

2018

Annual Report



A DEFINING YEAR FOR NAMMO

I am pleased to present Nammo's annual results for 2018.

I believe this might well be the year we will look back on as the one where we defined the future of our company.

We took a major step towards becoming the world leader in range extension technologies, which may lead to one of the biggest changes in the role of artillery and missiles on the battlefield in decades.

We concluded development of the M72 Fire From Enclosure, allowing soldiers and marines to fight and win with far less risk to themselves and their comrades in arms.

We launched Nucleus, powered by our new hybrid rocket engine that could propel the next generation of small satellites into orbit.

And not least, we did it all while continuing to keep our promise to our customers of delivering them a wide range of products, that, old or new, provide them with a truly reliable advantage.

OUR COMMITMENT

At a time when Western democracies are facing challenges on a scale not seen since the end of the Cold War, we are reminded of the importance of that promise.

In a world that is becoming ever more divided and more fearful of its future, we look to the dedicated individuals who, whether in our out of uniform, work to keep us safe, to help us explore, and to make us proud. Nammo's mission is to enable these individuals to do just that. Our commitment to our customers must go beyond what can be captured by a contract.

Nammo's 2018 results, with record sales and order books, confirm that this commitment is being both recognized and appreciated.

THE FUTURE OF NAMMO

Going forward our job is to do something even harder than simply grow: to combine increased sales with increased profitability. This is not easy, but neither is developing 150 km artillery shells, next generation ammunition for the F-35, or powering a new generation of space launchers.

We will do this by building on the strengths that have made us what we are today.

Embodying our values of Dedication, Precision and Care, every day, in everything we do.

A flat, non-bureaucratic organization, driven by customer needs, offering a truly reliable advantage.

We will simplify, streamline and improve our organization. We will remove any obstacles that keep us from delivering our best.

And we will remain committed to pursuing niche technologies that deliver not only on the requirements of today, but help our customers take on the challenges of tomorrow.

This way, together with our customers and partners, we will do our part in securing the future.

Morten Brandtzæg
PRESIDENT & CEO



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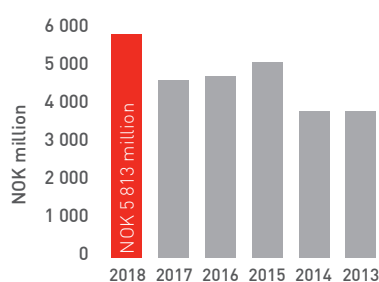
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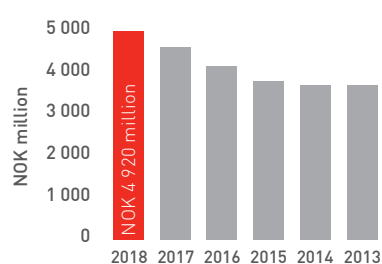
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ORDER STOCK



REVENUE



SALES PER REGION



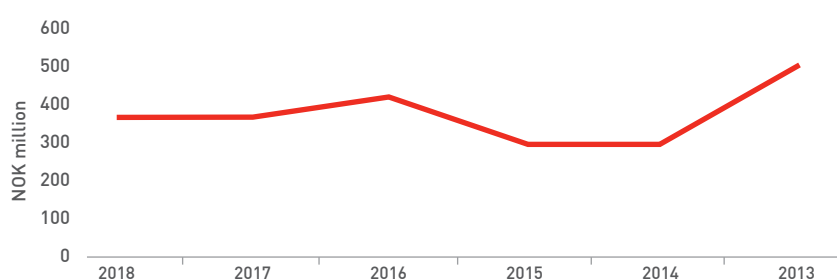
20% NORDIC COUNTRIES

29% REST OF EUROPE

41% NORTH AMERICA

10% OTHER

EARNINGS BEFORE INTEREST AND TAX (EBIT)



(NOK MILLION)	2018	2017	2016	2015	2014	2013
Order Stock	5 813	4 645	4 767	5 130	3 853	3 832
Revenue	4 920	4 462	4 132	3 783	3 718	3 703
Earnings Before Interest and Tax (EBIT)	362	367	384	284	286	489
Total Assets	6 083	5 632	5 050	4 641	4 011	3 666
Total Equity	2 688	2 537	2 383	2 329	2 069	1 835
Average Man Years	2 409	2 217	2 102	2 088	2 160	1 954
Return on Sales (ROS)	6.8%	7.6%	9.3%	7.2%	7.5%	13.0%

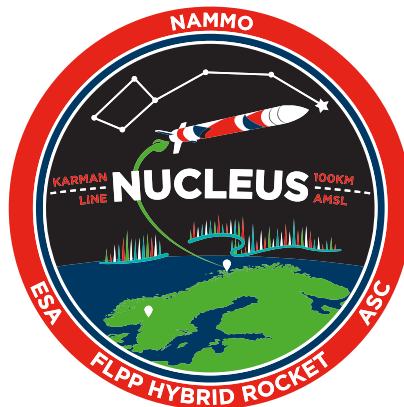
FASTER, HIGHER, LONGER

2018 became a year of firsts for Nammo. In addition to record high revenues, a record high order book, it was also the year when a Nammo-made rocket engine powered first space launch, with the Nucleus sounding rocket reaching an altitude of 107 km during its September mission from Andøya, Norway.

A SMALL STEP FOR SPACE TRAVEL, A GIANT LEAP FOR NAMMO

SpaceX and Blue Origin are not the only ones changing the space launch market. In addition to the reusability pioneered by these companies, miniaturization has also helped bring about a different balance between cost, capability and endurance, thereby opening up the market to a large number of new players.

“Until about 20 years ago, the cost of space launches and the design of space craft was largely been driven by very stringent military requirements where cost was not a major driver.



SpaceX and Blue Origin are not the only ones changing the space launch market.

This led to several generations of large and extremely robust, but also very expensive launchers and satellite designs. Once the Cold War ended, that began to change. Though very capable, traditional space technologies simply cost too much, and they were not able to adapt quickly enough to new technologies, and not least to the demands of the commercial market,” said Frank Møller, VP of Business Development for

Aerospace Propulsion in Nammo.

As an industry veteran with more than 30 years of experience within the military propulsion market, Møller believes Nammo during 2018 proved that it has something unique to offer also to the commercial market.

“Our specialty has always been as a nimble and independent provider always working to find new ways of delivering what our customers need, and with Nucleus we showed that we are also able to bring these capabilities to bear outside the military market.”

GETTING MORE FROM WHAT THEY'VE GOT

Nammo’s strategy has long been to position itself as a niche provider, relying on technology and superb quality to win business. Now, with several countries responding to changing security requirements by upgrading vehicles, ships and aircraft with improved weapon systems, that strategy is paying off.

“Replacing a large platform or weapon system continues to get more and more expensive and time consuming, and quite often it isn’t even an option. Operational needs are changing so fast that it would simply take too long to build something new. So we are seeing considerable interest in the kind of technologies that we have been developing, and how they could be used to help countries get more performance from the

The 30 mm MK258 Mod 1 “Swimmer” has been adopted by both the US Navy and the US Army.

equipment they already have in service,” said Bård Ljones Stenberg, Nammo’s VP of International Sales and Marketing.

Replacing a large platform or weapon system continues to get more and more expensive

He highlights three areas in particular which has gained considerable interest over the past year.

“The first is added armor penetration for lighter units.

The second is adding range to existing and future artillery systems. And the third is in programmable ammunition, which currently is seeing a lot of interest due to the increased threat from drones. All of these are core areas of expertise for Nammo, and where we believe we are bringing something unique to the market,” said Ljones Stenberg.

PUSHING BOUNDARIES

On the back of the success of its current technologies, Nammo is continuing to push boundaries. The latest two are ramjet propulsion and polymer cased ammunition.

“Base bleeds and rocket assisted projectiles do help in extending artillery range, but not enough. To get really revolutionary range extension we have to use air breathing projectiles, and we believe our ramjet artillery has the potential to radically change the role of artillery on the battlefield,” said Thomas Danbolt,

VP of Nammo’s Large Caliber Ammunition business unit.

