



2017
ANNUAL REPORT

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BOARD OF DIRECTORS' REPORT 2017

Nammo continues to grow in a challenging environment. Through substantial efforts in product development, investments into manufacturing capabilities and the acquisition of new companies, revenues were up 8.0 percent from the previous year. Building a 'reliable advantage' for Nammo customers is imperative for a successful journey into the future where Nammo's growth and profitability go hand in hand.

The net profit for the year amounted to NOK 181 million (NOK 279 million in 2016). This shows that the company is delivering continued growth but that profitability must be improved.

The Board of Directors will propose an ordinary dividend of NOK 90.3 million (NOK 140 million) at the annual general meeting. The order backlog ended at NOK 4 645 million (4 767) 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. Nammo has governmental owners both in Norway and indirectly in Finland, and the company does operate in accordance with governmental guidelines and governance. Nammo has manufacturing companies in Norway, Sweden, Finland, Germany, Switzerland, Spain, UK, Ireland and the USA as well as sales offices in Canada, Poland, the UAE, Australia and India. The corporate headquarters are located in 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's financial performance has been stable in 2017. Operating result for 2017 ended at NOK 367 million (NOK 384 million), NOK 17 million lower than in 2016.

STRATEGY FOR PROFITABLE GROWTH

Nammo's basic strategy continues to be profitable growth with special focus on the US, the European and the Nordic markets.

The company will continue to develop excellent performance in its businesses and shall stay ahead by investing in world-class technologies, products and processes for sustainable growth. The company shall continue to search for acquisition opportunities of high strategic value, close to its core business and with synergies and growth potential.

Nammo shall capitalize on its independence and reputation with customers and partners, and shall continue to pursue industrial partnerships for entry onto new markets and technologies.

OPERATIONS

Nammo invests in R&D, and 2017 was no exception. The market has responded positively to recent product launches and improvements for the long-range artillery ammunition, 40 mm Airburst, 30 mm Arrow, ammunition for the F-35, hybrid rocket motors, M72 and .22 cal. ammunition for competition shooting.

Furthermore, the modernization of manufacturing capacity continues and enables more volume, lower costs and better quality.

In 2017, a number of initiatives have been successfully launched in order to pursue Nammo's growth strategy.

In January, a Public Private Partnership agreement with the US Navy in Indian Head was signed which enables Nammo to achieve a solid foothold in the US market for rocket motors. Additionally, in December the Nammo Board of Directors approved a \$40 million investment program in the Indian Head facilities to be able to compete for significant orders within the military rocket motor market.

During 2017, four new companies were acquired, three of which come from Moog Inc. and have business targeting the European civil rocket motor and space market. The California-based Berger Bullets, a premium rifle ammunition supplier, was acquired in early 2017.

In order to ensure that Nammo's growth ambitions are paralleled by long-term profitability, a number of actions have been taken in 2017. Several of these are still ongoing.

A Lean 6 Sigma program has been launched with a framework of tools, methods, processes and roles for strategy deployment, operational control and continuous improvements. The program is being rolled out into the various business units. Integration between sites and business units continues, and it is particularly important for the newly acquired businesses to be properly incorporated into the Nammo family.

A shared service center model has been implemented in several countries whereby sites in the same country have a uniform service level provided by one team for functions such as Finance, IT, HR, Health, Environment, Safety and Security (HESS).

In October, Nammo's management decided to replace the existing ERP systems in Sweden, Finland and Germany

with a common platform. With a common ERP standard and a common set of processes, it is expected that the core solution can be replicated in other sites and countries as well.

In terms of site and activity consolidation in the US, decisions were made to move activities from the Fullerton and Davidsville sites to Mesa.

The creation of a distribution center for commercial ammunition in Sedalia (US) will enable Nammo to exercise better control of distribution activities.

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 policies 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 profit and profitability

Nammo reported revenues of NOK 4 462 million in 2017 (4 132), which is 8.0 percent higher than 2016. The key growth market is within the US where year-on-year sales rose by 31 percent. Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) ended at NOK 536 million (560). The accounts for 2017 include NOK 30 million in restructuring costs for the Commercial Ammunition operations in the US. Net financial expenses were NOK 25.5 million in 2017 (1.1). The net profit for the year was NOK 181 million in 2017 (279).

Cash flow and liquidity

Nammo's net cash flow from operating activities was NOK 154 million in 2017 (371). This decline is primarily due to higher working capital needed to support the growth of Nammo's sales. Net cash flow from investment activities amounted to NOK -484 million in 2017 (-391), largely related to the purchase of fixed assets and acquiring shares in new companies. Net cash flow from financing activities amounted to NOK 52 million in 2017 (201). This mainly reflects dividends to shareholders and an increase in long-term debt. Cash and cash equivalents were NOK 185 million on 31 December 2017 (463). Nammo had unutilized credit facilities of NOK 672 million measured at the exchange rates on 31 December 2017. Going forward,

the company will focus on improving working capital and cash generation from operating activities, and programs are already in place.

Balance sheet

The total assets of the Nammo Group amounted to NOK 5 650 million at the end of 2017 (5 050). Net working capital, excluding cash, was NOK 1 824 million (1 428), while equity was NOK 2 495 million (2 383). Total liabilities were NOK 3 155 million (2 667) at 31 December 2017 and the equity ratio ended at 44 percent in 2017 (47 percent). Total interest-bearing debt to financial institutions amounted to NOK 1 323 million (1 068) at 31 December 2017.

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.

Nammo has manufacturing activities in nine different countries, each country having its own export regulations to which Nammo must comply. Where export licenses are necessary to address the market, Nammo carries the risk that these might be revoked by the appropriate authorities at any point in time for matters that are beyond Nammo's control, e.g. political events.

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. Safety is a key priority to Nammo, and the company has established routines and procedures designed to minimize overall operational risk subject also to the handling of explosives and other hazardous material. Additionally, these procedures include securing

deliveries of critical raw materials and key components from suppliers.

Financial risk

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 expenses and can have an effect on the Group's reported operating results. Nammo reduces this risk by entering into 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 via both of the above.

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 the risk associated with outstanding trade receivables is currently 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 risk to be limited.

Reputational risk

Nammo's reputation is one of our most valuable assets. To protect the Group's reputation, we must continuously build our culture from the inside. During the year we regularly meet employees at internal forums and 'all-

hands meetings' around the world. The Nammo Group values are always on the agenda, and we encourage ethical behavior by all employees.

