SECURING THE FUTURE

Nammo

SECURING THE FUTURE

2016
ANNUAL REPORT

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BOARD OF DIRECTORS REPORT 2016

NAMMO DELIVERS PROFITABLE GROWTH IN A RAPIDLY CHANGING ENVIRONMENT. WITH ALMOST 10 PERCENT GROWTH ON THE TOP LINE AND 40 PERCENT GROWTH IN RESULT BEFORE TAX, NAMMO IS SECURING THE FUTURE AND PREPARING FOR CONTINUED IMPROVEMENTS AND GROWTH.

The net profit for the year after tax amounted to NOK 279 million (NOK 229 million in 2015), which is 22 percent higher than last year. Based on this, the board of directors will propose an ordinary dividend of NOK 140 million (108.7) at the annual general meeting. The order backlog ended at NOK 4 767 million (5 130) at year-end, which provides a solid base for the future growth of Nammo.

GENERAL COMMENTS

Nammo develops, produces and sells military and commercial ammunition, shoulder-fired systems, rocket motors for space and military applications, and is a leading provider of global services for environmentally friendly demilitarization. Since its inception in 1998, Nammo's strategy has been to develop a wide range of ordnance products and services through focusing on high performance and top notch technologies. Since Nammo has governmental owners both in Norway and indirectly in Finland, the company does operate in accordance with governmental guidelines and governance. Nammo has manufacturing companies in Norway, Sweden, Finland, Germany, Switzerland, Spain and the USA as well as sales offices in Canada, Poland, the UAE, Australia and India. The corporate headquarters is located at Raufoss, Norway.

With its modern and broad product portfolio, Nammo is well positioned in the international market. Nammo's focus on increasing its market share in selected geographical areas through organic growth, partnership and acquisitions is unchanged. Nammo has a long and successful collaboration with customers in its home markets. This has been a prerequisite for international success.

Nammo has succeeded in profitable growth both on the top line and in the final result of 2016. Operating profit for 2016 ended at NOK 384 million (NOK 284 million), NOK 100 million higher than in 2015.

STRATEGY FOR PROFITABLE GROWTH

Nammo expects growth in military spending in a number of markets as a result of the increased political tensions in several regions of the world. History has shown that it is very difficult to foresee whether changes in the international security situation will impact Nammo's business environment. A high degree of flexibility and ability to adapt is therefore essential.

Nammo will continue to focus on its targeted markets, being the Nordic countries, key European countries, North America, Australia and a few South East Asian countries. At the same time, Nammo will closely follow developments and opportunities in new and rising markets like the Middle East and India. All entries into new markets will be in accordance with the corporate compliance procedures and the laws and regulations of the national authorities in the countries where Nammo operates.

Nammo will continue to yield excellent performance in its businesses and will stay ahead by investing in world-class technologies, products and processes for sustainable growth.

Opportunities for diversification through utilizing existing core competencies and market knowledge will be pursued also in the years to come.

OPERATIONS

Implementation of the new Nammo Business Unit structure progressed according to expectations through 2016 and seemed to be the right choice for further growth and development of Nammo. The new structure increases the customer focus and strengthens the synergies across the group.

Several initiatives have been launched during 2016 to optimize Nammo's legal structures and improve synergies across business units and legal entities. These activities will continue and form an important part of achieving Nammo's goals for profitable growth.

The Nordic market remains a fundamental part of Nammo's position and future development. Nevertheless, the markets outside the Nordic countries are becoming ever more important to Nammo. In 2016 the Nordic market accounted for 24 percent of total revenues, while the North American market and European market accounted for 34 and 30 percent respectively.

Nammo's strategy in the past has created a broad product portfolio with several specialty products that differentiate Nammo from the competitors. This has created considerable potential to win business in both existing and new markets. To stay competitive, Nammo has to continue on this path and focus on differentiation from the competitors. Nammo is involved in development programs encompassing advanced technology solutions for national and international markets. Nammo also takes part in many network-related activities that allow separate products to work together in a system to increase overall effectiveness. Significant development projects for new technologies, products and processes which are judged likely to create positive cash flow are recognized as R&D costs in the balance sheet. All other research and development costs are expensed when incurred.

FINANCIAL STATEMENTS

Pursuant to Section 3-3a of the Norwegian Accounting Act, the board of directors confirms that the financial statements have been prepared on the assumption of a going concern 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 Generally Accepted Accounting Principles (N GAAP). The accounting principles used by the Nammo Group have also been applied by Nammo AS and all subsidiaries. For further information, please refer to the financial statements and note disclosures.

Operating income and profitability

Nammo had an operating income of NOK 4 132 million in 2016 (3 783), which is 9.2 percent higher than 2015. The new business unit structure with stronger focus on core operations has contributed to the strong performance. Net financial items were positive at NOK 1.1 million in 2016 (-9.9). Net income after tax was NOK 279 million in 2016 (229).

Cash flow and liquidity

Nammo's net cash flow from operating activities was NOK 371 million in 2016 (26). The higher level is mainly due to a better operating result and lower level of receivables and other dispositions. Net cash flow from investment activities amounted to NOK -391 million in 2016 (-135), mainly related to purchase of fixed assets and acquiring shares in group companies. Net cash flow from financing activities amounted to NOK 201 million in 2016 (28). This mainly reflects dividends to shareholders and an increase of long-term debt. Cash and cash equivalents were NOK 463 million on 31 December 2016 (282). Nammo had unutilized credit facilities of NOK 853 million, measured at 31 December 2016 exchange rates.

Balance sheet
The total assets of the Nammo Group were NOK 5 050 million at the end of 2016 (4 674). Net working capital, excluding cash, was NOK 1 428 million (1 453), while equity was NOK 2 383 million (2 329). Total liabilities were NOK 2 667 million (2 304) at 31 December 2016 and the equity ratio ended at 47 percent in 2016 (50). Total interest-bearing liabilities to financial institutions amounted to NOK 1 068 million (752) at 31 December 2016.

RISK FACTORS
Nammo operates in a global market characterized by unexpected and rapid shifts in political stability, technology, products, exchange rates and other risk factors. Risk management is therefore an integral part of Nammo's strategic and operative business management, with the aim of supporting both strategic and financial goals.

Market risk
The operational and financial development of the Nammo Group depends on the general development of the defense- and commercial ammunition markets. The fact that Nammo has six operating business units, each within a number of different business areas, and a large range of products, is regarded as an advantage, as it spreads the risk over a broad platform of business areas and activities.

Operational risk
The group's value creation mainly consists of products and systems of high technological complexity. Efficient project management is an important success factor to reduce operational risk along with up-to-date process management systems now being introduced throughout the entire corporation Nammo has established routines and procedures designed to minimize the overall operational risk.

Financial risks
Nammo has established guidelines for financial risk management at both the corporate and business unit levels. The following have been identified as the key financial risk areas for the Nammo Group:

Currency risk: Nammo's customer base is global, and currency fluctuations have a major impact on the group's financial statements. In light of this, currency risk is continuously monitored through internal risk matching and hedging in the market, using financial instruments to secure the calculated earnings on contracts and thereby reduce exposure to fluctuations. Nammo also has a currency risk related to equity in subsidiaries and joint ventures reported in foreign currencies. Translation risk is partly reduced through hedge accounting of long-term debt.

Commodity price risk: Price volatility related to copper, steel and other raw materials can directly affect Nammo's operating costs, and can have an effect on the group's reported operating results. Nammo reduces the risk by consistently monitoring commodity hedges for all the significant purchase transactions of metals that it is possible to hedge in the market.