Since introducing the concept at Eurosatory in June 2018, Nammo has conducted initial short range test firings of the ramjet shell in to confirm that the design survives the force of the launch. Additionally, it has completed test firings of the ramjet engine to prove that those same forces are sufficient to ignite the engine, and that it will sustain a burn long enough to allow the shell to reach its expected range. These tests will allow the team to move forward with preparations for powered ballistic tests in early 2020.

Polymer ammunition cases is another, where Nammo during 2018 secured a controlling stake in US-based Mac LLC, one of the companies that is been at the forefront of bringing lightweight ammunition into service.

“This is a technology that is gaining traction. USSOCOM is using Mac-cases on ammunition carried by helicopters, adding range and time on station. Going

forward we will be expanding our offering in this area by merging more of our high-performance projectiles with polymer cases, giving the user the ability to choose what is right for their mission,” said David Rolen, Nammo’s Director of US Business Development and Marketing.



Nammo presented its concept for ramjet-powered artillery at Eurosatory in Paris in June 2018.

GROWING WHILE CHANGING

Nammo's 2018 results were affected both by market changes, and by the need to improve the company's infrastructure.

Growth is never evenly distributed, and while Nammo as a whole has grown significantly over the past few years, some parts of the company have seen a decline in both its turnover and future prospects. Combined with the need to continue the investments in technology and infrastructure associated with the role as a niche company, this requires Nammo to remain in a constant state of change and improvement.

The End of European Cold War Munitions

Since its founding in 1998, Nammo has remained a significant player in the European demilitarization market. Throughout that time Nammo has specialized in offering safe and environmentally friendly dismantling, recycling or destruction of old or obsolete munitions. Ever since the signing of the Convention on Cluster Munitions in 2008, this has included thousands of tons of decommissioned cluster munitions from Cold War stores across Europe. Now, ten years later, the final remnants of these stores are all but gone. A significant part of this work has been done by Nammo's demilitarization businesses in Germany, Sweden and Norway.

"This has been a major undertaking, and one that our employees have completed with incredible skill and commitment. I am very pleased that we have been able to play such a significant role

The demilitarization market has changed fundamentally over the past few years.

in this work," said Reijo Bragberg, Nammo's Executive Vice President for Small and Medium Caliber Ammunition. Bragberg previously led Nammo's demilitarization division, a responsibility he has now resumed after it was merged with Small and Medium Caliber in May 2018.


"The demilitarization market has changed fundamentally over the past few years, and we had to change accordingly. We are very saddened that this has led to reductions in staff and the closure of one of our facilities in Germany, but we still believe there is a place in the market for our demilitarization operations in Sweden and Norway. They will ensure that we will continue to offer our highly specialized

demilitarization services to the international market," says Bragberg.

Boosting Profitability

Ever since its founding, Nammo has been a niche company offering a level of technology and quality few of its competitors can match. To maintain this position, the company seeks to ensure that 10% of its annual revenues are related to research and development activities.

"Maintaining a high level of technology investments is at the heart of our strategy, and that means we have to make sure we are able to set aside the funds we need to do so. We believe this is essential to the future of our



Nammo has for the past ten years played a significant role in the safe disposal of European cluster munitions. Today, very few of these weapons remain.

company,” said Stein Erik Ommundsen, Chief Financial Officer for the Nammo Group.

To this end, Nammo has started a series of initiatives over the past few years aimed at improving the efficiency of the company.

“Improving efficiency is something every company has to do regularly, and particularly one that has grown as fast as we have. There are structures and processes that may have made sense 10 years ago, but not for where we are today,” said Ommundsen.

Nammo's growth	1998	2018
People	1100	2400
Countries	4	13
Locations	8	34

During 2018, Nammo incurred significant one-time restructuring costs related to the closure and relocation of activities. Ommundsen does not expect similar costs during 2019.

“Last year we decided to make several larger structural adjustments, even though it hurt our bottom line. Long term, however, there was no doubt that these changes had to be made, and we expect that they will help improve our profitability already in 2019.”

Maintaining a high level of technology investments is at the heart of our strategy, and that means we have to make sure we are able to set aside the funds we need to do so.



BOARD OF DIRECTORS' REPORT 2018

Nammo concludes 2018 with double digit growth and record high order stocks, combined with strong efforts for further improvement of long term profitability. Going forward, Nammo's success will depend on its ability to continue development of market leading niche technologies, and to support these through a strong customer focus, state-of-the-art processes and a competent workforce operating within an effective organizational structure.

The net income of the year amounted to NOK 240 million, compared to NOK 203 million in 2017. Costs incurred in 2018 from restructuring and transformation initiatives are expected to yield improved profitability in subsequent years.

The Board of Directors will propose an ordinary dividend of NOK 120.1 million (NOK 90.3 million) at the annual general meeting. The order backlog stood at a record high NOK 5 813 million (4 645) at year-end, which confirms that the market continues to respond positively to the products and solutions offered by Nammo. Combined with general market trends, this offers strong prospects for continued growth for the company.

GENERAL COMMENTS

Nammo is an international aerospace and defense company headquartered in Norway. Founded in 1998 from a merger of Norwegian, Swedish and Finnish ammunition manufacturers, the new company was tasked to grow and develop in the international market during times of peace to ensure its ability to support its home markets in times of crisis and war.

Through 20 years of growth, Nammo has expanded its footprint substantially, and today operates production facilities in eight European countries and in the United States. Consequently, Nammo plays a significant role in the current defense and security infra-structure of NATO and its

partners, providing technologies, components and products critical to their national defense.

Nammo's core competence continues to be within military specialty ammunition and rocket motors. The company is also a major manufacturer of commercial ammunition, with several strong brands within hunting and competition shooting.

STRATEGY FOR PROFITABLE GROWTH

The core of Nammo's strategy continues to be achieving profitable growth in the US, in Europe and in the Nordic markets. It is particularly important to maintain the company's market position in the Nordic countries, and to be a reliable partner to their armed forces and governments. Whenever possible, Nammo will also seek to develop new markets and industrial partnerships to promote its products and technologies.

Securing and improving profitability is crucial to Nammo's continued development. This will be achieved primarily through rationalization of operational and legal structures, as well as through cost reductions and savings, while divestments of non-core activities will also be considered. These measures are necessary to ensure that Nammo has the financial resources to further develop performance

in current businesses and that Nammo is able to stay ahead of competition by investing in market leading technologies, products and processes. This will also allow Nammo to continue the search for acquisition opportunities of high strategic value close to its core business that offers synergies and growth potentials.

Nammo values its independence and reputation with customers and partners, and the company will both seek to protect and leverage these as it continues to grow. Nammo will also continue to build its commercial brands and the core Nammo brand, focusing on delivering a truly reliable customer advantage.

OPERATIONS

While Nammo in 2018 again demonstrated ability to deliver on growth targets profitability has not shown a similar trend and meets neither needs nor ambitions for the future. Consequently, the Nammo management team has adopted a number of measures to secure long-term profitability.

Several such initiatives are already underway, including company-wide programs working to reduce both structural, operational, supply chain, managerial and organizational costs. These activities are supported by continued development of process excellence. In 2018, a substantial part of the organization has undergone training in Lean 6 Sigma.

Other efforts have included continued rationalization and consolidation of physical infra-structure. In that sense, 2018 has been a year of transformation where a significant amount of restructuring costs have been absorbed by the bottom line in the interest of future profitability. The main measures carried out over the past year have included:

- Relocation of shoulder fired launcher production activities in Davidsville, PA, to Mesa, AZ. This initiative started in 2017, and the 2018 income statement includes non-recurring costs related to the re-establishment of these activities in Mesa.
- Merging the business units Demilitarization, Sea Safety and Services and Small and Medium Caliber Ammunition, and closure of the site in Pinnow, Germany. Both were a direct consequence of negative outlooks in the European demilitarization market.
- Consolidation of the military activities in Sweden and discontinuation of all military production at the Lindesberg site.

In total, closing the Pinnow site and ending military production at Lindesberg affected about 90 employees. Furthermore, the 2018 accounts carried NOK 96 million of losses for sites under restructuring.