Our license to operate is based on strict national requirements in which we must comply. Default to comply is an important business and reputation risk. Nammo maintains internal management systems and standards and has systems in place to follow the implementation of them to minimize the risk.

Nammo has zero tolerance for corruption and has training programs to continuously strengthen the ethics and compliance program.

A qualitative reputation survey conducted in the Nordic countries at the end of 2016 and early 2017 concluded that Nammo's reputation achieved a high rank among those respondents who had knowledge of the company. In order to maintain a strong reputation, Nammo's products must always be developed and produced according to international laws and conventions, and the Group must always comply with national laws and regulations. In 2016, Nammo's customers evaluated the Group to be a trustworthy supplier based on high-quality products and on-time deliveries. Throughout 2017, our ambition has been to sustain a high level of customer satisfaction and our good reputation. Nammo had no fines and was not in breach of any laws during the year.

CORPORATE SOCIAL RESPONSIBILITY

Nammo's number one social responsibility is the Group's core business: To develop and produce high quality defense products to support and protect our national and allied forces.

Nammo assumes its corporate social responsibility for the Group's impact on people, the environment, the communities and societies in which we operate. This responsibility is managed through our business operations with a strong emphasis on environmental issues, ethical behavior and social responsibility in the local communities near our facilities.

We are committed to ensuring that we comply with human and labor rights in all our sites and that our business does not have any negative effect on our local environments. We take significant environmental protection action both in our manufacturing processes as well as at our facilities. Our employees must adapt to our ethical code of conduct, follow national anti-corruption laws and ensure that such responsibility flows down the supply chain.

Nammo follows the Global Reporting Initiative (GRI) Standard for sustainable reporting. In 2017, Nammo made the transition from GRI G4 to the new GRI Standard and delivered its fourth company report, Communication on Progress (COP), to the UN Global Compact.

Nammo continues to address three focus areas chosen from the ten principles of the UN Global Compact. The three areas are empowering women, environmentally friendly technology development and manufacturing processes, and the work against corruption in all its forms.

Ethics and anti-corruption

Nammo's ethical code of conduct describes the Group's business practices and the requirements regarding expected behavior related to corruption, conflicts of interest, harassment and discrimination. All employees and all third parties acting on behalf of Nammo shall follow these requirements. All such persons have to sign and certify that they have received, read and understood the code of conduct.

In addition to the code of conduct, Nammo distributes its anti-corruption manual to leaders and key employees. The manual is a useful guideline on how to proceed if an incident or near incident occurs.

Information about the Group's zero tolerance of any form of corruption shall be communicated through the management levels in every business unit and at every legal entity.

During 2017, six legal entities including their management teams have completed an ethics and anti-corruption training program.

In Nammo we believe that the best way to ensure that our employees understand and 'live' the Group's high level of ethical standards is through continuous communication and training.

People

Nammo has designed a Human Resources 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. Further, 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. Women account for 24.7 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 Group 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 collected from all sites.

Audits

17 health, environment, safety and security audits were conducted at the sites in 2017. These audits are 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. 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. The HESS audits have been postponed at some of the sites this year but will be on the plan for early 2018. Every year there is a selected focus area connected with the HESS audits, and in 2017 this comprised risk analysis connected with operational activities. In general, HESS is good at Nammo and, with a few exceptions, the findings from the audits were minor.

Activities and results

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 gathering the employees responsible for HESS together with representatives from the top management including the CEO. The 2017 HESS forum was held in Germany and included topics such as risk management and tools for risk analysis.

Sick leave among Nammo's employees averaged at 4.6 percent in 2017. This is an increase from 2016 (4.2%) and we can see that the preventive actions implemented need more attention. A variation of activities such as workplace improvements, measures to secure a good and healthy working environment, protective equipment and physical training have been given high attention by management in several meetings.

There were 36 accidents resulting in employees being absent from work at Nammo in 2017. There were two Lost Time Injuries (LTI) involving explosives during the year. This is not an acceptable result and more attention is needed for improvements. The majority of LTI are caused by slipping and falling, or small finger injuries with fewer than five days off work. A number of LTI are caused by incorrect ergonomic movement causing health problems for employees. Reporting of incidents, accidents and dangerous conditions increased in 2017 and exceeded the target for the year. There has also been an increase in reporting of dangerous conditions, near-accidents and accidents in 2017. This is an indication of growing engagement for own safety among Nammo employees. The Group will continue its preventive work in all areas and will maintain a strong focus on safe working conditions for all employees.

Environment

Nammo's business has a direct impact on the environment through 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. This is considered to be under control and is being monitored via internal plans for improvements and in close cooperation with national authorities.

Security

In 2017, several sites have improved their general security level according to national evaluation of threat in the actual area. This affords the sites a better overview and safer access control.

Within ICT security Nammo experiences regular attempts to infect company computers with malicious software. The target with such attempts is either to enable adversaries to steal technical data or for fraud, sabotage and extortion purposes. Faced with such an increase in threats, the company continuously strives to improve technical security, limit the attack surface and raise awareness levels among the employees. This has been done by mandatory and continuous e-learning throughout the year for all employees having access to computers.

Society

Nammo has a strong ambition to be a positive contributor to the development of the local communities where its

facilities are located. The Group therefore engages in local sponsorships of areas such as sports, science and culture, with a focus on children and youth.

DISTRIBUTION OF DIVIDEND

The Board of Directors proposes to the annual general meeting of shareholders a dividend payment of NOK 90.3 million for 2017. Assuming the proposed dividend and the net loss of NOK 43 million in the parent company, Nammo AS, the proposed dividend will be covered by distribution of other equity equal to NOK 90.3 million. The proposed dividend represents 50 percent of the Nammo Group's net profit for the year.

OUTLOOK FOR THE NAMMO GROUP

Events in the macro environment provide new possibilities for Nammo. There are growing market opportunities in rocket motors, military ammunition, commercial ammunition and shoulder-fired systems. In terms of military ammunition and rocket motors, the market is looking for range, precision and terminal effect. There is a strong focus on security of supply and lead-time among several European defense customers that enables industry suppliers to enter into new business models. The Middle East market will remain unstable in the near future due to the political situation in the region. The European market for demil services is in decline, whilst the sea safety activity is expected to remain stable.

The US defense market is expected to grow, and the increased pressure on NATO for a more balanced sharing of burden is likely to bring more investments into the

European defense markets. It is further expected that the preference for local suppliers will continue, which is an opportunity for Nammo as the Group has manufacturing capabilities in several countries.