Liquidity risk: The management of liquidity risk means maintaining sufficient cash and cash equivalents, and having funding available through adequate committed credit facilities. Nammo maintains a high degree of financial flexibility by keeping sufficient cash and cash equivalents or committed credit facilities available.

Credit risk: Nammo's customers are mainly national defense ministries and major companies in the defense and space industry in NATO and EU countries. The inherent credit risk is thus considered low. Credit risk is evaluated annually, and currently the risk associated with outstanding accounts receivable is considered low.

Interest rate risk: Interest rate risk for the Nammo Group is monitored and continuously assessed during the year. The main risk is related to long-term financing of the Group and is handled at corporate level. We consider this to be a limited risk.

Reputational risk

To strengthen the company's reputation and reduce the risk, Nammo has for the last ten years had continuous training programs in ethics and compliance. These training programs have created a strong company culture founded upon Nammo's core values and the right employee attitude. To maintain a strong company reputation, it is required that, on the one hand, all Nammo products must be developed and produced according to international laws and conventions and, on the other hand, the company must comply with national laws and regulations in the countries where it has its operations. In a customer survey in 2016, Nammo's customers evaluated the company to be a trustworthy supplier based on quality products and on-time delivery. Nammo's ambition is to maintain its strong reputation and increase general knowledge about Nammo among our stakeholders.

DISTRIBUTION OF DIVIDEND

The board proposes to the general meeting of share-holders a dividend payment of NOK 140 million for 2016. Assuming the proposed dividend, the profit in the parent company Nammo AS will be distributed as follows: dividend NOK 140 million, other equity NOK -50 million and total NOK 89 million. The proposed dividend represents 157 percent of the Nammo AS profit for the year. For the Nammo Group, the proposed dividend represents 50 percent of net profit.

CORPORATE SOCIAL RESPONSIBILITY

Nammo promotes sustainable development through business operations that strongly emphasize environ-mental, ethical and social considerations. Nammo is committed to ensuring that human and labor rights, environmental considerations and anti-corruption laws are followed and respected in its business activities and by the group's suppliers. Nammo aims to be characterized by its high ethical standards.

Nammo follows the Global Reporting Initiative (GRI) Standard for sustainable reporting. 2016 was the second year that Nammo adopted the GRI G4 standard, which is an improved reporting method according to the GRI Standard. The company is still reporting at the self-declared B-level. During 2016 Nammo delivered its third company report, Communication on Progress (COP), to the UN Global Compact.

Ethics and anti-corruption

The Ethical Code of Conduct of Nammo describes the company's business practices and the requirements regarding expected behavior related to anti-corruption, conflict of interests, harassment and non-discriminatory behavior. It is a requirement for all employees and all third parties acting on behalf of Nammo to comply with our Ethical Code of Conduct.

Nammo believes that by developing employee attitudes through a strong focus on information, education and training is the best way to ensure that Nammo employees understand and 'live' the group's high level of ethical standards. Nammo has zero tolerance of any form of corruption. In 2016, Nammo introduced a new anti-corruption training program named "Red Flag Training". The purpose of "Red Flag Training" is to achieve an even higher level of understanding of the anti-corruption requirements of the Group.

People

Nammo has designed a personnel policy to ensure equal opportunities and rights and to prevent discrimination on the grounds of gender, ethnicity, national origin, skin color, language, religion, philosophy of life and/or age. This applies in particular to recruitment, career development, equal pay for equal work and working conditions. However, the recruitment of personnel must be performed in accordance with the rules and regulations of national security authorities in the respective countries. The working environment at

Nammo is considered to be good, with low employee attrition. Women account for 25.1 percent of the employees. Activities to motivate female university graduates and women with other educational backgrounds to join the company will continue to be an important endeavor in the future. The company is in the process of increasing the number of women in leadership positions.

Health, Environment, Safety & Security (HESS)

Nammo operates in the explosives industry and handles energetic materials. Conditions relating to health, environment, safety and security must always have high priority for Nammo's employees, and are constantly on the management agenda. The group's policy is evaluated annually. All accidents or near-accidents involving employees are reported and preventive actions are taken. Monthly reports are sent to all sites.

Health, environment, safety and security audits were conducted at the sites in 2016. This is an annual procedure performed by the HESS director in the Nammo Group. All sites individually set their annual HESS targets and implement an improvement plan. Every year, the audit includes selected focus areas, and in 2016, all sites were compliant. Newly acquired companies have been prioritized in connection with audits to make sure that the HESS level is in conformity with Nammo's high standard.

Each year, all sites in Nammo have their own education and training schedules related to health, environment, safety and security. Once a year, Nammo arranges a HESS forum for the employees responsible for these areas.

Sick leave among Nammo's employees averaged 4.2 percent for 2016 (4.6). This is a reduction from 2015 and we can see that the preventive actions implemented yielded results. Various activities such as workplace improvements, measures to secure a good and healthy work environment, protective equipment and physical training have been given attention by the management.

Nammo has 2 152 employees. There were 32 accidents resulting in employees being absent from work at Nammo in 2016. There were no accidents involving explosives in 2016 that could cause injury to personnel. This is an improvement from 2015. The majority of LTI accidents are caused by slipping and falling, or small finger injuries with fewer than 5 days off work. Reporting of potential incidents, accidents and dangerous conditions increased in 2016 and exceeded the target for the year. The group will continue its preventive work in all areas and will maintain a keen focus on safe work conditions for all employees.

Environment

Nammo has a direct impact on the environment through its production and testing of ordnance products and services, consumption of paper and energy, waste management, procurement and use of transport. All main Nammo sites are certified in accordance with ISO 14001 or the business activities are conducted in compliance with similar environmental standards. There are some environmental challenges in following up historically polluted areas at two of Nammo's sites, which is related to previous owners. This is considered to be under control and is being followed up through internal plans for improvements and in close cooperation with national authorities.

Society

Nammo has a strong ambition to be a positive contributor to the development of the local communities wherever its facilities are located. The group therefore engages in areas of local sponsorships such as sport, science and culture, with a focus on children and youth.

OUTLOOK FOR THE NAMMO GROUP

Nammo has secured a solid position in its market segments and with its significant order backlog, the group is well prepared for profitable growth to secure the future for all of Nammo's stakeholders. Nammo has to remain at the cutting edge with its products to compete for new contracts, bring sales to new levels and take advantage of its distinctive competence and products. There is a clear potential for organic growth within the Nammo Group in 2017 and the years to come. This is also assumed to be reflected positively in the future profitability of the group.

In the beginning of 2017, Nammo acquired Berger Bullets, a global US leader in the manufacturing of premium rifle bullets. The acquisition is an important step for Nammo on our path to become a significant US manufacturer of commercial ammunition.

The integration work of newly acquired companies and employees into the Nammo family continues in parallel with the pursuit of new acquisitions.

Nammo's focus will be profitable growth in existing markets, in addition to its potential to grow in new markets.

The new business unit structure implemented from January 2016 has been successful and managed to organize Nammo in a more business-oriented way, prepared for future growth and performance.

The board expresses its appreciation to all employees for their commitment and dedication during the year. The result for 2016 was positive and the group is healthy, robust and optimistic about the future.