In the United States Nammo continues to invest in order to strengthen the ability to contribute to the US industrial base. The company remains committed towards the private public partnership with the US Navy at Indian Head, MA, which is key to provide a much

needed boost to the US solid rocket motor manufacturing capability.

Nammo also continues to invest in its commercial ammunition manufacturing and distribution capability in the United States. In 2017 Nammo acquired the California-based Berger Bullets and subsequently relocated the manufacturing facilities to Mesa, AZ. The company then became part of the newly formed Capstone Precision Group (CPG), which also established a distribution center in Sedalia, MO, that now distributes both Berger and Nammo's other commercial products to retailers throughout the US. 2018 was the first full year of operations for CPG. The US market for commercial ammunition has remained soft in 2018, though the Nammo remains confident that the measures and investments made in manufacturing and distribution channels will contribute towards improved profitability over the coming years.

Another significant development in the US was Nammo's acquisition of 45 percent of the membership interests in MAC LLC. Based in Bay St. Louis, MS, MAC LLC is one of several companies developing and manufacturing a new generation of lightweight polymer cartridge cases. In December, Nammo exercised the option to acquire another 10 percent of the company. With 55 percent of the total share capital, Nammo now holds a controlling interest in MAC LLC.

This investment reflects Nammo's need, as niche player, to stay ahead of competition through innovation. Beyond polymer ammunition, there

is also considerable interest in the international defense market for other parts of Nammo's advanced technologies, including long range, armor piercing and precision products, within both ammunition and tactical rocket motors. In addition there is considerable interest in Nammo's space propulsion capabilities, particularly following the successful launch of the Nucleus in September, the first rocket powered by a Norwegian motor to enter space.

FINANCIAL STATEMENTS

Pursuant to Section 3-3a of the Norwegian Accounting Act, the Board of Directors confirms that the financial statements have been prepared under the assumption of a going concern as of the date of the financial statements. The Board confirms that the going concern assumption is valid. 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.

BOARD OF DIRECTORS' REPORT 2018

Operating profit and profitability

Nammo reported revenues of NOK 4 920 million in 2018 (4 462), which is 10.3 percent higher than 2017. The largest single market for Nammo is the US, which represented 39 percent of total Nammo revenues in 2018. Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) ended at NOK 545 million (539). The accounts for 2018 include NOK 96 million in operating losses and restructuring costs for the closing of the Lindesberg, Pinnow and Davidsville sites. Net financial expenses were NOK 31 million in 2018 (25.5) and 2018 Net Income was NOK 240 million in 2018 (203).

Cash flow and liquidity

Nammo's net cash flow from operating activities in 2018 was NOK 293 million (177) whilst the net cash flow from investment activities was NOK -379 million (-484). The acquisition of 55 percent of shares in MAC, a US based manufacturer of lightweight polymer cartridge cases amounted to NOK -71 MNOK. The 2018 net cash flow from financing activities amounted to NOK -134 million (+30). The largest contributor to the deterioration was funding from a long-term loan in 2017 that did not reoccur in 2018. The net debt position cash was MNOK -35 million on 31 December 2018 (+185). Nammo had unutilized credit facilities of NOK 864 million (672) measured at the exchange rates on 31 December 2018. In December Nammo extended its revolving multicurrency credit facility with SEB by NOK 300 million. In spite of the 2018 cash flow performance, Nammo's financial flexibility is considered to be good. Continued focus on working capital efficiency and careful prioritization of investment requirements are focus areas going forward.

Balance sheet

The total assets of the Nammo Group amounted to NOK 6 084 million at the end of 2018 (5 632). Net working capital, excluding cash, was NOK 2 020 million (1 885), while equity was NOK 2 688 million (2 537). Total liabilities were NOK 3 395 million (3 095) at 31 December 2018 and the equity ratio ended at 44 percent in 2018 (45 percent). Total interest-bearing debt to financial institutions amounted to NOK 1 342 million (1 323) at 31 December 2018.

RISK FACTORS

Nammo operates in a global market characterized by a potential for 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 is highly reliant on the overall development of the military and commercial ammunition markets. The fact that Nammo operates through five 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 with which Nammo is required to comply. Where export licenses are necessary to address a 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, such as geopolitical changes.

Operational risk

The Group's value creation consists mainly of products and systems of high technological complexity. Efficient contract management is an important success factor in reducing operational risk along with up-to-date process management systems such as those now being introduced throughout the entire company. Safety is a key priority to Nammo, and the company has established routines and procedures designed to minimize overall operational risk, particularly those related to the handling of explosives and other hazardous material. Finally, procedures have been implemented to secure deliveries of critical raw materials and key components from suppliers. Product safety is an important element governed by the management system.

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 reducing exposure to fluctuations. Nammo is also exposed to currency risks in relation 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. The risk is considered limited.

Reputational risk

Nammo's reputation is one of the company's most valuable assets. To protect the Group's reputation, focus on building a strong company culture from the inside is necessary. During 2018, this has been reinforced by a significant investment in internal communications, which has allowed managers to communicate much more efficiently with their employees.

Nammo has zero tolerance for corruption and runs

training programs aimed at a continuously strengthening the understanding of ethics and compliance within the company.

In order to maintain a strong reputation and the trust of the societies we serve, 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. Our license to operate is dependent on our compliance with strict national export regulations. Failure to do so represents a significant risk to company reputation, and thereby our business. Nammo maintains internal management systems to support the various ISO and military standards as well as national and customer requirements. The integrated procedures and routines are essential risk mitigating factors.

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 the company operates. This responsibility is managed through Nammo business operations with a strong emphasis on environmental issues, ethical behavior and social responsibility in the local communities near the Nammo facilities.

Nammo is committed to ensuring compliance with human and labor rights in all operational sites and that the business does not have any negative effect on the

local environments. Significant environmental protection actions have been introduced in both manufacturing processes as well as in the company facilities. Nammo employees must adapt to the ethical code of conduct, follow national anti-corruption laws and the company ensures that such responsibility flows down the supply chain where this is required.

Nammo follows the Global Reporting Initiative (GRI) Standard for sustainable reporting. In 2018, Nammo delivered its fifth 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.

Nammo continues to address three focus areas chosen from the ten principles of the UN Global Compact. These 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

During 2018, several types of ethics related training programs have been organized.

The e-learning compliance program has been refreshed with the aim of raising the general awareness level of ethics, anti-corruption and information security among Nammo employees. This training reached around 1,700 employees with a completion rate of 88 percent. Nammo will continue to focus on raising such awareness during 2019. Another training program was based on a series of diverse dilemmas and was used to train key individuals within the organization and management teams of newly acquired companies.

BOARD OF DIRECTORS' REPORT 2018

A third training program had a particular focus on fraud and anti-corruption, tailored to the company structure and sites.

During the year, several procedures and due diligence processes have been improved in order to further strengthen the control of selected third parties. A new version of the Supplier Conduct Principles has been developed, focusing on the flow down of UN Global Compacts 10 principles throughout the supply chain. This was finalized during 2018 and will be ready for implementation early 2019.

The activities above represent only some of the ongoing efforts to strengthen Nammo's focus on ethics and anti-corruption, and the implementation of additional such risk mitigating measures throughout the value chain will continue into 2019.

People

Nammo has developed a Human Resources policy to ensure equal opportunities and rights and to prevent discrimination on the grounds of gender, sexual orientation, gender identity, ethnicity, national origin, skin color, language, disabilities, religion, and philosophy of life and/or age. This applies in particular to recruitment, career development, equal pay for equal work and working conditions. Furthermore, the recruitment of personnel shall be performed in accordance with rules and regulations of national security authorities in the respective countries. Nammo believes that the working environment in the company is good.

Women account for 25.1 percent of the employees. Activities to motivate female university graduates and women with other educational backgrounds to join the company will continue to be an important concern, with new measures underway including a planned new mentoring

program. The Group also works to increase the number of women in leadership positions and has increased the number of women at Senior Corporate Management Level.