Nammo has local representation and robust business models in key markets. The Group has ongoing discussions with key customers that may pave the way for collaboration and new partnering models. Nammo will continue to invest into its product portfolio as well as in production capacity and automation. The Group has recently acquired high quality companies with a good strategic fit, and additional acquisitions will be considered in order to fulfil the ambitions for future growth. Nammo will continue to secure its position by capitalizing on an excellent market reputation and providing its customer base with a 'Reliable Advantage' – the slogan for Nammo branding in the market place.

In the coming years, it will be essential to manage costs as we grow to stay profitable, and to maintain an effective working capital by remaining financially flexible and to support any future business extensions.

The drive for continuous improvement and the further reinforcement of a 'One Nammo' culture are important building blocks for the Nammo of tomorrow.

The Board of Directors expresses its appreciation to all employees for their commitment and dedication during the year. The result for 2017 was positive and the Group is healthy, robust and optimistic about the future.

Ullensaker, 13 March 2018

Jan Erik Korssj en, Chairman of the Board

Ingelise Arntsen, Board Member

Marianne Stensrud, Board Member

Olli Isotalo, Vice Chairman

Ville Jaakonsalo, Board Member

Petri Kontola, Board Member

Sirpa-Helena Sormunen, Board Member

Dag J. Opedal, Board Member

Morten Brandtz eg, President & CEO



NAMMO GROUP 2017

CONSOLIDATED FINANCIAL STATEMENTS

INCOME STATEMENT

NAMMO GROUP

(NOK 1 000)	Notes	2017	2016
Revenue	1	4 462 053	4 131 643
Operating expenses			
Changes in stock of work in progress and finished goods		(50 206)	(83 510)
Changes in self-manufactured fixed assets		(299)	(2 082)
Cost of goods sold		1 585 385	1 389 049
Payroll expenses	3, 4, 12	1 493 360	1 422 635
Depreciation of tangible and intangible fixed assets	7	172 292	164 043
Other operating expenses		894 818	857 779
Total operating expenses		4 095 350	3 747 914
Operating result		366 703	383 729
Financial income and expenses			
Income from associates and joint ventures - equity method	6	2 254	4 262
Interest income		17 647	7 648
Other financial income	5	18 472	34 618
Interest expenses		(40 264)	(18 829)
Other financial expenses	5	(23 604)	(26 638)
Net financial income (expense)		(25 495)	1 061
Ordinary result before tax		341 208	384 790
Taxes on ordinary result	13	(160 618)	(105 383)
Profit (loss) for the year		180 590	279 407

BALANCE SHEET

NAMMO GROUP

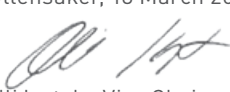
(NOK 1 000)	Notes	As of 31.12.17	As of 31.12.16
Assets			
Non-current assets			
Intangible assets			
Deferred tax asset	13	97 027	118 400
Licenses, trademarks and other intangible assets	7	265 345	250 497
Research and development		278 902	229 797
Goodwill	7	130 788	105 545
Total intangible assets		772 062	704 239
Tangible assets			
Buildings	7	316 033	292 060
Land	7	35 836	34 135
Machines and equipment	7	472 285	399 296
Fixtures and fittings, tools, office machinery, etc.	7	79 760	60 122
Plant under construction	7	295 895	225 037
Leased fixed assets	7	66 028	-
Total tangible assets		1 265 837	1 010 650
Financial fixed assets			
Shares in joint controlled companies	6	23 350	19 154
Other shares and participations	6	5 473	9 972
Pension assets	12	64 155	60 818
Other receivables	8	11 465	16 658
Total financial fixed assets		104 443	106 602
Total non-current assets		2 142 342	1 821 491
Current assets			
Inventories			
Raw materials		790 004	704 509
Work in progress		861 051	925 297
Finished goods		388 311	273 859
Total inventory		2 039 366	1 903 665
Receivables			
Accounts receivable	9	782 904	658 462
Other receivables	8	417 407	153 167
Advance payments to suppliers		83 610	50 054
Total receivables		1 283 921	861 683
Cash and cash equivalents	10	184 749	462 823
Total current assets		3 508 036	3 228 171
Total assets		5 650 378	5 049 662

(NOK 1 000)	Notes	As of 31.12.17	As of 31.12.16
Shareholders' equity and liabilities			
Equity			
Share capital		100 000	100 000
Premium fund		258 670	258 670
Other equity		2 136 668	2 024 432
Total equity	11	2 495 338	2 383 102
Liabilities			
Non-current liabilities			
Pension liabilities	12	188 643	176 709
Deferred tax	13	50 754	56 481
Other provisions		2 431	-
Total non-current liabilities		241 828	233 190
Other non-current liabilities			
Liabilities to financial institutions	14	1 322 768	1 068 036
Other non-current liabilities		91 243	28 457
Total other non-current liabilities		1 414 011	1 096 493
Current liabilities			
Guarantee liabilities		78 601	81 055
Accounts payable		332 124	242 628
Income tax payable	13	128 488	80 653
Public duties		92 539	79 795
Dividend payable		90 300	140 000
Prepayments from customers		482 867	455 014
Other short term liabilities		294 282	257 732
Total current liabilities		1 499 201	1 336 877
Total liabilities		3 155 040	2 666 560
Total shareholders' equity and liabilities		5 650 378	5 049 662

Ullensaker, 13 March 2018




Jan Erik Korssjøen, Chairman of the Board



Olli Isotalo, Vice Chairman



Sirpa-Helena Sormunen, Board Member



Ingelise Arntsen, Board Member



Ville Jaakonsalo, Board Member



Dag J. Opedal, Board Member



Marianne Stensrud, Board Member



Petri Kontola, Board Member



Morten Brandtzæg, President & CEO

CASH FLOW

NAMMO GROUP

(NOK 1 000)