Ullensaker, 22 March 2017

Olli Isotalo, Chairman of the Board	Jan Erik Korssjøen, Vice Chairman	Sirpa-Helena Sormunen, Board Member
Ingelise Arntsen, Board Member	Heikki Allonen, Board Member	Dag J. Opedal, Board Member
Marianne Stensrud, Board Member	Astrid Berg Ardesjö, Board Member	Morten Brandtzæg, President & CEO

NAMMO GROUP 2016

CONSOLIDATED FINANCIAL STATEMENTS

INCOME STATEMENT

NAMMO GROUP

(NOK 1 000)	Notes	2016	2015
Operating income	1	**4 131 643**	3 783 004
Operating expenses			
Changes in stock of work in progress and finished goods		(83 510)	(84 303)
Changes in self-manufactured fixed assets		(2 082)	(707)
Cost of goods sold		1 389 049	1 321 675
Payroll expenses	3, 4, 12	1 422 635	1 348 949
Depreciation of tangible and intangible fixed assets	7	164 043	145 582
Other operating expenses		857 779	767 908
Total operating expenses		**3 747 914**	3 499 104
Operating profit		**383 729**	283 900
Financial income and expenses			
Income from associates and joint ventures - equity method	6	4 262	(360)
Interest income		7 648	8 048
Other financial income	5	34 618	39 490
Interest expenses		(18 829)	(12 582)
Other financial expenses	5	(26 638)	(44 481)
Net financial income (expense)		**1 061**	(9 885)
Ordinary result before tax		**384 790**	274 015
Taxes on ordinary result	13	**(105 383)**	(45 152)
Ordinary result		**279 407**	228 863
Minority share		**-**	(11 614)
Profit (loss) for the year		**279 407**	217 249

BALANCE SHEET

NAMMO GROUP

(NOK 1 000)	Notes	As of 31.12.16	As of 31.12.15
Assets			
Non-current assets			
Intangible assets			
Deferred tax asset	13	118 400	87 653
Licenses, trademarks and other intangible assets	7	250 497	275 962
Research and development		229 797	216 875
Goodwill	7	105 545	21 816
Total intangible assets		**704 239**	602 306
Tangible assets			
Buildings	7	292 060	296 291
Land	7	34 135	34 679
Machines and equipment	7	399 296	433 580
Fixtures and fittings, tools, office machinery, etc.	7	60 122	63 315
Plant under construction	7	225 037	133 015
Total tangible assets		**1 010 650**	960 880
Financial fixed assets			
Shares in joint controlled companies	6	19 154	7 431
Other shares and participations	6	9 972	8 251
Pension assets	12	60 818	32 706
Other receivables	8	16 658	14 402
Total financial fixed assets		**106 602**	62 790
Total non-current assets		**1 821 491**	1 625 976
Current assets			
Inventory			
Raw materials		704 509	559 438
Work in progress		925 297	797 104
Finished goods		273 859	318 542
Total inventory		**1 903 665**	1 675 084
Receivables			
Accounts receivables	9	658 462	770 260
Other receivables	8	153 167	223 003
Advance payments to suppliers		50 054	97 780
Total receivables		**861 683**	1 091 043
Cash and cash equivalents	10	**462 823**	281 754
Total current assets		**3 228 171**	3 047 881
Total assets		**5 049 662**	4 673 857

(NOK 1 000)	Notes	As of 31.12.16	As of 31.12.15
Shareholders' equity and liabilities			
Equity			
Share capital		100 000	100 000
Premium fund		258 670	258 670
Other equity		2 024 432	1 969 871
Total equity		**2 383 102**	2 328 541
Minority share		**-**	41 198
Total equity and minority share	11	**2 383 102**	2 369 739
Liabilities			
Non-current liabilities			
Pension liabilities	12	176 709	190 760
Deferred tax	13	56 481	9 946
Other provisions		-	779
Total non-current liabilities		**233 190**	201 485
Other non-current liabilities			
Liabilities to financial institutions	14	1 068 036	752 367
Other non-current liabilities		28 457	37 560
Total other non-current liabilities		**1 096 493**	789 927
Current liabilities			
Guarantee liabilities		81 055	80 974
Accounts payable		242 628	234 826
Income tax payable	13	80 653	52 538
Public duties		79 795	88 036
Dividend payable		140 000	108 700
Prepayments from customers		455 014	483 728
Other short term liabilities		257 732	263 904
Total current liabilities		**1 336 877**	1 312 706
Total liabilities		**2 666 560**	2 304 118
Total shareholders' equity and liabilities		**5 049 662**	4 673 857

Ullensaker, 22 March 2017

Olli Isotalo, Chairman of the Board

Jan Erik Korssjøen, Vice Chairman

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Heikki Allonen, Board Member

Dag J. Opedal, Board Member

Marianne Stensrud, Board Member

Astrid Berg Ardesjö, Board Member

Morten Brandtzæg, President & CEO

CASH FLOW

NAMMO GROUP

(NOK 1 000)	2016	2015
Cash flow from operational activities		
Result before tax	384 790	274 015
Tax payments	(61 787)	(50 975)
Gain and loss on sale of fixed assets	(650)	(478)
Ordinary depreciations	164 043	145 582
Changes in inventory	(272 050)	(97 832)
Changes regarding debtors	85 702	(128 176)
Changes regarding creditors	15 693	3 585
Changes in other dispositions	55 084	(119 719)
Net cash flow from operational activities (a)	**370 825**	26 002
Cash flow from investment activities		
Sale of fixed assets	6 232	938
Purchase of fixed assets	(231 245)	(135 861)
Sale of long-term investments	2 081	-
Purchase of other long-term investments	(168 177)	(108)
Net cash flow from investment activities (b)	**(391 109)**	(135 031)
Cash flow from financing activities		
Payments received regarding new long term loans	1 024 715	142 195
Installments on long-term loans	(716 365)	(9 835)
Received dividend	1 703	18
Paid dividend	(108 700)	(104 088)
Net cash flow from financing activities (c)	**201 353**	28 290
Net changes in cash and bank accounts (a+b+c)	181 069	(80 739)
Cash and bank accounts as of 01.01.	281 754	362 493
Cash and bank accounts as of 31.12.	**462 823**	281 754

Total unused cash credits as of 31 December 2016 is NOK 852.6 million. See note 14.

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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 headquarters are located in Raufoss, Norway.

The consolidated financial statements consist of the group and its 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 percent 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 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 17, 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 of 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 to 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.

Significant development projects for new technologies, products, tooling etc., which is estimated to give future positive cash flow, is recognized as R&D costs in the balance sheet. All other research and development costs are expensed when incurred.

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 incur. 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 percent and 50 percent 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. Accounting for participation in joint ventures is based on the equity method 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.

These 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 percent 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 operates in, historical information on actual guarantee payments incurred, and the probability that 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, Spain, Poland, Canada, USA, India and Australia.

Sales from Nammo subsidiaries per country

(NOK 1 000)	2016
Norway	1 456 740
Germany	699 664
Finland	640 329
USA	568 775
Sweden	491 028
Spain	273 530
Switzerland	1 577
Total	**4 131 643**

Sales per geographical location of customers

(NOK 1 000)	2016
Nordic countries	1 000 955
Other Europe	1 221 059
North America	1 410 711
Asia	316 238
Other countries	182 680
Total	**4 131 643**

2. FINANCIAL MARKET RISK

Nammo has both sales and purchases in foreign currencies. To reduce the financial risk of 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.