Health, Environment, Safety & Security (HESS)

NNammo operates in the explosives industry and handles energetic materials. Conditions relating to health, environment, safety and security must always have high priority for 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

15 health, environment, safety and security audits were conducted at Nammo's sites during 2018. These audits are carried out in accordance with a procedure and plan developed by the HESS Director in the Nammo Group every year. In addition, all sites develop an individual plan that includes their respective HESS targets and where improvements are tracked.

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, management organizes a HESS forum gathering the employees responsible for HESS together with representatives from the top management including the CEO.

The overall HESS results from 2018 are on a good level. The Key Performance Indicators (KPIs) demonstrate good improvements in several of the areas measured. Nevertheless, HESS improvement potentials remain, and continuous

improvements in this area will always be a priority.

Among the areas that have seen year-on-year improvements is sick leave, which in 2018 averaged at 3.7 percent. This is a decrease from 2017 (4.6 percent) and demonstrates the effectiveness of already implemented preventive actions. These include workplace improvements, measures to secure a good and healthy working environment, improved protective equipment and physical exercise. Implementing such measures has also received significant management attention.

There has been a 15 percent increase in reporting of dangerous conditions, near-accidents and accidents in 2018. This is an indication of growing ownership and engagement among employees for their own safety. This also generates inspiration for continued efforts into preventive work in all areas, and to maintain 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 related to historically polluted areas at two sites. These are considered to be under control and are being monitored through internal improvement plans and in close coordination with relevant national authorities.

Security

During 2018, particular attention has been given to access control

regulation at site level. Several Nammo locations have improved their general security level in line with national evaluations of risk levels. This enables the sites to provide safer access control as well as respond quicker to security violations. There have been no reports of major security violations during 2018.

IT security risk is a business risk. Nammo continues to experience cyber-attacks as adversaries try to infect computers with malicious software in order to establish invisible remote access into the company's networks. The motivation behind these attempts is in some cases theft of technical data. However, the majority of security incidents are related to fraud, sabotage and extortion.

The company continues to pursue its established strategy to reduce risk by improving technical security, limiting the attack surface and raising awareness levels among the employees. The latter has been achieved by mandatory and continuous e-learning through-out 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 sponsor-ships of areas such as sports, science and culture, with a focus on children and youth.

In recent years, Nammo has placed a significant emphasis on supporting the continued development of a strong and independent trade press, which includes sponsorship of two annual awards for young trade press journalists.

DISTRIBUTION OF DIVIDEND

The Board of Directors proposes to the annual general meeting of shareholders a dividend payment of NOK 120.1 million for 2018. Assuming the proposed dividend, the profit in the parent company Nammo AS will be distributed as follows: dividend NOK 120 million, other equity NOK -51 million, hence a net total of NOK 69 million distributed.

The proposed dividend represents 50 percent of the Nammo Group's net income for the year.

OUTLOOK FOR THE NAMMO GROUP

Nammo is well positioned to grow its market position as several key customers are seeking to gain access to new technologies in order to maximize the effectiveness of weapons, vehicles and aircraft already within their inventories.

Defense spending by the US and its European allies is expected to grow somewhat over the coming years, mainly driven by three factors:

1. The expressed intention by the current US administration to grow its defense budget.
2. Increased US pressure on NATO member nations to meet its commitment of spending 2% of their GDP on defense
3. Changes in the international security situation which has led to European defense budgets levelling off, and in some cases returning to growth.

Historically it has proven very difficult to predict changes in the international security situation that can influence the business environment. This means that a high degree of flexibility and ability to adapt is essential. Nor is it a given that increased defense spending by itself translates into improved prospects for Nammo, as this depends entirely on how the funds are allocated. For example, increases in personnel expenditures and general modernization have limited influence on Nammo's prospects, whereas increased funding investments in training and readiness could potentially do so. Nammo therefore does not rely on increased defense budgets alone for its continued growth. Instead, Nammo is looking to grow the share of the existing market by delivering advanced technologies and products that address future operational priorities.



Norwegian ski jumper Maren Lundby, Olympic Champion, World Champion, and two-time Winner of the ladies ski jumping

BOARD OF DIRECTORS' REPORT 2018

One such operational priority is the transition away from low-intensity deployed operations towards high-intensity operations in support of national or allied defense. This has led to an increased focus on security of supply, as well as acquisition of mortar, artillery and tank ammunition in our Nordic and European markets, as well as in the United States.

More long term, these markets have also expressed an interest in acquiring new ammunition and propulsion technologies in order to boost the combat effectiveness of primary combat systems already in service. This in turn stems partly from the fact that the cost and time required to replace such systems outright continues to grow. Going forward Nammo therefore expects an increased need for the kind of niche technologies that Nammo is well positioned to offer, thanks to long term strategic investments made by the company over the past 10-15 years.

The US market for commercial ammunition is expected to recover from a somewhat soft market in 2018 and the integration of Berger Bullets and the establishment of Capstone Precision Group is expected to bring growth to the Commercial Ammunition Business Unit in the US over the coming years.

Nammo is pursuing opportunities to diversify into new businesses based on special competences and technologies. The company expects to see opportunities for growth in the Space segment, and will capitalize on the recent acquisition of three specialist companies in the UK and Ireland.

Prospects are that the profit improvement initiatives completed and underway, will deliver results already in 2019. This will also improve competitiveness. It will also help generate funds for continued investment in R&D, infrastructure and equipment as well as enabling Nammo to undertake any potential future acquisitions.

Nammo will continue to invest in competence building. Organization development, process excellence and introduction of state of the art tools and systems will be important building blocks for the Nammo of the future.

The Board of Directors expresses its appreciation to all employees for their commitment and dedication during the year. Nammo's prospects are good, and several improvement initiatives launched in 2018 will contribute to securing the interests for Nammo's Customers, Shareholders and Employees.

Ullensaker, 20 March 2019



Dag Schjerven, Chairman of the Board



Ville Jaakonsalo, Vice Chairman of the Board



Dag J. Opedal, Board member



Ingelise Arntsen, Board member



Pasi Niinikoski, Board member



Sirpa-Helena Sormunen, Board member



Marianne Stensrud, Board member



Petri Kontola, Board member



Morten Brandtzæg, President & CEO



The Nucleus, a sounding rocket powered by Nammo's new hybrid rocket motor design, was launched from Andøya Space Center on 27 September 2018.

NAMMO GROUP

INCOME STATEMENT NAMMO GROUP

(NOK 1 000)	Notes	2018	2017 adjusted
Revenue	1	4 919 588	4 462 053
Operating expenses			
Changes in stock of work in progress and finished goods		(121 128)	(50 206)
Changes in self-manufactured fixed assets		(787)	(299)
Cost of goods sold		1 979 771	1 585 385
Payroll expenses	3, 4, 12	1 607 223	1 493 360
Depreciation of tangible and intangible fixed assets	7	182 777	172 292
Other operating expenses		909 449	894 818
Total operating expenses		4 557 305	4 095 350
Operating result		362 283	366 703
Financial income and expenses			
Income from associates and joint ventures - equity method	6	7 917	2 254
Interest income		26 100	17 647
Other financial income	5	12 873	18 472
Interest expenses		(58 757)	(40 264)
Other financial expenses	5	(18 702)	(23 604)
Net financial income (expense)		(30 569)	(25 495)
Profit before tax		331 714	341 208
Income taxes	13	(91 517)	(138 464)
Net income		240 197	202 744