	2017	2016
Cash flow from operational activities		
Result before tax	341 208	384 790
Tax payments	(47 865)	(61 787)
Gain and loss on sale of fixed assets	(93)	(650)
Ordinary depreciations	172 292	164 043
Changes in inventory	(95 692)	(272 050)
Changes regarding debtors	(82 817)	85 702
Changes regarding creditors	79 611	15 693
Changes in other dispositions	(212 705)	55 084
Net cash flow from operational activities (a)	153 939	370 825
Cash flow from investment activities		
Sale of fixed assets	264	6 232
Purchase of fixed assets	(298 440)	(231 245)
Sale of long-term investments	4 500	2 081
Purchase of other long-term investments	(190 595)	(168 177)
Net cash flow from investment activities (b)	(484 271)	(391 109)
Cash flow from financing activities		
Payments received regarding new long-term loans	201 982	1 024 715
Installments on long-term loans	(9 724)	(716 365)
Received dividend	-	1 703
Paid dividend	(140 000)	(108 700)
Net cash flow from financing activities (c)	52 258	201 353
Net changes in cash and bank accounts (a+b+c)	(278 074)	181 069
Cash and bank accounts as of 01.01.	462 823	281 754
Cash and bank accounts as of 31.12.	184 749	462 823

Total unused cash credits as of 31 December 2017 is NOK 672.1 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 combina-

tion (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 other non-current liabilities. 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. REVENUE FOR THE NAMMO GROUP

The Nammo Group consists of subsidiaries in Norway, Sweden, Finland, Germany, Switzerland, Spain, USA, England, Ireland, Poland, Canada, India and Australia,

Revenue from Nammo subsidiaries per country

(NOK 1 000)	2017
Norway	1 663 309
USA	958 908
Germany	626 757
Finland	522 870
Sweden	427 893
Spain	215 881
England	30 852
Ireland	13 021
Switzerland	2 562
Total	4 462 053

Revenue per geographical location of customers

(NOK 1 000)	2017
Nordic countries	799 364
Other Europe	1 299 021
North America	1 818 654
Asia	348 425
Other countries	196 589
Total	4 462 053

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 2017:

(Amounts in currency 1 000)

Transaction type	Buy/Sell (-)	CAD	CHF	EUR	GBP	SEK	USD
FX Forward	Buy	670	4 654	40 482	595	1 085	23 033
	Sell(-)	(1 867)	-	(31 257)	(5 805)	-	(86 729)
FX SWAP	Buy	-	3 450	16 822	-	-	6 070
	Sell(-)	-	(2 247)	(10 956)	(82)	(3 645)	(35 445)

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

Transaction type	Buy/sell	Year 2018	Year 2019	Year 2020	Later
FX Forward	Buy	81%	17%	2%	-
	Sell	100%	-	-	-
FX SWAP	Buy	96%	4%	-	-
	Sell	100%	-	-	-

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 2018, up until the annual general meeting in 2019. The Board of Directors has 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.

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. The latest survey was done in 2016. Based on this the board has concluded the following main criteria's for the top-managers salary level:

- 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 compensation

Base compensation consists of both the base salary and an annual pension compensation payment. The base salary is the main element of the managers' remuneration. 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 base compensation, intended for personal retirement savings. The annual compensation for this is 20 percent of the base salary above 12G.

In relation to the group CEO pension, the board decided that a separate calculation would be made by an external life insurance/pension-company to see what the pension-level would be for the CEO following the guiding principle that the total pension at the age of 67 years should be 60 percent of the salary at that time. Based on this the board decided to adjust the annual base compensation to the CEO, to reflect the annual compensation payment calculated by the external life insurance company.

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 2018, the top-management of Nammo has two main targets; profitable growth and improved financial performance. The performance targets for 2018 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 (15-20 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.

The group CEO has an agreement for retirement at the age of 65. After retirement at the age of 65, the CEO will receive 60 percent of his base salary for two years.

Severance package arrangements

If the board asks the CEO to resign from his position before his retirement age at 65, he is entitled to a maximum of 12 months compensation. No other senior executives are entitled to pay after termination of employment beyond the regular dismissal period.

Statement for the fiscal year 2017

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. Besides the above described, 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)	2017	2016
Salaries	1 153 341	1 100 355
Employment taxes	90 427	113 442
Pension costs	103 250	94 705
Other personnel costs	146 342	114 133
Total	1 493 360	1 422 635
Average number of man years	2 217	2 102

Remuneration CEO, Board of Directors and corporate management

(NOK)	Function	Salary	Bonus	Other compensation	Pension premium payment	Total
Morten Brandtzæg	President and CEO	5 011 301	1 024 218	369 180	234 000	6 638 698
Kjell Kringsjå	SVP Business Development	2 185 669	300 000	309 537	148 000	2 943 206
Frank Møller	EVP AP	1 770 027	203 124	272 472	207 000	2 452 624
Vegard Sande	EVP LCA	1 825 289	351 925	345 511	149 000	2 671 725
Stein Erik Ommundsen	CFO from October 2017	456 126	-	33 934	45 000	535 060
Peter Lerche Raadal	CFO to September 2017	1 556 169	238 334	121 274	108 000	2 023 777
Bertil Pålstrud	SVP Human Resources	1 719 208	242 500	230 690	162 000	2 354 397
Sissel Solum	SVP Compliance	1 480 691	230 000	129 032	203 000	2 042 723
Endre Lunde	SVP Communications from March 2017	828 397	-	88 466	93 000	1 009 863
Anne Haugen-Flermoe	SVP Legal	1 175 337	141 250	111 418	154 000	1 582 004
Erland Paulsrud	VP Technology	1 611 136	-	215 226	167 000	1 993 362
Board of Directors	Board members	1 640 925	-	-	-	1 640 925

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 148 727 as of 31 December 2017. The loan is due in 4 years and the interest rate was 0.25 percent p.a. in 2017.

Auditor's fee

All numbers are presented exclusive VAT.

(NOK 1 000)	2017	2016
Auditors fee	5 580	5 154
Fees for other assurance work, including IFRS	245	158
Tax advisory services	1 202	1 369
Other services	1 613	502
Total	8 640	7 183

5. FINANCIAL ITEMS

(NOK 1 000)	2017	2016
Gain on exchange	18 464	33 383
Other financial income	8	1 235
Total other financial income	18 472	34 618
Loss on exchange	(20 411)	(18 203)
Other financial expenses	(3 193)	(8 435)
Total other financial expenses	(23 604)	(26 638)

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	23 350	50%
Total				23 350	
Other shares and participations:					
Komm-In AS, Raufoss, Norway				2 000	14%
Sintef Raufoss Manufacturing AS, Raufoss, Norway				1 302	14%
Raufoss Holding AS, Raufoss, Norway				1 375	2.5%
Others				795	-
Total				5 473	