Cash flow hedges as of December 2016:

(Amounts in currency 1 000)

Transaction type	Buy/Sell (-)	CAD	CHF	EUR	GBP	SEK	USD
FX Forward	Buy	1 192	5 595	19 060	-	10 755	5 847
	Sell(-)	-	-	(28 168)	(5 809)	(2 825)	(35 710)
FX SWAP	Buy	-	3 426	13 696	-	15 221	8 100
	Sell(-)	-	(3 847)	(25 887)	(354)	-	(91 562)

Maturity FX Forwards and FX SWAPs – percentage allocation based on nominal value in NOK:

Transaction type	Buy/sell	Year 2017	Year 2018	Year 2019	Later
FX Forward	Buy	68%	28%	-	4%
	Sell	62%	38%	-	-
FX SWAP	Buy	100%	-	-	-
	Sell	99%	1%	-	-

According to the Norwegian accounting legislation the hedging instrument is recognized in the profit and loss in the same period as the underlying transaction.

In some cases the underlying transaction does not happen at the maturity date of the hedging instrument. In these cases FX SWAPs are placed with a maturity date matching the new estimated time of the underlying transaction. The profit and loss effect of both the FX Forward and FX SWAP is matched with the underlying transaction.

3. BOARD OF DIRECTORS' STATEMENT ON MANAGEMENT REMUNERATION

The board proposes the following guidelines to be applied for 2017, up until the annual general meeting in 2018. In January 2016, the board of directors established a HR (Human Resource) and Compensation Committee which consists of three board members, whereof one is an employee representative and one member is appointed as the chairman of the committee.

The main principles of the remuneration policy for the CEO and executive management

The principles that apply to remuneration of executive management are set by the board. On a yearly basis the HR and Compensation Committee assess the key principles and standards for the executive management remuneration in Nammo and present these to the board of directors. Based on the input from the HR and Compensation Committee the board makes a final assessment of the CEO's remuneration and other compensation matters, including the structure of the top management compensation schemes. The CEO determines the compensation for all other members of corporate management, following the guidelines given by the board. Management remuneration at Nammo AS and its subsidiaries is based on the following main principles:

- Top management remuneration shall be competitive, but not leading and within this framework, support general moderation in the development of top management remunerations.
- It shall be structured to attract and motivate managers to strive to achieve constant improvements in operations and company results.
- The remuneration system shall be understandable, transparent and acceptable both inside and outside of Nammo
- It shall be flexible and open to adjustments when requirements change.
- The system shall encourage cooperation.

Compensation to corporate management will reflect their responsibility for the management, performance and sustainable development of Nammo, taking into account the size and complexity of the business. The arrangements shall always be transparent and in line with principles for good corporate governance. All companies where Nammo is in control shall comply with the main principles of the senior executive remuneration policy, although, for members of top management employed outside of Norway, the compensation package might be somewhat adjusted to meet local market conditions.

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Elements of management remuneration – fixed salary and variable benefits

The basis for wage setting is the aggregate level of a manager's ordinary salary and variable benefits. The fixed salary comprises a basic salary plus benefits in kind and post-employment benefit plans. Variable benefits consist of performance-based salary. Regular and relevant surveys are made to ensure that overall compensation packages are competitive, but not leading. This was done during the fall of 2016, and the conclusion was that the average compensation level at Nammo was considerably below industry standard. Therefore, the board decided to adjust the salary-levels of several of the top-managers based on the following criteria:

- Position grading, relative to size and complexity of the area of responsibility
- Age of the employee
- Length of employment at Nammo
- Time in top management

In accordance with the Governments guidelines, Nammo does not have a pension scheme for income above 12 G. The board is of the opinion that this scheme is not generally competitive, and a salary element is added to the base salary to compensate for lack of pension for salaries above 12 G.

The two adjustments mentioned above explain the changes in total compensation for the majority of the top management.

Base salary

The base salary is the main element of the managers' remuneration. The base salary will consist of the regular base salary plus the pension compensation element for incomes above 12G. The base salary is evaluated annually.

Benefits

Key management personnel will be offered benefits that are common for comparable positions in the different countries. In Norway, there are no company car arrangements. Company car arrangement may occur in other countries. Some top-managers will receive a car-allowance. There are four categories depending on managerial status. There exists a car-rental arrangement for transportation from Raufoss to the airport. Managers using this service will have their car-allowance reduced. No particular limitations have been placed on the type of benefits that can be agreed.

Performance-based salary,

Beyond the main principle of a base salary, there is a bonus-scheme. The bonus system adheres to the limits set by the Norwegian government regarding the sizes and levels of variable pay, for instance the bonus may not exceed six months' salary.

For 2017, the top-management of Nammo has two main targets; profitable growth and the "One Nammo Program". The performance targets for 2017 are linked to these overall targets for all the top managers. Therefore, the bonus scheme is based on improvements in operational and financial performance both in their individual business unit (40-50 percent of total bonus) and on the overall improvements of the group (35-45 percent of the total bonus). In addition, all top-managers have personal goals (15 percent of total bonus). Good results over time should yield a bonus of 30 percent of base salary.

The performance-based salary provides no basis for pension and is annually assessed by the board of directors and/or the CEO to ensure that it works as intended and any required adjustments are made.

Pension plans

Nammo shall have pension schemes that are in line with the market of the home country. New employees shall be enrolled into existing schemes. These plans meet the government's guidelines for pension schemes for senior management or similar arrangements in the country where the top manager is employed. In Norway, employees have a defined benefit pension scheme, financed through a group pension scheme with Storebrand, limited to 12G, with an estimated coverage of 60 percent of salary at time of retirement. Effective from 1 January 2017 management in Norway will be compensated for the limitation of 12G in the Norwegian pension scheme. This is done through increased salary, intended for personal retirement savings. The annual compensation for this is 20percent of the base salary above 12G. The group CEO is participating in the same pension scheme.

Severance package arrangements

The CEO has an agreement for retirement at the age of 65. If the board asks the CEO to resign from his position before this age, he is entitled to a maximum of 12 months compensation. After retirement at the age of 65, the CEO will receive 60 percent of his base salary for two years. No other senior executives are entitled to pay after termination of employment beyond the regular dismissal period.

Statement for the fiscal year 2016

The executive compensation structure has been implemented in accordance with the above-mentioned information with full effect from 1 January 2017. The salary of the CEO has been set by the board of directors in line with the principles in the remuneration policy. In addition, the performance-based salary outlined above, has resulted in payments as described below in note 4. Nammo has not made or amended any agreements for compensation with material impact on the company or its shareholders in the previous financial year. Remuneration to the group CEO and other executives are shown in note 4 below.

4. EMPLOYEE /MANAGEMENT REMUNERATION AND AUDITOR'S FEES

(NOK 1 000)	2016	2015
Salaries	1 100 355	1 052 561
Employment taxes	113 442	98 918
Pension costs	94 705	85 464
Other personnel costs	114 133	112 006
Total	**1 422 635**	1 348 949

Average number of man years	**2 102**	2 088

Remuneration CEO, board of directors and corporate management

(NOK)	Function	Salary	Bonus	Other compensation	Total
Morten Brandtzæg	President and CEO	2 926 336	523 612	321 402	3 771 350
Kjell Kringsjå	SVP Business Development	1 965 589	166 667	271 146	2 403 402
Frank Møller	EVP AP	1 262 949	69 444	149 597	1 481 990
Vegard Sande	EVP LCA	1 444 577	145 675	227 295	1 817 547
Peter Lerche Raadal	CFO	1 480 813	125 000	76 640	1 682 453
Bertil Pålsrud	SVP HR and Business Integration	1 465 811	125 000	147 223	1 738 034
Sissel Solum	SVP Communication	1 182 426	125 000	109 413	1 416 839
Anne Haugen-Flermoe	SVP Legal, from April 1st, 2016	651 154	-	15 713	666 867
A. Erland Paulsrud	VP Business Development	1 514 887	62 500	160 826	1 738 213
Board of Directors	Board members	1 768 075	-	-	1 768 075

All Norwegian corporate management members are included in a collective defined benefit pension plan in Norway.