BALANCE SHEET

NAMMO GROUP

NAMMO GROUP

(NOK 1 000)	Notes	As of 31.12.18	Adjusted as of 31.12.17
Assets			
Non-current assets			
Intangible assets			
Deferred tax asset	13	96 534	80 412
Licenses, trademarks and other intangible assets	7	278 083	265 345
Research and development		238 516	278 902
Goodwill	7	215 381	130 788
Total intangible assets		828 514	755 447
Tangible assets			
Buildings	7	354 120	316 033
Land	7	35 330	35 836
Machines and equipment	7	557 695	472 285
Fixtures and fittings, tools, office machinery, etc.	7	97 629	79 760
Plant under construction	7	298 693	295 895
Leased fixed assets	7	65 151	66 028
Total intangible assets		1 408 618	1 265 837
Financial fixed assets			
Shares in joint controlled companies	6	32 905	23 350
Other shares and participations	6	8 222	5 473
Pension assets	12	85 408	64 155
Other receivables	8	12 342	11 465
Total financial fixed assets		138 877	104 443
Total non-current assets		2 376 009	2 125 727
Current assets			
Inventory			
Raw materials		897 811	790 004
Work in progress		1 087 733	861 051
Finished goods		282 757	388 311
Total inventory		2 268 301	2 039 366
Receivables			
Accounts receivable	9	1 022 712	782 904
Other receivables	8	308 226	415 348
Advance payments to suppliers		108 418	83 610
Total receivables		1 439 356	1 281 862
Cash and cash equivalents	10	-	184 749
Total current assets		3 707 657	3 505 977
Total assets		6 083 666	5 631 704

NAMMO GROUP

(NOK 1 000)	Notes	As of 31.12.18	Adjusted as of 31.12.17
Equity and liabilities			
Equity			
Share capital		100 000	100 000
Other paid in capital		258 670	258 670
Other equity		2 328 434	2 178 416
Total equity		2 687 104	2 537 086
Minority interest		912	-
Total equity and minority interest	11	2 688 016	2 537 086
Liabilities			
Non-current liabilities			
Pension liabilities	12	185 933	188 643
Deferred tax liabilities	13	41 198	52 813
Other provisions		1 353	2 431
Total non-current liabilities		228 484	243 887
Other non-current liabilities			
Liabilities to financial institutions	14	1 342 188	1 322 768
Other non-current liabilities		101 900	91 243
Total other non-current liabilities		1 444 088	1 414 011
Current liabilities			
Bank overdraft	10	35 324	-
Warranty provisions		59 826	78 601
Accounts payables		280 162	332 124
Current tax payables	13	55 967	66 007
Public duties		142 622	92 539
Dividend payable		120 100	90 300
Prepayments from customers		725 304	482 867
Other short term liabilities		303 773	294 282
Total current liabilities		1 723 078	1 436 720
Total liabilities		3 395 650	3 094 618
Total equity and liabilities		6 083 666	5 631 704

Ullensaker, 20 March 2019



Dag Schjerven, Chairman of the Board



Ville Jaakonsalo, Vice Chairman of the Board



Dag J. Opedal, Board member



Ingelise Arntsen, Board member



Pasi Niinikoski, Board member



Sirpa-Helena Sormunen, Board member



Marianne Stensrud, Board member



Petri Kontola, Board member



Morten Brandtzæg, President & CEO

CASH FLOW

NAMMO GROUP

(NOK 1 000)

	2018	2017 adjusted
Cash flow from operational activities		
Result before tax	331 714	341 208
Tax payments	(118 728)	(47 865)
Gain and loss on sales of fixed assets	3 800	(93)
Ordinary depreciation	182 777	172 292
Net interest cost	32 657	22 617
Changes in inventory	(186 450)	(95 692)
Changes regarding accounts receivables	(214 259)	(82 817)
Changes regarding accounts payables	(65 950)	79 611
Difference pension costs and paid pension premiums	(14 551)	(274)
Changes in other dispositions	342 168	(212 431)
Net cash flow from operational activities (a)	293 178	176 556
Cash flow from investment activities		
Sale of fixed assets	883	264
Purchase of fixed assets	(306 917)	(298 440)
Sale of long-term investments	-	4 500
Purchase of other long-term investments	(73 254)	(190 595)
Net cash flow from investment activities (b)	(379 288)	(484 271)
Cash flow from financing activities		
Payments received regarding new long-term loans	19 192	201 982
Installments on long-term loans	(30 198)	(9 724)
Net interest payments	(32 657)	(22 617)
Paid dividend	(90 300)	(140 000)
Net cash flow from financing activities (c)	(133 963)	29 641
Net changes in cash and bank accounts (a+b+c)	(220 073)	(278 074)
Cash and bank accounts as of 01.01.	184 749	462 823
Cash and bank accounts as of 31.12.	(35 324)	184 749

Total unused cash credits as of 31 December 2018 is NOK 864.4 million. See note 14.

NAMMO GROUP 2018 - CONSOLIDATED FINANCIAL STATEMENTS

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Notes to the financial statements

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2. Financial market risk
3. Board of directors' statement on management remuneration

4. Employee and management remuneration
5. Financial items
6. Shares in other companies
7. Fixed and intangible assets
8. Other receivables (long and short term)

9. Receivables and losses on bad debts
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13. Income taxes
14. Interest bearing loans and guarantees
15. Acquisition of MAC LLC.

ACCOUNTING POLICIES NAMMO GROUP

GENERAL

The Nammo Group consists of Nammo AS and its subsidiaries. Nammo AS is a public limited liability 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 Nammo AS, directly or indirectly have a controlling interest. 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 equity attribute to equityholders of Nammo AS. Minority interests consist of the

amount of those interests at the acquisition date (see below) and the minority's share of changes in equity since the acquisition date.

FOREIGN CURRENCIES

The individual financial statements of a subsidiary 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 subsidiaries are translated to NOK 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 subsidiaries, 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 are accounted for using the acquisition 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 the 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 assessed 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.

INCOME TAXES

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 taxes are recognized as expense or income in the income statement, except when they relate to items recognized directly in 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. 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.

Cost relating to significant development projects for new technologies, products, tooling etc., which is estimated to give future positive cash flow, is recognized as research and development 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.

NAMMO GROUP

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 net income, 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 recorded 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. Historic cost 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

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, an impairment charge 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

A dividend liability is recognized based on the Board of Directors proposal to be approved 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 income statement over the estimated remaining period of service from the members in the plan.

DEFINED CONTRIBUTION PLANS

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.

WARRANTIES

Provisions for warranties are 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 an assessment of the business Nammo operates in, historical information on actual warranty 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.

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' process, 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 underlying 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 FINANCIAL STATEMENTS

NAMMO GROUP

1. REVENUE

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)	2018	2017
Norway	1 842 286	1 663 309
USA	1 017 141	958 908
Germany	714 113	626 757
Sweden	487 995	427 893
Finland	467 374	522 870
Spain	299 833	215 881
England	70 056	30 852
Ireland	19 385	13 021
Switzerland	1 405	2 562
Total	4 919 588	4 462 053

Revenue per geographical location of customers

(NOK 1 000)	2018	2017
Norway, Sweden and Finland	991 205	799 364
Other Europe	1 415 628	1 299 021
North America	2 002 119	1 818 654
Asia	411 891	348 425
Other countries	98 745	198 589
Total	4 919 588	4 462 053

2. FINANCIAL MARKET RISK

The Nammo Group 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 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 2018:

(Amounts in currency 1 000)

Transaction type	Buy/Sell(-)	CAD	CHF	EUR	GBP	SEK	DKK	USD
FX Forward	Buy	441	1415	32 367	6 999	18 956	-	10 309
	Sell(-)	-	-	(52 388)	(12 690)	(24 186)	(6 048)	(107 787)
FX SWAP	Buy	-	2 172	2 023	-	3 990	-	12 557
	Sell(-)	-	-	(12 190)	(913)	-	-	(41 627)

Maturity FX Forward's and FX SWAP's - percentage allocation based on nominal value in NOK:

Transaction type	Buy/Sell	Year 2019	Year 2020	Year 2021	Later
FX Forward	Buy	95%	5%	-	-
	Sell	65%	30%	5%	-
FX SWAP	Buy	100%	-	-	-
	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 2019, up until the annual general meeting in 2020. The Board of Directors has established an HR (Human Resource) and Compensation Committee which consists of four 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 applying to remuneration of executive management are set by the board. On a yearly basis the HR and Compensation Committee assesses the key principles and standards for the executive management remuneration in Nammo and presents 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.

Corporate management compensation 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 aggregated 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 2018, and a report will be published in 2019. Based on the 2016 survey, the board concluded the following main criteria 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 Norwegian 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.

NAMMO GROUP

Base compensation

Base compensation consists of both 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 is 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 guiding principle that the total pension at the age of 67 years should be 60 percent of the salary at that time, is reflected in the CEO annual pension compensation agreement.