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	Machinery and equipment	Fixtures, fittings, tools, office machinery, etc	Plants under construction	Total assets
Acquisition cost as of 01.01.17	606 811	308 703	693 573	45 252	1 695 510	331 845	225 012	3 906 706
Additions during the year	70 150	28 234	39 736	547	148 283	52 101	84 533	423 584
Disposals during the year	-	-	(1 444)	-	(1 978)	(5 372)	(312)	(9 106)
Exchange difference acq. cost	(22 787)	(13 798)	12 557	1 194	30 902	13 168	2 692	23 928
Acquisition cost 31.12.17	654 174	323 139	744 422	46 993	1 872 717	391 742	311 925	4 345 112
Accumulated depreciations 31.12.17	(388 829)	(192 351)	(428 389)	(11 157)	(1 400 432)	(311 982)	(16 030)	(2 749 170)
Book value as of 31.12.17	265 345	130 788	316 033	35 836	472 285	79 760	295 895	1 595 942
Depreciations this year	41 651	2 252	26 037	815	81 263	20 274	-	172 292
Annual leasing cost of assets not recognized in balance sheet	-	-	79 749	-	15 434	5 277	-	100 460
Economic life time (years)	1 - 25	5 - 10	10 - 50	-	5 - 20	3 - 10	-	-
Depreciation plan	Linear	linear	linear	linear	linear	linear	-	-

The financial lease capitalized in the balance sheet is a lease contract for a power plant in Finland. The lease expires in 2029. Yearly lease cost is NOK 5.2 million.

Goodwill depreciated over more than five years is goodwill originating from companies 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, VAT receivables and other receivables.

9. RECEIVABLES AND LOSSES ON BAD DEBTS

(NOK 1 000)	2017	2016
Accounts receivables	788 011	663 152
Provision for bad debt	(5 107)	(4 690)
Book value of accounts receivables	782 904	658 462

10. CASH RESERVE

(NOK 1 000)	2017	2016
Cash and cash equivalents	184 749	462 823
Unused cash credits	672 055	852 290
Net cash reserve	856 804	1 315 413

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 and Nammo NAD AS

Sweden: Hansson Pyrotech AB, Nammo Sweden AB and Nammo Demil AB.

USA: Nammo Inc., Nammo Talley Inc., Nammo Composite Solutions LLC., Nammo Tactical Ammunition LLC., Nammo Pocal Inc. and Capstone Precision Group LLC.

Spain: Nammo Palencia S.L.

Ireland: Nammo Ireland Ltd.

UK: Nammo Westcott Ltd. and Nammo Cheltenham Ltd.

11. EQUITY – CHANGES IN EQUITY

(NOK 1 000)	Share capital	Premium fund	Other equity	Total
Equity as of 01.01.17	100 000	258 670	1 833 168	2 191 838
Exchange differences opening balance	-	-	191 264	191 264
Equity as of 01.01.17	100 000	258 670	2 024 432	2 383 102
Profit for the year	-	-	180 590	180 590
Proposed dividend to shareholders 1)	-	-	(90 300)	(90 300)
Other items	-	-	(49 924)	(49 924)
Exchange differences	-	-	71 870	71 870
Total equity as of 31.12.17	100 000	258 670	2 136 668	2 495 338

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 2017 was NOK 188.6 million, which is derived from the companies in Sweden, Germany and Finland. Pension assets in Norway were NOK 64.2 million at 31 December 2017. 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)	2017	2016
Service costs	58 254	51 714
Amortization of net actuarial losses (gains)	9 525	7 525
Interest costs	3 188	1 758
Expected return on plan assets	(6 336)	(8 365)
Pension cost related to defined contribution plans	38 619	39 201
Settlement pension plans	-	2 872
Net periodic pension costs	103 250	94 705

Pension liabilities/assets

(NOK 1 000)	2017	2016
Defined benefit obligation incl. social security tax	717 258	659 184
- Fair value of plan assets	(404 441)	(376 906)
Net pension obligation	312 817	282 278
Items not recorded in the profit and loss:		
Unrecognized net actuarial loss (gain)	(188 329)	(166 387)
Net pension liability	124 488	115 891
Classified as pension asset in the balance sheet	64 155	60 818
Classified as pension liabilities in the balance sheet	188 643	176 709

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)	2017	2016	Change
Temporary differences:			
Intangible assets	(9 030)	(22 434)	(13 404)
Fixed assets	(12 069)	132 043	144 112
Accounts receivables	6 341	(2 814)	(9 155)
Inventory	34 388	104 067	69 679
Pension liabilities	14 584	13 763	(821)
Guarantee liabilities	(55 210)	(77 551)	(22 341)
Financial non-current temporary differences	85 490	180 800	95 310
Other non-current temporary differences	(24 157)	(29 820)	(5 663)
Other current temporary differences	88 775	(25 984)	(114 759)
Temporary differences	129 112	272 070	142 958
Carried forward losses for tax purposes	(347 024)	(351 245)	
Total temporary differences	(217 912)	(79 175)	
Gross deferred tax / deferred tax assets (-)	(52 502)	(71 995)	
Deferred tax assets not recognized in the balance sheet	6 229	10 076	
Net deferred tax liability/deferred tax asset (-)	(46 273)	(61 919)	
Classified as deferred tax asset	97 027	118 400	
Deferred tax liability in the balance sheet	50 754	56 481	

Payable income taxes

(NOK 1 000)	2017
Net income before tax	341 208
Changes in temporary differences	142 958
Exchange differences temporary differences	(64 610)
Permanent differences	4 732
Use of carried forward losses	(13 212)
Taxable income	411 076
Payable income tax	114 907

Tax expense in profit and loss

(NOK 1 000)	2017
Payable tax on this year's result	116 911
Adjustments prior years	(2 004)
Payable tax in this year's tax cost	114 907
Change in deferred tax / deferred tax asset	33 836
Other items	11 875
Tax expense in the P&L	160 618

Payable tax in the balance sheet

(NOK 1 000)	2017
Payable taxes	120 403
Prepaid taxes	(43 679)
Other items	51 764
Payable tax in balance sheet	128 488

14. INTEREST BEARING LOANS, AVAILABLE CASH CREDITS AND GUARANTEES

(NOK 1 000)	2017	2016
Total interest bearing loans	1 322 768	1 068 036

Nammo AS long term loans from credit institutions per 31 December 2017:

(NOK 1 000)	Final maturity date	Facility total	Utilized	Available
Term loan facility, EUR 100 millions	19.09.2021	984 030	984 030	-
Revolving credit facility, NOK 700 millions	19.09.2019	700 000	319 995	380 005

Available unused cash credits at 31 December, 2017:

(NOK 1 000)	Cash credits
Revolving credit facility	380 005
Additional cash credits available	292 050
Total unused cash credits at year-end	672 055

Guarantees not recognized in the balance sheet as of 31 December 2017 is NOK 357 million.