Loan to the CEO has a balance of NOK 183 731 as of 31 December 2016. The loan is due in 5 years and the interest rate was 0.25 percent p.a. in 2016.

Auditor's fee

All numbers are presented exclusive VAT.

(NOK 1 000)	2016	2015
Auditor's fee	5 154	4 576
Fees for other assurance work, including IFRS	158	151
Tax advisory services	1 369	1 124
Other services	502	1 306
Total	**7 183**	7 157

5. FINANCIAL ITEMS

(NOK 1 000)	2016	2015
Gain on exchange	33 383	39 059
Other financial income	1 235	431
Total other financial income	**34 618**	39 490
Loss on exchange	(18 203)	(42 119)
Other financial expenses	(8 435)	(2 362)
Total other financial expenses	**(26 638)**	(44 481)

6. SHARES IN OTHER COMPANIES

(NOK 1 000)	Company's share capital	Number of shares owned	Nominal value	Booked value NOK	Ownership
Joint controlled companies:					
SN Technologies SA, Meyrin, Switzerland	CHF 200 000	100	CHF 100 000	19 154	50%
Total				**19 154**	
Other shares and participations:					
Raufoss Holding AS, Raufoss, Norway				5 875	2.5%
Komm-In AS, Norway				2 000	14%
Sintef Raufoss Manufacturing AS, Raufoss, Norway				1 302	14%
Nordic Additive Manufacturing AS, Raufoss, Norway				750	19.5%
Others				45	-
Total				**9 972**	

Joint controlled companies are recognized according to the equity method in the consolidated financial statements.

7. FIXED AND INTANGIBLE ASSETS

(NOK 1 000)	Patents, trade-marks and other intangible assets	Goodwill	Buildings	Land	Fixtures, machinery and equipment	Fittings, tools, office machinery, etc	Plants under construction	Total assets
Acquisition cost as of 01.01.16	606 249	228 415	691 436	36 728	1 689 586	325 317	142 443	3 720 174
Additions during the year	15 068	82 040	24 409	1 664	67 191	19 670	101 636	311 678
Disposals during the year	-	-	-	(254)	(8 983)	(2 042)	(55)	(11 334)
Exchange difference acq. cost	(14 507)	(1 752)	(26 569)	(1 272)	(48 639)	(16 277)	(4 185)	(113 201)
Acquisition cost 31.12.16	606 810	308 703	689 276	36 866	1 699 155	326 668	239 839	3 907 317
Accumulated depreciations 31.12.16	(356 313)	(203 158)	(397 216)	(2 731)	(1 299 859)	(266 546)	(14 802)	(2 540 625)
Book value as of 31.12.16	**250 497**	**105 545**	**292 060**	**34 135**	**399 296**	**60 122**	**225 037**	**1 366 692**
Depreciations this year	**33 727**	**(247)**	**24 938**	**685**	**84 072**	**20 868**	**-**	**164 043**
Annual leasing cost of assets not recognized in balance sheet	-	-	72 565	-	16 155	4 843	-	93 563
Economic life time (years)	1 – 25	5 – 10	10 - 50	-	5 - 20	3 - 10	-	-
Depreciation plan	Linear	linear	linear	linear	linear	linear	-	-

Goodwill depreciated over more than five years is goodwill originating from a company with products strongly rooted with the customers and a strong market position, which is expected to last materially longer than five years.

8. OTHER RECEIVABLES (CURRENT AND NON-CURRENT)

These items include receivables concerning employees, loans to companies not part of the Nammo Group, VAT receivables and other receivables.

9. RECEIVABLES AND LOSSES ON BAD DEBTS

(NOK 1 000)	2016	2015
Accounts receivables	663 152	775 693
Provision for bad debt	(4 690)	(5 433)
Book value of accounts receivables	**658 462**	770 260

10. CASH RESERVE

(NOK 1 000)	2016	2015
Cash and cash equivalents	462 823	281 754
Unused cash credits	852 290	288 090
Net cash reserve	**1 315 413**	569 844

Nammo AS has established an international cash pool together with the following group companies:

Finland: Nammo Lapua Oy and Nammo Vihtavuori Oy
Germany: Nammo Schönebeck GmbH, Nammo Buck GmbH and Nammo Germany GmbH
Norway: Nammo AS, Nammo Raufoss AS, Nammo Bakelittfabrikken AS and Nammo NAD AS
Sweden: : Hansson Pyrotech AB, Nammo Demil Division AB, Nammo LIAB AB, Nammo Sweden AB, Nammo Vingåkersverken AB and Nammo Vanäsverken AB
USA: Nammo Inc., Nammo Talley Inc., Nammo Composite Solutions LLC., Nammo Tactical Ammunition LLC. and Nammo Pocal Inc.
Spain: Nammo Palencia S.L.

11. EQUITY – CHANGES IN EQUITY

(NOK 1 000)	Share capital	Premium fund	Other equity	Minority share	Total
Equity as of 01.01.16	100 000	258 670	1 588 870	60 714	2 008 254
Exchange differences opening balance	-	-	381 001	(19 516)	361 485
Equity as of 01.01.16	**100 000**	**258 670**	**1 969 871**	**41 198**	**2 369 739**
Profit for the year	-	-	279 407	-	279 407
Proposed dividend to shareholders 1)	-	-	(140 000)	-	(140 000)
Other items	-	-	78 281	(26 536)	51 745
Exchange differences	-	-	(163 127)	(14 662)	(177 789)
Total equity as of 31.12.16	**100 000**	**258 670**	**2 024 432**	**-**	**2 383 102**

[1] Board of director's proposal to the general meeting of shareholders.

12. PENSION LIABILITY – PENSION COST

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 31 December 2016 was NOK 176.7 million, which is derived from the companies in Sweden, Germany and Finland. Pension assets in Norway were 60.8 million at 31 December 2016. In addition, contribution pension plans exist 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

(NOK 1 000)	2016	2015
Service costs	57 714	47 126
Amortization of net actuarial losses (gains)	7 525	7 561
Interest costs	1 758	2 241
Expected return on plan assets	8 365	(8 871)
Pension cost related to defined contribution plans	39 201	34 519
Settlement pension plans	2 872	2 888
Net periodic pension costs	**94 705**	85 464

Pension liabilities/assets

(NOK 1 000)	2016	2015
Defined benefit obligation incl. social security tax	659 184	630 211
- Fair value of plan assets	(376 906)	(336 063)
Net pension obligation	282 278	294 148
Items not recorded in the profit and loss:		
Unrecognized net actuarial loss (gain)	(166 387)	(136 094)
Net pension liability	**115 891**	158 054
Classified as pension asset in the balance sheet	**60 818**	32 706
Classified as pension liabilities in the balance sheet	**176 709**	190 760

13. TAX CALCULATIONS

Deferred tax liability/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 assets as at the end of the accounting year.

