaints regarding breaches of customer privacy and losses of customer data	Nothing to report
PR9	Fines for non-compliance with laws and regulations concerning provision and use of products	Nothing to report

\* GRI additional performance indicator



<b>HEADOFFICE</b> Nammo AS  P.O. Box 142 NO-2831 Raufoss Tel: +47 61 15 36 00 Fax: +47 61 15 36 20	<b>NORWAY</b> Nammo Raufoss AS  P.O. Box 162 NO-2831 Raufoss Tel: +47 61 15 36 50 Fax: +47 61 15 36 60	<b>NORWAY</b> Nammo NAD AS  Moshaugan 6 NO-7332 Løkken Verk Tel: +47 72 49 70 80 Fax: +47 72 49 70 89
<b>NORWAY</b> Nammo Bakelittfabrikken AS  Bogstadfeltet NO-1930 Aurskog Tel: +47 63 86 59 50 Fax: +47 63 86 59 51	<b>SWEDEN</b> Nammo Sweden AB  SE-643 92 Vingåker Tel: +46 151 19500 Fax: +46 151 13475	<b>SWEDEN</b> Nammo Vingåkersverken AB  SE-643 92 Vingåker Tel: +46 151 19500 Fax: +46 151 13475
<b>SWEDEN</b> Nammo Demilt Division AB  SE-643 92 Vingåker Tel: +46 151 19500 Fax: +46 151 13475	<b>SWEDEN</b> Nammo LIAB AB  P.O. Box 154 SE-711 23 Lindesberg Tel: +46 581 87100 Fax: +46 581 87200	<b>SWEDEN</b> Norabel Ignition Systems AB  P.O. Box 154 SE-711 23 Lindesberg Tel: +46 581 87100 Fax: +46 581 87200
<b>SWEDEN</b> Hansson PyroTech AB  P.O. Box 51 SE-711 23 Lindesberg Tel: +46 581 87250 Fax: +46 581 87251	<b>SWEDEN</b> Nammo LIAB AB Björkborn  SE-691 80 Karlskoga Tel: +46 586 83523 Fax: +46 586 83761	<b>SWEDEN</b> Nammo Vanäsverken AB  P.O. Box 4 SE-546 23 Karlsborg Tel: +46 505 18100 Fax: +46 505 18155
<b>FINLAND</b> Nammo Lapua Oy  P.O. Box 5 FI-62101 Lapua Tel: +358 6 4310 111 Fax: +358 6 4310 244	<b>FINLAND</b> Nammo Lapua Oy  Äyritie 8 D 5th floor FI-01510 Vantaa  Fax: +358 6 4310 425	<b>FINLAND</b> Nammo Lapua Oy  Naulakatu 3 FI-33100 Tampere  Fax: +358 6 4310 425

<b>FINLAND</b> NorDis Nordic Distribution Oy  P.O. Box 5 FI-62101 Lapua Tel.: +358 6 4310 301 Fax: +358 6 4310 295	<b>FINLAND</b> Nammo Lapua Oy Vihtavuori Site Ruutitehtaantie 80 FI-41330 Vihtavuori Tel: +358 14 3779 211 Fax: +358 14 3779 263	<b>GERMANY</b> Nammo Germany GmbH  P.O. BOX 1462 DE-39204 Schönebeck Tel: +49 39 28 729 100 Fax: +49 39 28 729 111
<b>GERMANY</b> Lapua GmbH  P.O. BOX 1462 DE-39204 Schönebeck Tel: +49 39 28 729 100 Fax: +49 39 28 729 111	<b>GERMANY</b> Nammo Buck GmbH Industrie- und Gewerbegebiet 1 DE-16278 Pinnow Tel: +49 33335 46 481 Fax: +49 33335 46 482	<b>GERMANY</b> ND PressTec GmbH  Rosenweg 15 DE-58239 Schwerte Tel: +49 2304 108-0 Fax: +49 2304 108 424
<b>SWITZERLAND</b> SN Technologies SA  Pré de la Fontaine, 19 CH-1217 Meyrin Tel: +41 22 989 1290 Fax: +41 22 989 1299	<b>SWITZERLAND</b> Nammo MTH SA P.O. BOX 68 Rue Principal CH-1987 Hérémence Tel: +41 27 282 50 50 Fax: +41 27 282 50 54	<b>USA</b> Nammo Inc.  2000 N 14th St. #250 Arlington VA 22201 Tel: +1 703 524 6100 Fax: +1 703 522 2511
<b>USA</b> Nammo Talley Inc.  P.O. Box 34299 Mesa AZ 85277-4299 Tel: +1 480 898 2200 Fax: +1 480 898 2358	<b>USA</b> Nammo Talley Inc.  P.O. Box 252 Davidsville PA 15928-0252 Tel: +1 814 479 4100 Fax: +1 814 479 4344	<b>USA</b> Nammo Talley Inc.  P.O. Box 9000 Columbus MS 39705-0015 Tel: +1 662 272 6111 Fax: +1 662 272 6139
<b>USA</b> Nammo Composite Solutions, LLC  3938 South 300 West Murray UT 84107 Tel: +1 801 269 0998 Fax: +1 801 269 0780	<b>CANADA</b> Nammo Canada Inc.  112-5460 Canotek Road Ottawa, Ontario K1J 9H2 Tel: +1 613 238 3970 Fax: +1 613 238 4857	<b>CANADA</b> Nammo Primex Security Ltd.  112-5460 Canotek Road Ottawa, Ontario K1J 9H2 Tel: +1 613 238 3970 Fax: +1 613 238 4857

Project management and writing: Marhvi AS, Design: Kylling Design AS, Photo: Stein Henningsen, Nammo's archive Prod: Jonny Fladby