NAMMO AS 2017

FINANCIAL STATEMENTS

INCOME STATEMENT

NAMMO AS

(NOK 1 000)	Notes	2017	2016
Revenue	1	91 572	79 436
Operating expenses			
Payroll expenses	2	44 938	33 538
Depreciation of tangible and intangible fixed assets	4	364	501
Other operating expenses		73 888	70 884
Total operating expenses		119 190	104 923
Operating profit		(27 618)	(25 487)
Financial income and expenses			
Received group contribution		100 000	90 000
Interest income	3	41 265	31 905
Other financial income	3	-	101 839
Interest expenses	3	(22 710)	(10 774)
Other financial expenses	3, 14	(132 902)	(78 204)
Net financial income (expenses)		(14 347)	134 766
Ordinary result before tax		(41 965)	109 279
Taxes on ordinary result	11	(1 182)	(19 995)
Profit (loss) for the year		(43 147)	89 284
The board's proposal for allocation of the profit			
Dividend		90 300	140 000
Other equity		(133 447)	(50 716)
Total		(43 147)	89 284

BALANCE SHEET

NAMMO AS

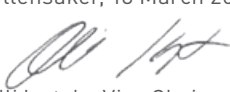
(NOK 1 000)	Notes	As of 31.12.17	As of 31.12.16
Assets			
Non-current assets			
Tangible assets			
Machines and equipment	4	33	45
Fixtures and fittings, office machines, etc.	4	950	1 302
Total tangible assets		983	1 347
Financial assets			
Investments in subsidiaries	5	609 364	588 204
Investments in other shares and participations	5	1 375	5 875
Loans to group companies		901 484	751 295
Pension assets	10	2 325	2 096
Other receivables		2 379	2 846
Total fixed assets		1 516 927	1 350 316
Total non-current assets		1 517 910	1 351 663
Current assets			
Receivables			
Receivables from group companies	13	566 970	383 585
Receivable group contributions		100 000	90 000
Prepayments to vendors		5 902	5 078
Other receivables		6 615	4 440
Total receivables		679 487	483 103
Cash and cash equivalents	7, 13	120 596	396 796
Total current assets		800 083	879 899
Total assets		2 317 993	2 231 562

(NOK 1 000)	Notes	As of 31.12.17	As of 31.12.16
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	494 403	627 846
Total earned equity		494 403	627 846
Total equity		853 073	986 516
Liabilities			
Non-current liabilities			
Deferred tax	11	19 524	43 495
Total non-current liabilities		19 524	43 495
Other non-current liabilities			
Liabilities to financial institutions	12	1 304 026	1 042 240
Total other non-current liabilities		1 304 026	1 042 240
Current liabilities			
Accounts payable		8 021	3 448
Payables to group companies		9 288	3 502
Income tax payable	11	25 153	3 230
Public duties payable		3 743	3 119
Dividend payable to shareholders		90 300	140 000
Other current liabilities		4 865	6 012
Total current liabilities		141 370	159 311
Total liabilities		1 464 920	1 245 046
Total shareholders' equity and liabilities		2 317 993	2 231 562

Ullensaker, 13 March 2018




Jan Erik Korssjøen, Chairman of the Board



Olli Isotalo, Vice Chairman



Sirpa-Helena Sormunen, Board Member



Ingelise Arntsen, Board Member



Ville Jaakonsalo, Board Member



Dag J. Opedal, Board Member



Marianne Stensrud, Board Member



Petri Kontola, Board Member



Morten Brandtzæg, President & CEO

CASH FLOW

NAMMO AS

(NOK 1 000)	2017	2016
Cash flow from operational activities		
Result before tax	(41 965)	109 279
Tax payments	(3 230)	(26 396)
Ordinary depreciation	364	501
Changes in accounts receivable	(11 458)	(18 245)
Changes in accounts payable	10 359	(4 047)
Pension cost less paid pension premium	(229)	(793)
Changes in loans to group companies	(150 189)	46 533
Changes in other dispositions	(214 969)	(128 718)
Net cash flow from operational activities (a)	(411 317)	(21 886)
Cash flow from investment activities		
Investments in financial fixed assets	(16 660)	(5 875)
Investments in fixed assets	-	(285)
Net cash flow from investment activities (b)	(16 660)	(6 160)
Cash flow from financing activities		
Payments from new long-term loans	201 777	1 021 378
Installments long term loans	-	(711 329)
Received dividend	-	65 980
Received group contribution	90 000	90 000
Paid dividend	(140 000)	(108 700)
Net cash flow from financing activities (c)	151 777	357 329
Net changes in cash and bank accounts (a+b+c)	(276 200)	329 283
Cash and bank accounts as of 01.01.	396 796	67 513
Cash and bank accounts as of 31.12.	120 596	396 796

Unused credit facilities is NOK 672.1 million. See note 12.

INDEX TO THE ACCOUNTING NOTES

Accounting policies Nammo AS	7. Cash reserve
Notes to the accounts	8. Share capital
1. Related party transactions and operating income	9. Equity
2. Salaries and social cost	10. Pension commitments – pension costs
3. Financial items	11. Tax
4. Fixed and intangible assets	12. Interest bearing loans and guarantees
5. Shares in other companies	13. Credit facility
6. Accounts receivable	14. Impairment investment in subsidiary

ACCOUNTING POLICIES NAMMO AS

GENERAL

Nammo AS is a public limited company (Aksjeselskap). The Nammo AS headquarters 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.