Benefits

Common benefits for comparable positions in the different countries are offered to key management personnel. In Norway, there are no company car arrangements, but such arrangement may occur in other countries. Some top-managers will receive a car-allowance. There are four categories depending on managerial status. There is a car-rental arrangement for transportation from Raufoss to the airport. Managers using this service will have their car-allowance reduced. There are no particular limitations 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 2019, the top-management of Nammo has two main targets; improved operational and financial performance. The performance targets for 2019 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 (10-20 percent of total bonus). Good results over time should yield a 50 percent of individual maximum bonus.

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 that 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 arrangement

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 2018

The executive compensation structure was 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)	2018	2017
Salaries	1 231 802	1 153 341
Employment taxes	107 107	90 427
Pension costs	107 775	103 250
Other personnel costs	160 539	146 342
Total	1 607 223	1 493 360
Average number of man years	2 409	2 217

Remuneration CEO, board of directors and corporate management

(NOK)	Function	Salary	Bonus payment	Other compensation	Pension premium payment	Total
Morten Brandtzæg	President and CEO	5 656 782	285 300	283 203	339 616	6 564 901
Kjell Kringsjå	SVP Business Development	2 252 499	135 005	232 031	328 874	2 948 409
Stein Erik Nodeland	EVP AP from February 2018	1 375 684	-	175 427	210 817	1 761 928
Vegard Sande	EVP LCA	1 949 908	129 611	245 189	228 504	2 553 212
Stein Erik Ommundsen	CFO	1 871 875	30 000	130 620	214 866	2 247 361
Camilla Becker	SVP Human Resources from April 2018	1 092 519	-	54 535	204 800	1 351 854
Bertil Pålrsrud	SVP Business Integration	1 813 679	129 861	200 811	351 322	2 495 673
Sissel Solum	SVP Compliance	1 545 458	88 828	141 261	329 480	2 105 027
Endre Lunde	SVP Communications	1 187 110	-	84 012	125 087	1 396 209
Anne Haugen-Flermoe	SVP Legal	1 332 023	56 517	61 225	203 452	1 653 217
Board of Directors	Board members	2 042 249	-	-	-	2 042 249

All Norwegian corporate management members are included in a collective defined benefit pension plan in Norway. Loan to the CEO had a balance of NOK 113 723 as of 31 December 2018. The loan was repaid in January 2019.

Auditor's fee

All numbers are presented exclusive VAT.

(NOK 1 000)	2018	2017
Group auditors fees	3 850	5 580
Other auditors fees	869	-
Fees for other assurance work	-	245
Tax advisory services	-	1 202
Other services	-	1 613
Total	4 719	8 640

5. FINANCIAL ITEMS

(NOK 1 000)	2018	2017
Gain on exchange	12 840	18 464
Other financial income	33	8
Total other financial income	12 873	18 472
Loss on exchange	(13 702)	(20 411)
Other financial expenses	(5 000)	(3 193)
Total other financial expenses	(18 702)	(23 604)

NAMMO GROUP

6. SHARES IN OTHER COMPANIES

(NOK 1 000)	Company's share capital	Numbers of shares owned	Nominal value	Booked value NOK	Ownership
Joint controlled companies:					
SN Technologies SA, Meyrin, Switzerland	CHF 200 000	100	CHF 100 000	32 905	50%
Total				32 905	
Other shares and participations:					
Komm-In AS, Norway				4 500	8%
Sintef Raufoss Manufacturing AS, Raufoss, Norway				1 302	14%
Raufoss Holding AS, Raufoss, Norway				1 375	2.5%
Nordic Additive Manufacturing, Raufoss, Norway				1 000	21%
Others				45	
Total				8 222	

Joint controlled companies are recognized according to the equity method in the consolidated financial statements. In 2018 the Nammo Group accounted for a share of the net income from SN Technologies SA at NOK 7.9 million.

For information about the Nammo AS subsidiaries, reference is made to Nammo AS' financial statement note 5.

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 01.01.18	654 174	323 139	744 422	46 993	1 872 717	391 742	311 925	4 345 112
Reclassifications	-	-	14 258	-	50 515	3 833	(68 606)	-
Additions during the year	35 163	75 312	41 807	-	152 459	26 277	67 285	398 303
Disposals during the year	(2 308)	(2 745)	(647)	(125)	(19 573)	(6 680)	(4 955)	(37 033)
Exchange difference acq. cost	34 346	20 038	6 542	64	12 140	4 201	9 249	86 580
Acquisition cost 31.12.18	721 375	415 744	806 382	46 932	2 068 258	419 373	314 898	4 792 962
Accum. depreciations 31.12.18	(443 292)	(200 363)	(452 262)	(11 602)	(1 510 563)	(321 744)	(16 205)	(2 956 031)
Book value as of 31.12.18	278 083	215 381	354 120	35 330	557 695	97 629	298 693	1 836 931

Depreciations this year	34 520	(2 143)	25 301	616	105 810	18 673	-	182 777
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Annual leasing cost of assets not recognized in balance sheet	-	-	70 500	14 926	16 184	6 559	-	108 169
Economic life time (years)	1-25	5-10	10-50	-	5-20	3-10	-	-
Depreciation plan	Linear	Linear	Linear	Linear	Linear	Linear	Linear	Linear

The financial leases capitalized in the balance sheet is two lease contracts in Finland.

The leases expires in 2029 and 2032 respectively. Yearly lease cost is NOK 6.7 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 accrued revenue, receivables from employees, VAT receivables and other receivables.

9. RECEIVABLES AND LOSSES ON BAD DEBTS

(NOK 1 000)	2018	2017
Accounts receivables	1 028 037	788 011
Provision for bad debt	(5 325)	(5 107)
Book value of accounts receivables	1 022 712	782 904

No receivables fall due later than 5 years from 31 December 2018.

10. CASH RESERVE

(NOK 1 000)	2018	2017
Cash and cash equivalents	(35 324)	184 749
Unused cash credits	864 394	672 055
Net cash reserve	829 070	856 804

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., Nammo Technologies Inc. and Capstone Precision Group LLC.

Spain: Nammo Palencia S.L.

Ireland: Nammo Ireland Ltd.

UK: Nammo Westcott Ltd. and Nammo Cheltenham Ltd.

All parties participating in the cash pool are mutually liable.

11. EQUITY AND SHAREHOLDERS

(NOK 1 000)	Share capital	Premium fund	Other equity	Minority interest	Total
Reported equity as of 31.12.16	100 000	258 670	2 024 432	-	2 383 102
Adjustment equity 31.12.16 for US tax items	-	-	20 748	-	20 748
Adjusted equity as of 31.12.16	100 000	258 670	2 045 180	-	2 403 850
Reported net income 2017	-	-	180 590	-	180 590
Adjustment net income 2017 for US tax items	-	-	22 154	-	22 154
Proposed dividend shareholders 2017	-	-	(90 300)	-	(90 300)
Other items reported 2017	-	-	(49 924)	-	(49 924)
Adjusted exchange differences 2017	-	-	70 716	-	70 716
Adjusted equity as of 31.12.17	100 000	258 670	2 178 416	-	2 537 086
Profit for the year	-	-	240 197	-	240 197
Proposed dividend to shareholders ¹⁾	-	-	(120 100)	-	(120 100)
Minority share	-	-	-	912	912
Other items	-	-	28 334	-	28 334
Exchange differences	-	-	1 587	-	1 587
Equity as of 31.12.18	100 000	258 670	2 328 434	912	2 688 016

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

Nammo AS shareholders are disclosed in Nammo AS' financial statement, note 7.

NAMMO GROUP

12. PENSION LIABILITY – PENSION COST

The companies with pension arrangements, which provide the employees with the right to defined future pension payments, are included in the calculations of the pension liability (defined benefit plans). The pension liability at 31 December 2018 was NOK 185.9 million, which is derived from the companies in Sweden, Germany and Finland. Pension assets in Norway were 85.4 million at 31 December 2018. The defined benefit plan in Norway has 794 active members, whereas in Sweden there are 129 active members. In addition, contribution pension plans exist in the other countries where we operate.