(NOK 1 000)	2016	2015	Change
Temporary differences:			
Intangible assets	(22 434)	(42 843)	(20 409)
Fixed assets	132 043	149 909	17 866
Accounts receivables	(2 814)	4 367	7 181
Inventory	104 067	119 197	15 130
Pension liabilities	13 763	(17 751)	(31 514)
Guarantee liabilities	(77 551)	(82 871)	(5 320)
Financial non-current temporary differences	180 800	107 736	(73 064)
Other non-current temporary differences	(29 820)	(30 091)	(271)
Other current temporary differences	(25 984)	(12 639)	13 345
Temporary differences	**272 070**	195 014	(77 056)
Carried forward losses for tax purposes	(351 245)	(360 125)	
Total temporary differences	**(79 175)**	(165 111)	
Gross deferred tax / deferred tax assets (-)	(71 995)	(80 421)	
Deferred tax assets not recognized in the balance sheet	10 076	2 712	
Net deferred tax liability/deferred tax asset (-)	**(61 919)**	(77 709)	
Classified as deferred tax asset	**118 400**	87 653	
Deferred tax liability in the balance sheet	**56 481**	9 946	

Payable income taxes

(NOK 1 000)	2016
Net income before tax	384 790
Changes in temporary differences	(77 056)
Exchange differences temporary differences	(3 226)
Permanent differences	(7 994)
Use of carried forward losses	38 727
Taxable income	335 241
Payable income tax	**88 883**

Tax expense in profit and loss

(NOK 1 000)	2016
Payable tax on this year's result	88 883
Adjustments prior years	688
Payable tax in this year's tax cost	**89 571**
Change in deferred tax / deferred tax asset	27 158
Other items	(11 346)
Tax expense in the P&L	**105 383**

Payable tax in the balance sheet

(NOK 1 000)	2016
Payable taxes	88 087
Prepaid taxes	(44 486)
Other items	37 052
Payable tax in balance sheet	**80 653**

14. INTEREST BEARING LOANS, AVAILABLE CASH CREDITS AND GUARANTEES

(NOK 1 000)	2016	2015
Total interest bearing loans	**1 068 036**	752 367

Nammo AS long term loans from credit institutions as of 31 December 2016 consist of:

(NOK 1 000)	Final maturity date	Facility total	Utilized	Available
Term loan facility, EUR 100 millions	19 September 2021	908 630	908 630	-
Revolving credit facility, NOK 700 millions	19 September 2019	700 000	133 610	566 390

Available unused cash credits at 31 December, 2016:

(NOK 1 000)	Cash credits
Revolving credit facility	566 390
Additional cash credits available	286 200
Total unused cash credits at year-end	**852 590**

Guarantees not recognized in the balance sheet as of 31 December 2016 is NOK 300 million.

NAMMO AS 2016

FINANCIAL STATEMENTS

INCOME STATEMENT

NAMMO AS

(NOK 1 000)	Notes	2016	2015
Operating income	1	**79 436**	70 070
Operating expenses			
Payroll expenses	2	33 538	31 499
Depreciation of tangible and intangible fixed assets	4	501	1 392
Other operating expenses		70 884	60 531
Total operating expenses		**104 923**	93 422
Operating profit		**(25 487)**	(23 352)
Financial income and expenses			
Received group contribution		90 000	90 000
Interest income	3	31 905	20 957
Other financial income	3	101 839	269 692
Interest expenses	3	(10 774)	(6 559)
Other financial expenses	3, 14	(78 204)	(51 940)
Net financial income (expenses)		**134 766**	322 150
Ordinary result before tax		**109 279**	298 798
Taxes on ordinary result	11	**(19 995)**	(38 062)
Profit (loss) for the year		**89 284**	260 736
The board's proposal for allocation of the profit			
Dividend		140 000	108 700
Other equity		(50 716)	152 036
Total		**89 284**	260 736

BALANCE SHEET

NAMMO AS

(NOK 1 000)	Notes	As of 31.12.16	As of 31.12.15
Assets			
Non-current assets			
Tangible assets			
Buildings	4	-	58
Machines and equipment	4	45	21
Fixtures and fittings, office machines, etc.	4	1 302	411
Fixed assets under construction	4	-	1 072
Total tangible assets		**1 347**	1 562
Financial assets			
Investments in subsidiaries	5	588 204	595 439
Investments in other shares and participations	5	5 875	-
Loans to group companies		751 295	834 173
Pension assets	10	2 096	1 214
Other receivables		2 846	3 213
Total fixed assets		**1 350 316**	1 434 039
Total non-current assets		**1 351 663**	1 435 601
Current assets			
Receivables			
Accounts receivables	6	-	516
Receivables from group companies	13	383 585	335 706
Receivable group contributions		90 000	90 000
Prepayments to vendors		5 078	7 152
Other receivables		4 440	8 130
Total receivables		**483 103**	441 504
Cash and cash equivalents	7, 13	**396 796**	67 513
Total current assets		**879 899**	509 017
Total assets		**2 231 562**	1 944 618

(NOK 1 000)	Notes	As of 31.12.16	As of 31.12.15
Shareholders' equity and liabilities			
Equity			
Share capital	8, 9	100 000	100 000
Premium fund	9	258 670	258 670
Total paid in capital		**358 670**	358 670
Other equity	9	627 846	678 561
Total earned equity		**627 846**	678 561
Total equity		**986 516**	1 037 231
Liabilities			
Non-current liabilities			
Deferred tax	11	43 495	26 730
Total non-current liabilities		**43 495**	26 730
Other non-current liabilities			
Liabilities to financial institutions	12	1 042 240	723 298
Total other non-current liabilities		**1 042 240**	723 298
Current liabilities			
Accounts payable		3 448	7 975
Payables to group companies		3 502	3 022
Income tax payable	11	3 230	26 396
Public duties payable		3 119	3 327
Dividend payable to shareholders		140 000	108 700
Other current liabilities		6 012	7 939
Total current liabilities		**159 311**	157 359
Total liabilities		**1 245 046**	907 387
Total shareholders' equity and liabilities		**2 231 562**	1 944 618

Ullensaker, 22 March 2017

Olli Isotalo, Chairman of the Board

Jan Erik Korssjøen, Vice Chairman

Sirpa-Helena Sormunen, Board Member

Ingelise Arntsen, Board Member

Heikki Allonen, Board Member

Dag J. Opedal, Board Member

Marianne Stensrud, Board Member

Astrid Berg Ardesjö, Board Member

Morten Brandtzæg, President & CEO

CASH FLOW

NAMMO AS

(NOK 1 000)	2016	2015
Cash flow from operational activities		
Result before tax	109 279	298 798
Tax payments	(26 396)	(23 332)
Ordinary depreciation	501	1 392
Changes in accounts receivable	(18 245)	(3 357)
Changes in accounts payable	(4 047)	(1 783)
Pension cost less paid pension premium	(793)	468
Changes in loans to group companies	46 533	(85 134)
Changes in other dispositions	(128 718)	(641 569)
Net cash flow from operational activities (a)	**(21 886)**	(454 517)
Cash flow from investment activities		
Investments in financial fixed assets	(5 875)	(108)
Investments in fixed assets	(285)	(289)
Net cash flow from investment activities (b)	**(6 160)**	(397)
Cash flow from financing activities		
Payments from new long-term loans	1 021 378	134 479
Installments long term loans	(711 329)	-
Received dividend	65 980	150 218
Received group contribution	90 000	100 000
Paid dividend	(108 700)	(94 700)
Net cash flow from financing activities (c)	**357 329**	289 997
Net changes in cash and bank accounts (a+b+c)	329 283	(164 917)
Cash and bank accounts as of 01.01.	67 513	232 430
Cash and bank accounts as of 31.12.	**396 796**	67 513

Unused credit facilities is NOK 852.6 million. See note 12.