Revenue:

(NOK 1 000)	2017	2016
Management service fee Group companies	87 104	76 396
Other	4 468	3 040
Total	91 572	79 436

2. SALARIES AND SOCIAL COST

(NOK 1 000)	2017	2016
Salaries	33 026	24 255
Employment taxes	4 832	3 977
Pension costs	3 516	3 038
Other social costs	3 564	2 268
Total	44 938	33 538

Average number of man-years	17	15
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Auditor's fee

(NOK 1 000) All numbers are presented exclusive VAT	2017
Auditor's fee	575
Other services	124
Total	699

3. FINANCIAL ITEMS

(NOK 1 000)	2017	2016
Interest income from Group companies	27 436	23 394
Other interest income	13 829	8 510
Total interest income	41 265	31 905
Gain on exchange	-	35 859
Dividend from Group companies	-	65 980
Total other financial income	-	101 839
Other interest cost	(22 710)	(10 774)
Total interest cost	(22 710)	(10 774)
Loss on exchange	(80 609)	(27 780)
Write-down receivable Nammo Buck GmbH, see note 14	(50 036)	(43 592)
Other financial expenses	(2 255)	(6 832)
Total other financial expenses	(132 902)	(78 204)

4. FIXED AND INTANGIBLE ASSETS

(NOK 1 000)	Buildings	Machines and equipment	Fixtures, fittings and office equipment	Total
Acquisition cost as of 01.01.17	845	606	7 054	8 505
Additions during the year	-	-	-	-
Reclassifications during the year	-	-	-	-
Disposals during the year	-	-	-	-
Acquisition cost as of 31.12.17	845	606	7 054	8 505
Accumulated depreciations 31.12.17	(845)	(573)	(6 104)	(7 522)
Book value as of 31.12.17	-	33	950	983
Ordinary depreciations for the year	-	(12)	(352)	(364)
Annual leasing cost on assets not in the balance sheet	1 029	-	29	1 058
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	-	-	239 982	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%
Nammo UK Holding Ltd.	-	-	-	-	100%
Nammo Ireland Ltd	EUR 476 250	375 000	476 250	21 159	100%
Total				609 364	

6. ACCOUNTS RECEIVABLE

(NOK 1 000)

	2017	2016
Accounts receivables	-	-

Accounts receivable are booked at nominal value. There has been no loss on accounts receivable in 2017.

7. CASH RESERVE

This amount is reduced with the draw that the group companies has in the international cash pool of NOK 490.8 million. This is classified as receivables from group companies. Refer to note 13.

8. SHARE CAPITAL

As of 31 December 2017 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 2017

(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 01.01.17	100 000	258 670	627 846	-	986 516
Net result	-	-	-	(43 147)	(43 147)
Allocation of the net result ^{*1}	-	-	(43 147)	43 147	-
Dividend ^{*1}	-	-	(90 300)	-	(90 300)
Other items	-	-	4	-	4
Equity as of 31.12.17	100 000	258 670	494 403	-	853 073

^{*1} 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 18 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 2017 with the following assumptions:

Yield from pension funds	3.00%
Interest rate used to discount future cash flows	2.10%
Annual salary increase	2.25%
Annual increase in G	2.00%
Annual change in pension	0.00%

Pension cost

(NOK 1 000)	2017	2016
Service costs	2 632	2 623
Amortization of net actuarial losses (gains)	1 010	872
Interest costs	276	126
Expected return on plan assets	(402)	(583)
Net pension costs	3 516	3 038

Pension liabilities

(NOK 1 000)	2017	2016
Defined benefit obligation incl. payroll tax	38 411	33 850
- Fair value of plan assets	(29 030)	(25 170)
Gross pension liability	9 381	8 680
Items not recognized in the profit and loss:		
Unrecognized net actuarial loss (gain)	(11 706)	(10 776)
Net amount recognized in the balance sheet	(2 325)	(2 096)

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)	2017	2016
Net income before tax	(41 965)	109 279
Permanent differences	54 981	(21 513)
Changes in temporary differences	96 343	(74 309)
Taxable income	109 359	13 457

Specification of the tax cost in the profit and loss:

Tax payable	25 153	3 230
Changes in deferred tax	(23 971)	16 765
This year's tax cost	1 182	19 995

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)	31.12.17	31.12.16
Tangible fixed assets	(1 111)	(1 368)
Financial fixed asset	83 971	180 800
Accounts receivables	(300)	(300)
Pension liability/asset	2 325	2 096
Net temporary differences as basis for deferred tax/tax asset (-) calculation	84 885	181 228
Deferred tax/deferred tax asset (-)	19 524	43 495

12. INTEREST BEARING LOANS AND GUARANTEES

(NOK 1 000)	2017	2016
Total interest bearing loans	1 304 026	1 042 240

Nammo AS long term loans from credit institutions as of 31 December, 2017 consist of:

(NOK 1 000)	Final maturity date	Facility total	Utilized	Available
Term loan facility, EUR 100 millions	19.09.2021	984 030	984 030	-
Revolving credit facility, NOK 700 millions	19.09.2019	700 000	319 995	380 005

Available unused cash credits at 31 December 2017:

(NOK 1 000)	Cash credits
Revolving credit facility	380 005
Additional cash credits available	292 050
Total unused cash credits at year-end	672 055

Guarantees not recognized in the balance sheet as of 31 December 2017 is NOK 352.1 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 and Nammo NAD AS

Sweden: Hansson Pyrotech AB, Nammo Sweden AB and Nammo Demil AB.

USA: Nammo Inc., Nammo Talley Inc., Nammo Composite Solutions LLC., Nammo Tactical Ammunition LLC., Nammo Pocal Inc. and Capstone Precision Group LLC.

Spain: Nammo Palencia S.L.

Ireland: Nammo Ireland Ltd.

UK: Nammo Westcott Ltd. and Nammo Cheltenham Ltd.

Nammo AS subsidiaries' balance on the cash pool is included in receivables from group companies. This amounts to NOK 490.8 million. See note 7.

14. IMPAIRMENT INVESTMENT IN SUBSIDIARY

At 31 December 2017 Nammo AS had a cash credit receivables towards our subsidiary Nammo Buck GmbH at a total of NOK 50 million.

At year-end we performed an impairment test and concluded that this asset is impaired, hence the amount is written down in full at year end. The write-down is related to a cash credit receivable, and therefore the write-down is classified as other financial expenses in the profit and loss.

AUDITORS REPORT



KPMG AS
Vangsvegen 73
2317 Hamar

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Internet www.kpmg.no
Enterprise 935 174 627 MVA

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 loss of NOK 43 147 000 in the financial statements of the parent company and profit of NOK 180 590 000 in the financial statements of the group. The financial statements comprise:

- The financial statements of the parent company Nammo AS (the Company), which comprise the balance sheet as at 31 December 2017, and the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Nammo AS and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2017, and the income statement and cash flow 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 Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the 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, including 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 and the Group 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.