The total periodic pension costs for both defined benefit plans and defined 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. The assumptions used for the actuary calculations are as follows:

Assumptions	Norway	Sweden
Discount rate	2.30%	2.20%
Yield from pension funds	4.00%	-
Annual salary increase	2.50%	2.50%
Annual increase in G	2.25%	-
Annual increase Income Base amount	-	2.50%
Annual change in pensions	0.40%	-
Inflation	-	2.00%

Pensions costs

(NOK 1 000)	2018	2017
Service costs	70 374	58 254
Amortization of net actuarial losses (gains)	10 001	9 525
Interest costs (income)	218	3 188
Expected return on plan assets	(10 821)	(6 336)
Pension cost related to defined contribution plans	38 003	38 619
Net periodic pension costs	107 775	103 250

Pension liabilities/assets

(NOK 1 000)	2018	2017
Defined benefit obligation incl. social security tax	750 432	717 258
- Fair value of plan assets	(439 870)	(404 441)
Net pension obligation	310 562	312 817
Items not recorded in the profit and loss:		
Unrecognized net actuarial loss (gain)	(210 037)	(188 329)
Net pension liability	100 525	124 488
Classified as pension asset in the balance sheet	85 408	64 155
Classified as pension liabilities in the balance sheet	185 933	188 643

13. INCOME TAXES

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)	2018	2017	Change
Temporary differences:			
Intangible assets	7 580	(34 408)	(41 988)
Fixed assets	(52 572)	(43 908)	8 664
Accounts receivables	7 972	6 341	(1 631)
Inventory	(37 412)	18 233	55 645
Pension liabilities	37 429	14 584	(22 845)
Warranty liabilities	(46 080)	(56 220)	(10 140)
Financial non-current temporary differences	103 391	85 490	(17 901)
Other non-current temporary differences	(41 490)	(25 387)	16 103
Other current temporary differences	(28 819)	73 770	102 589
Temporary differences	(50 001)	38 495	88 496
Carried forward losses for tax purposes	(296 995)	(358 001)	
Total temporary differences	(346 996)	(319 506)	
Gross deferred tax / deferred tax assets (-)	(98 124)	(79 011)	
Deferred tax assets not recognized in the balance sheet	42 788	51 412	
Net deferred tax liability/deferred tax asset (-)	(55 336)	(27 599)	
Classified as deferred tax asset	96 534	80 412	
Deferred tax liability in the balance sheet	41 198	52 813	

NAMMO GROUP

Payable income taxes

(NOK 1 000)	2018
Net income before tax	331 714
Changes in temporary differences	88 496
Exchange differences temporary differences	(43 638)
Permanent differences	952
Use of carried forward losses	(27 678)
Taxable income	349 846
Payable income tax	105 037

Tax expenses in profit and loss

Payable tax on this year's result	105 817
Adjustments prior years	(780)
Payable tax in this year's tax cost	105 037
Change in deferred tax / deferred tax asset	(11 546)
Other items	(1 974)
Tax expense in the P&L	91 517

Payable tax in the balance sheet

Payable taxes	111 390
Prepaid taxes	(55 470)
Other items	47
Payable tax in balance sheet	55 967

14. INTEREST BEARING LOANS, AVAILABLE CASH CREDITS AND GUARANTEES

(NOK 1 000)	2018	2017
Total interest bearing loans	1 342 188	1 322 768

Nammo AS long term loans from credit institutions per 31 December 2018:

(NOK 1 000)	Final maturity date	Facility total	Utilized	Available
Term loan facility, EUR 98.1 millions	19 September 2021	976 177	976 177	-
Revolving credit facility, NOK 1 000 millions	6 December 2021	1 000 000	338 852	661 148

Available unused cash credits at 31 December 2018:

(NOK 1 000)	Cash credit
Revolving credit facility	661 148
Additional cash credits available	203 246
Total unused cash credits at year-end	864 394

The financial covenants related to the long term loans from credit institution are:

- Net debt to EBITDA maximum 4.0, and
- Total Equity to Total assets, minimum at 30%

At December 31, 2018 there are no default related to the financial covenants.

Guarantees:

Guarantees not recognized in the balance sheet as of 31 December 2018 is NOK 422.1 million.

15. ACQUISITION OF MAC LLC

Nammo Technologies Inc. acquired 55 % of the membership interests in MAC LLC. during 2018. 45% as acquired in January 2018, while the last 10 % was acquired in mid-December 2018. After the purchase of the last 10 % in December 2018, Nammo have a controlling interest in MAC LLC.

The total purchase price for 55% of the membership interests were USD 8 880 840. The excess value of USD 8.7 million (NOK 75.3 million) is allocated to goodwill in the Nammo Group balance sheet.

NAMMO AS

INCOME STATEMENT NAMMO AS

(NOK 1 000)	Notes	2018	2017
Revenue	1	100 650	91 572
Operating expenses			
Payroll expenses	2	54 805	44 938
Depreciation of tangible and intangible fixed assets	4	477	364
Other operating expenses		76 560	73 888
Total operating expenses		131 842	119 190
Operating profit		(31 192)	(27 618)
Financial income and expenses			
Received group contribution		100 000	100 000
Interest income	3	50 773	41 265
Other financial income	3	71 375	-
Interest expenses	3	(32 449)	(22 710)
Other financial expenses	3, 14	(64 970)	(132 902)
Net financial income (expense)		124 729	(14 347)
Profit before tax		93 537	(41 965)
Income taxes	11	(24 406)	(1 182)
Net income		69 131	(43 147)
The board's proposal for allocation of the profit			
Dividend		120 100	90 300
Other equity		(50 969)	(133 447)
Total		69 131	(43 147)

BALANCE SHEET

NAMMO AS

(NOK 1 000)

	Notes	As of 31.12.18	As of 31.12.17
Assets			
Non-current assets			
Tangible assets			
Buildings	4	59	-
Machines and equipment	4	99	33
Fixtures and fittings, tools, office machinery, etc.	4	4 010	950
Total tangible assets	4	4 168	983
Financial assets			
Investments in subsidiariess	5	609 365	609 365
Investments in other shares and participations		1 375	1 375
Loans to group companies		1 013 293	901 484
Pension assets	10	3 157	2 325
Other receivables		2 547	2 379
Total financial assets		1 629 737	1 516 927
Total non-current assets		1 633 905	1 517 910
Current assets			
Receivables			
Accounts receivable	6	568	-
Receivables from group companies	13	644 426	566 970
Receivable group contributions		100 000	100 000
Prepayments to vendors		5 378	5 902
Other receivables		8 532	6 615
Total receivables		758 904	679 487
Cash and cash equivalent s	7, 13	-	120 596
Total current assets		758 904	800 083
Total assets		2 392 809	2 317 993

BALANCE SHEET

NAMMO AS

(NOK 1 000)

	Notes	As of 31.12.18	As of 31.12.17
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	443 436	494 403
Total earned equity		443 436	494 403
Total equity		802 106	853 073
Liabilities			
Non-current liabilities			
Deferred tax	11	23 130	19 524
Total non-current liabilities		23 130	19 524
Other non-current liabilities			
Liabilities to financial institutions	12	1 315 029	1 304 026
Total other non-current liabilities		1 315 029	1 304 026
Current liabilities			
Bank overdraft	7	87 121	-
Accounts payables		5 256	8 021
Payables to group companies		8 014	9 288
Income tax payable	11	20 773	25 153
Public duties payable		4 486	3 743
Dividend payable to shareholders		120 100	90 300
Other current liabilities		6 794	4 865
Total current liabilities		252 544	141 370
Total liabilities		1 590 703	1 464 920
Total equity and liabilities		2 392 809	2 317 993

Ullensaker, 20 March 2019



Dag Schjerven, Chairman of the Board



Ville Jaakonsalo, Vice Chairman of the Board



Dag J. Opedal, Board member



Ingelise Arntsen, Board member



Pasi Niinikoski, Board member



Sirpa-Helena Sormunen, Board member



Marianne Stensrud, Board member



Petri Kontola, Board member



Morten Brandtzæg, President & CEO

CASH FLOW

NAMMO AS

(NOK 1 000)