INDEX TO THE ACCOUNTING NOTES

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5. Shares in other companies
6. Accounts receivable
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10. Pension commitments – pension costs
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ACCOUNTING POLICIES

NAMMO AS

GENERAL

Nammo AS is a public limited company (Aksjeselskap). The Nammo AS head-quarters are located in 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 the 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 to 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 of probability 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.

Development costs are expensed when incurred. 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.

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 to be 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 to 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 then 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 percent 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 Accounting policies 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 instruments in a cash flow hedge are recognized in the profit and loss for the same period as the hedged transaction is recognized (hedge accounting).

NOTES TO THE ACCOUNTS

NAMMO AS

1. RELATED PARTY TRANSACTIONS AND OPERATING INCOME

Sales and purchase transactions with group companies are conducted in compliance with normal commercial terms and the arm's length principle. Significant agreements with related parties are concluded in writing.

Operating income:

(NOK 1 000)	**2016**	2015
Management service fee to group companies	79 436	70 070
Total	**79 436**	70 070

2. SALARIES AND SOCIAL COST

(NOK 1 000)	**2016**	2015
Salaries	24 255	23 738
Employment taxes	3 977	3 904
Pension costs	3 038	2 241
Other social costs	2 268	1 616
Total	**33 538**	31 499

Average number of man-years	**15**	13

Auditor's fee

(NOK 1 000) All numbers are presented exclusive VAT	**2016**
Auditor's fee	501
Tax advisory services	5
Total	**506**

3. FINANCIAL ITEMS

(NOK 1 000)	2016	2015
Interest income from group companies	23 394	17 112
Other interest income	8 510	3 845
Total interest income	**31 905**	20 957
Gain on exchange	35 859	119 467
Dividend from group companies	65 980	150 218
Other financial income	-	7
Total other financial income	**101 839**	269 692
Other interest cost	(10 774)	(6 559)
Total interest cost	**(10 774)**	(6 559)
Loss on exchange	(27 780)	(51 332)
Write-down Nammo Buck GmbH, see note 14	(43 592)	-
Other financial expenses	(6 832)	(608)
Total other financial expenses	**(78 204)**	(51 940)

4. FIXED AND INTANGIBLE ASSETS

(NOK 1 000)	Buildings	Machines and equipment	Fixtures, fittings and office equipment	Assets under construction	Total
Acquisition cost as of 01.01.16	903	548	5 697	1 072	7 955
Additions during the year	-	-	285	-	1 622
Reclassifications during the year	(58)	58	1 072	(1 072)	-
Disposals during the year	-	-	-	-	-
Acquisition cost as of 31.12.16	845	606	7 054	-	8 505
Accumulated depreciations 31.12.16	(845)	(561)	(5 752)	-	(7 158)
Book value as of 31.12.16	**-**	**45**	**1 302**	**-**	**1 347**
Ordinary depreciations for the year	**-**	**(35)**	**(466)**	**-**	**(501)**
Annual leasing cost on assets not in the balance sheet	970	-	46	-	1 016
Economic life time (years)	5 years	3-5 years	3 - 10 years	-	-
Depreciation plan	linear	linear	linear		

5. SHARES IN OTHER COMPANIES

(NOK 1 000) Name of the company	Company's share capital	Number of shares owned	Nominal value	Booked value	Ownership
Subsidiaries:					
Nammo Raufoss AS, Raufoss	NOK 150 000 000	150 000	150 000	175 000	100%
Nammo Sweden AB, Lindesberg	SEK 10 000 000	100 000	10 000	59 961	100%
Nammo Lapua Oy, Lapua	EUR 4 793 000	285 000	-	105 006	100%
Nammo Buck GmbH, Pinnow	EUR 26 000	1	26	-	100%
Nammo Incorporated, Virginia	USD 38 380 000	-	-	239 981	100%
Nammo NAD AS, Løkken Verk	NOK 4 782 000	23 910	2 391	8 136	100%
Nammo Polska SP. Z. O. O	PLN 50 000	1 000	50	108	100%
Nammo India Ltd	INR 100 000	10 000	100	12	100%
Total				**588 204**	

6. ACCOUNTS RECEIVABLE

(NOK 1 000)	2016	2015
Accounts receivables	**-**	516

Accounts receivable are booked at nominal value. There has been no loss on accounts receivable in 2016.

7. CASH RESERVE

This amount is reduced with the draw that the group companies has in the international cash pool of NOK 268.9 million. This is classified as receivables from group companies. Refer to note 13.

8. SHARE CAPITAL

As of 31 December 2016 Nammo AS's share capital is NOK 100 million, split on 1 000 000 shares of NOK 100 each.

Nammo AS shareholders as of 31 December 2016

(NOK 1 000)	Number of share-holders	Number of shares	Ownership/ vote
The Norwegian State, represented by the Ministry of Trade, Industry and Fisheries		500 000	50%
Patria Oyj, Finland		500 000	50%
Total	**2**	**1 000 000**	**100%**

9. EQUITY

(NOK 1 000)	Share capital	Share premium reserve	Other equity	Net result	Total
Equity as of 01.01.16	100 000	258 670	678 561	-	1 037 231
Net result	-	-	-	89 284	89 284
Allocation of the net result *)	-	-	89 284	(89 284)	-
Dividend *)	-	-	(140 000)	-	(140 000)
Other items	-	-	-	-	-
Equity as of 31.12.16	**100 000**	**258 670**	**627 846**	**-**	**986 516**

*) Board of directors proposal for the general meeting

10. PENSION LIABILITIES – PENSION COSTS

The pension liabilities are calculated based on the Norwegian accounting standard. Nammo AS has established a collective pension plan according to Norwegian tax law and the law for pensions for all employees (Lov om foretakspensjon). The plan includes 15 active members. Nammo AS is a member of the LO/NHO AFP-plan. The old plan is closed and the corresponding pension liability deriving from the plan is de-recognized in the balance sheet. The pension liability in the new AFP-plan is not possible to estimate reliably at year-end; therefore, this pension liability is not recognized in the balance sheet.

The net periodic pension cost is based on this year's actuarial calculations of earning of pension rights, and is included in payroll expenses in the profit and loss.

The actuarial calculation was performed in December 2016 with the following assumptions:

Yield from pension funds	3.30%
Interest rate used to discount future cash flows	2.50%
Annual salary increase	2.25%
Annual increase in G	2.25%
Annual change in pension	0.00%

Pension cost

(NOK 1 000)	2016	2015
Service costs	2 623	2 100
Amortization of net actuarial losses (gains)	872	530
Interest costs	126	121
Expected return on plan assets	(583)	(510)
Net pension costs	**3 038**	2 241

Pension liabilities

(NOK 1 000)	2016	2015
Defined benefit obligation incl. payroll tax	33 850	30 293
- Fair value of plan assets	(25 170)	(22 960)
Gross pension liability	8 680	7 333
Items not recognized in the profit and loss:		
Unrecognized net actuarial loss (gain)	(10 776)	(8 547)
Net amount recognized in the balance sheet	**(2 096)**	(1 214)

11. TAX

11.1. 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)	2016	2015
Net income before tax	109 279	298 798
Permanent differences	(21 513)	(142 086)
Changes in temporary differences	(74 309)	(51 128)
Taxable income	**13 457**	105 584

Specification of the tax cost in the profit and loss:

Tax payable	3 230	26 396
Changes in deferred tax	16 765	11 666
This year's tax cost	**19 995**	38 062

11.2. Deferred taxes

The deferred tax liabilities/tax assets have been calculated based on 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 assets at the end of the accounting year.