KPMG AS, a Norwegian limited liability company and member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Slateautoriserede revisorer - medlemmer av Den norske Revisorforening

Offices in:

Oslø	Elverum	Mo i Rana	Stord
Alta	Finnsnes	Molde	Straume
Arendal	Hamar	Skien	Tromsø
Bergen	Haugesund	Sandefjord	Trondheim
Bødø	Knaarvik	Sandnessjøen	Tynset
Drammen	Kristiansand	Stavanger	Ålesund



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 in accordance with law and regulations, including 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, including 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 or the Group'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 and the



Auditor's Report - 2017
Nammo AS

Group'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 and the Group 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 as 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 coverage of the loss 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, 20 March 2018
KPMG AS

Thore Kleppen
State Authorised Public Accountant

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

CORPORATE GOVERNANCE

INTRODUCTION

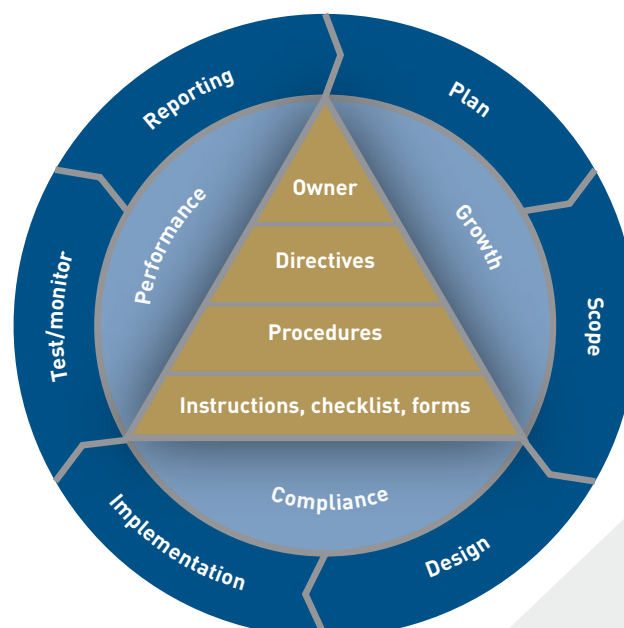
Nammo AS is a limited liability company established under Norwegian law, with a governance structure based on Norwegian Limited Liability Companies Act (Aksjeloven) and similar laws in the other countries where we operate: Finland, Sweden, Germany, Switzerland, Spain, Poland, England, Ireland, USA, Canada, 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 latest 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 etc. 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 appoints 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

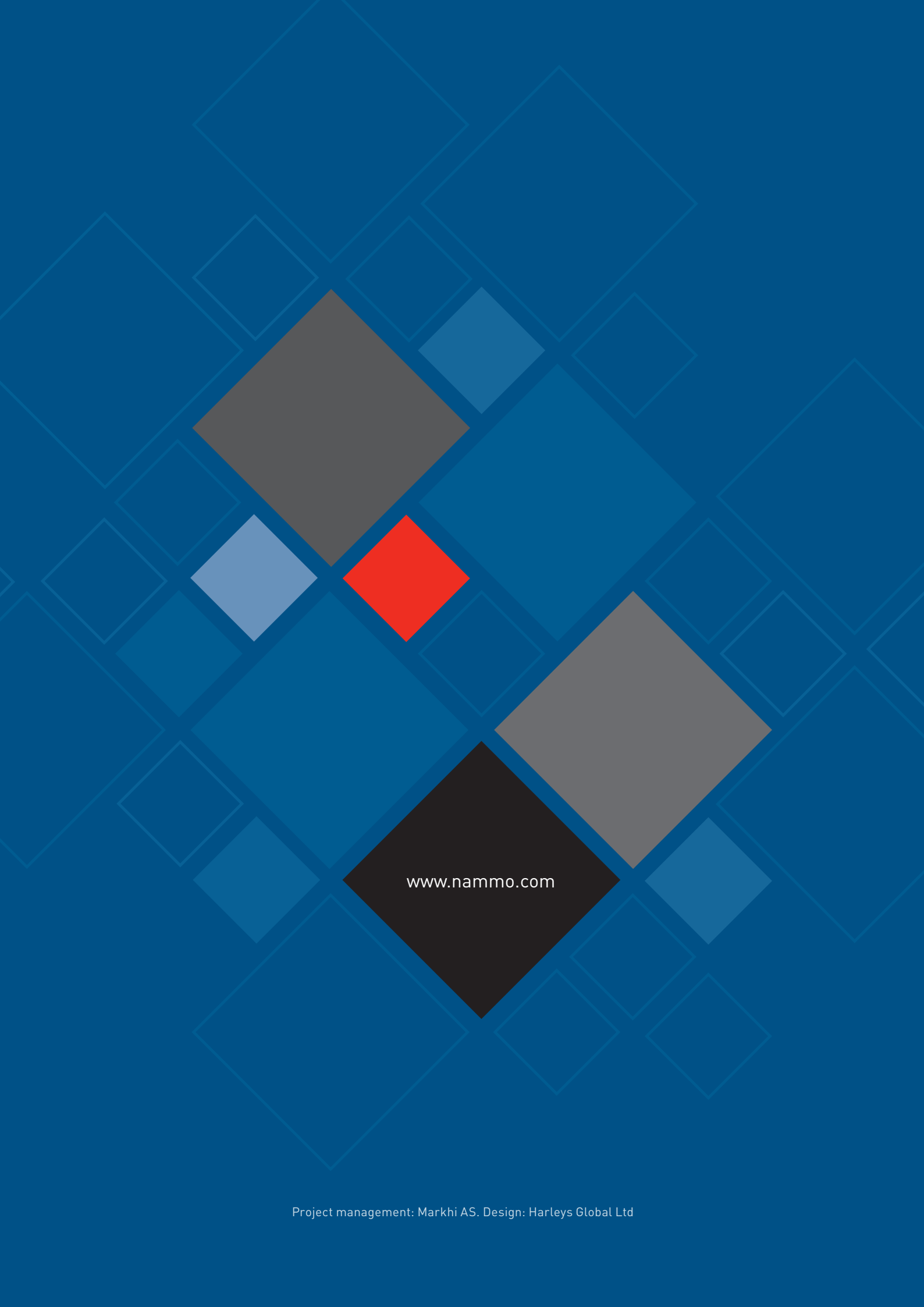
The Board of Directors of Nammo AS shall consist of six to eight directors in accordance with the shareholders' agreement: three from each owner, and two directors representing the employees. The employees may also nominate one additional observer, so that all the employees from Norway, Sweden and Finland 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-to-day 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 business units. These meetings are a vehicle for scrutiny of the business units performance relative to budgets and targets. The market situation, order intake, new opportunities and other significant items at the time are also addressed.



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