Deferred tax calculation

(NOK 1 000)	31.12.16	31.12.15
Tangible fixed assets	(1 368)	(1 731)
Financial fixed asset	180 800	107 736
Accounts receivables	(300)	(300)
Pension liability/asset	2 096	1 214
Net temporary differences as basis for deferred tax /tax asset(-) calculation	**181 228**	106 919
Deferred tax/deferred tax asset (-)	**43 495**	26 730

12. INTEREST BEARING LOANS AND GUARANTEES

(NOK 1 000)	2016	2015
Total interest bearing loans	**1 042 240**	723 298

Nammo AS long term loans from credit institutions as of 31 December, 2016 consist of:

(NOK 1 000)	Final maturity date	Facility total	Utilized	Available
Term loan facility, EUR 100 millions	19.09.2021	908 630	908 630	-
Revolving credit facility, NOK 700 millions	19.09.2019	700 000	133 610	566 390

Available unused cash credits at 31 December, 2016:

(NOK 1 000)	Cash credits
Revolving credit facility	566 390
Additional cash credits available	286 200
Total unused cash credits at year-end	**852 590**

Guarantees not recognized in the balance sheet as of 31 December 2016 is NOK 299.7 million.

13. CREDIT FACILITY

Nammo AS has established an international cash pool together with the following group companies:

Finland: Nammo Lapua Oy and Nammo Vihtavuori Oy
Germany: Nammo Schönebeck GmbH, Nammo Buck GmbH and Nammo Germany GmbH
Norway: Nammo AS, Nammo Raufoss AS, Nammo Bakelittfabrikken AS and Nammo NAD AS
Sweden: Hansson Pyrotech AB, Nammo Demil Division AB, Nammo LIAB AB, Nammo Sweden AB, Nammo Vingåkersverken AB and Nammo Vanäsverken AB
USA: Nammo Inc., Nammo Talley Inc., Nammo Composite Solutions LLC., Nammo Tactical Ammunition LLC. and Nammo Pocal Inc
Spain: Nammo Palencia S.L.

Nammo AS subsidiaries' balance on the cash pool is included in receivables from group companies. This amounts to NOK 268.9 million. See note 7.

14. IMPAIRMENT INVESTMENT IN SUBSIDIARY

At 31 December, 2016 Nammo AS has an investment in shares and a long-term loan receivables towards our subsidiary Nammo Buck GmbH at a total of NOK 43.6 million.

At year-end we did an impairment test and concluded that these assets are impaired. The material part of the write-down is related to the long-term loan receivable, and therefore the write-down is classified as other financial expenses in the profit and loss.

AUDITORS REPORT

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To the General Meeting of Nammo AS

Independent Auditor’s Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Nammo AS showing a profit of NOK 89 284 000 in the financial statements of the parent company and profit of NOK 279 407 000 in the financial statements of the group. The financial statements comprise:

- The financial statements of the parent company, which comprise the balance sheet as at 31 December 2016, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the balance sheet as at 31 December 2016, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the parent company as at 31 December 2016, and its financial performance for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying financial statements give a true and fair view of the financial position of the group as at 31 December 2016, and its financial performance for the year then ended in accordance with Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Auditor's Report - 2016
Nammo AS

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements asofis described above, it is our opinion that the information presented 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 complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Hamar, 22 March 2017
KPMG AS

Thore Kleppen
State Authorised Public Accountant

[Translation has been made for information purposes only]

CORPORATE GOVERNANCE

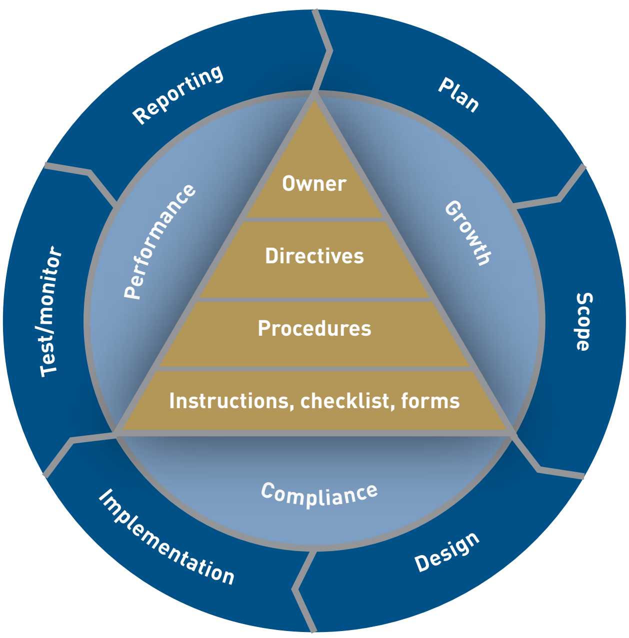
INTRODUCTION

Nammo AS is a limited liability company established under Norwegian law, with a governance structure based on Norwegian Limited Liability Companies Act (Aksjeloven) and similar laws in the other countries where we operate: Finland, Sweden, Germany, Switzerland, Spain, Poland, USA, Canada, India and Australia. 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 to ensure efficient controls for the business processes. Corporate governance is regarded as a key element in the short-term sustainability of business operations, as well as preparation for a long-term development of the company. Corporate governance encompasses the leadership culture, vision and values, ethical code of conduct, risk management, reporting and control mechanisms.

Over the last couple of years we have implemented an updated corporate governance framework, Nammo Management System (NMS). The Nammo Management System describes how the Nammo Group is managed and our continuous process for identifying and handling risks in our business. Through this project we have formalized a yearly process for risk management and re-enforced the hierarchy and structure of the steering documents such as directives, procedures and instructions. The risk assessment process and the evaluation of the steering documents is a continuous process throughout the year and the status will be reported to the board of directors on a regular basis, minimum once per year.

CORPORATE DIRECTIVES

The framework for leadership, organization and culture is the foundation of the Nammo management 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, IT, HESS 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, HESS (Health, Environment, Safety and Security), ethics, as well as corporate social responsibility.



CONTROLS AND PROCEDURES

The Nammo management system is 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 over financial reporting. Our internal control over financial reporting is a process designed under the supervision of the Group CEO and the Group CFO. The accounting principles applied by the group follow the Norwegian Generally Accepted Accounting Principles (N GAAP).

In the finance area, there are directives for budgeting and forecasting, financial reporting and treasury management. As an integral part of the directives in the financial area, we have implemented an accounting manual that regulates the accounting treatments for all material accounting processes. 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 Ministry of Trade, Industry and Fisheries. 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 Auditor's 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 position, 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 the Norwegian Limited Liability Companies Act (Aksjeloven), the board of directors exercises the 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 constitute a formal corporate body in accordance with Norwegian Limited Liability Companies act (Aksjeloven). The CEO is responsible for the day-today management of the group. The CEO's responsibility is 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 are called by the CEO. The executive vice presidents and senior vice presidents on the CEO's staff also 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, environment, safety and security indicators and human resource issues. The group CEO conducts quarterly individual business review meetings with the divisions. These meetings are a vehicle for scrutiny of the divisions' performance relative to budgets and targets. The market situation, order intake, new opportunities and other significant items at the time are also addressed.

Project management: Markhi AS. Design: Harleys Global Ltd

www.nammo.com

SECURING THE FUTURE