	2018	2017
Cash flow from operational activities		
Result before tax	93 537	(41 965)
Tax payments	(25 181)	(3 230)
Ordinary depreciation	477	364
Changes in accounts receivable	19 604	(11 458)
Changes in accounts payable	(4 039)	10 359
Pension cost less paid pension premium	(831)	(229)
Changes in loans to group companies	(111 809)	(150 189)
Changes in other dispositions	(185 964)	(214 969)
Net cash flow from operational activities (a)	(214 206)	(411 317)
Cash flow from investment activities		
Investments in financial fixed assets	-	(16 660)
Investments in fixed assets	(3 662)	-
Net cash flow from investment activities (b)	(3 662)	(16 660)
Cash flow from financing activities		
Payments from new long-term loans	-	201 777
Installments long term loans	(18 702)	-
Received dividend	19 153	-
Received group contribution	100 000	90 000
Paid dividend	(90 300)	(140 000)
Net cash flow from financing activities (c)	10 151	151 777
Net changes in cash and bank accounts (a+b+c)	(207 717)	(276 200)
Cash and bank accounts as of 01.01.	120 596	396 796
Cash and bank accounts as of 31.12.	(87 121)	120 596

Unused credit facilities is NOK 864.4 million. See note 12.

NAMMO AS 2018 - FINANCIAL STATEMENTS CONTENT NOTES

Accounting policies Nammo AS
Notes to the financial statements

1. Related party transactions and revenue
2. Salaries and social cost

3. Financial items
4. Fixed and intangible assets
5. Shares in other companies
6. Accounts receivables
7. Cash reserve
8. Share capital
9. Equity

10. Pension liability and pension costs
11. Income taxes
12. Interest bearing loans and guarantees
13. Cash pool
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 and that do not qualify for hedge accounting, are included in net income.

REVENUE RECOGNITION

Revenues are mainly sale of Group services to other Group companies. 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 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.

INCOME TAXES

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 taxes are recognized as expense or income in the income statement, except when they relate to items recognized directly in 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. 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.

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

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, an impairment charge 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

A dividend liability is recognized based on the board of directors proposal to be approved by the annual general meeting.

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 income statement 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 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 cost including transaction costs. are included in net income.

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 income statement in the same period as the hedged transaction is recognized (hedge accounting).

NAMMO AS

NOTES TO THE ACCOUNTS

NAMMO AS

1. RELATED PARTY TRANSACTIONS AND REVENUE

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

Revenue:

(NOK 1 000)	2018	2017
Management service fee group companies	95 862	87 104
Other	4 788	4 468
Total	100 650	91 572

2. SALARIES AND SOCIAL COST

(NOK 1 000)	2018	2017
Salaries	39 816	33 026
Employment taxes	5 384	4 832
Pension costs	4 399	3 516
Other social costs	5 206	3 564
Total	54 805	44 938
Average number of man-years	18	17

For details about the remuneration to the CEO and the Board of Directors, refer to note 4 in the Group financial statements.

Auditor's fee

(NOK 1 000) All numbers are presented exclusive VAT	2018	2017
Auditor's fee	272	575
Other services	-	124
Total	272	699

3. FINANCIAL ITEMS

(NOK 1 000)	2018	2017
Interest income from group companies	33 851	27 436
Other interest income	16 922	13 829
Total interest income	50 773	41 265
Gain on exchange	52 222	-
Dividend from group companies	19 153	-
Total other financial income	71 375	-
Other interest cost	(32 449)	(22 710)
Total interest cost	(32 449)	(22 710)
Loss on exchange	(28 356)	(80 609)
Write-down receivable Nammo Buck GmbH, see note 14	(33 387)	(50 036)
Other financial expenses	(3 227)	(2 255)
Total other financial expenses	(64 970)	(132 902)

4. FIXED AND INTANGIBLE ASSETS

(NOK 1 000)	Buildings	Machines and equipment	Fixtures, fittings and office equipment	Total
Acquisition cost as of 01.01.18	845	606	7 054	8 505
Additions during the year	67	88	3 507	3 662
Acquisition cost as of 31.12.18	912	694	10 561	12 167
Accumulated depreciations 31.12.18	(853)	(595)	(6 551)	(7 999)
Book value as of 31.12.18	59	99	4 010	4 168
Ordinary depreciations for the year	8	22	447	477
Annual leasing cost on assets not in the balance sheet	1 010	42	36	1 088
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)	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	-	-	239 983	100%
Nammo NAD AS, Løkken Verk	NOK 4 782 000	23 910	2 391	8 136	100%
Nammo Polska SP. Z. O. O, Warsaw	PLN 50 000	1 000	50	108	100%
Nammo India Ltd, New Delhi	INR 100 000	10 000	100	12	100%
Nammo UK Holding Ltd., Westcott	-	-	-	-	100%
Nammo Ireland Ltd., Dublin	EUR 476 250	375 000	476 250	21 159	100%
Nammo Technologies Inc., Virginia	-	-	-	-	100%
Total				609 365	

6. ACCOUNTS RECEIVABLES

(NOK 1 000)	2018	2017
Accounts receivables	568	-

Accounts receivable are booked at nominal value. There has been no loss on accounts receivable in 2018.

7. CASH RESERVE

Cash is reduced with the draw that the group companies has in the international cash pool of NOK 621.8 million. This is classified as receivables from group companies. Refer to note 13. Net cash is negative and presented as bank overdraft as part of current liabilities in the balance sheet.

NAMMO AS

8. SHARE CAPITAL

As of 31 December 2018, 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 2018:

(NOK 1 000)	Number of shareholders	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	Other paid in capital	Other equity	Total
Equity as of 01.01.18	100 000	258 670	494 403	853 073
Net income	-	-	69 131	69 131
Dividend *)	-	-	(120 100)	(120 100)
Other items	-	-	2	2
Equity as of 31.12.18	100 000	258 670	443 436	802 106

*) Board of directors proposal for the annual general meeting

10. PENSION LIABILITY AND 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 2018 with the following assumptions:

Yield from pension funds	4.00%
Interest rate used to discount future cash flows	2.30%
Annual salary increase	2.50%
Annual increase in G	2.25%
Annual change in pension	0.40%

Pension cost

(NOK 1 000)	2018	2017
Service costs	4 412	2 632
Amortization of net actuarial losses (gains)	756	1 010
Interest costs	22	276
Expected return on plan assets	(791)	(402)
Net pension cost	4 399	3 516

Pension liabilities

(NOK 1 000)	2018	2017
Defined benefit obligation incl. payroll tax	40 912	38 411
- Fair value of plan assets	(31 086)	(29 030)
Gross pension liability	9 826	9 381
Items not recognized in the profit and loss:		
Unrecognized net actuarial loss (gain)	(12 983)	(11 706)
Net amount recognized in the balance sheet	(3 157)	(2 325)

11. INCOME TAXES**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)	2018	2017
Profit before tax	93 537	(41 965)
Permanent differences	17 025	54 981
Changes in temporary differences	(20 251)	96 343
Taxable income	90 311	109 359

Specification of the tax cost in the profit and loss:

Tax payable	20 773	25 153
Changes in deferred tax	3 606	(23 971)
Adjustment previous period	27	-
This year's tax cost	24 406	1 182

Explanation to why the tax cost is not 23% of profit before tax:

Profit before tax	93 537
23 % of profit before tax	21 514
23 % of permanent differences	3 915
Adjustment last year	27
Effect of change in tax rate	(1 050)
Calculated tax cost	24 406
Effective tax rate	26.1 %

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)	2018	2017
Tangible fixed assets	(67)	(1 111)
Financial fixed asset	102 346	83 971
Accounts receivables	(300)	(300)
Pension liability/asset	3 157	2 325
Net temporary differences as basis for deferred tax /tax asset (-)	105 136	84 885
Deferred tax/deferred tax asset (-)	23 130	19 524

NAMMO AS

12. INTEREST BEARING LOANS AND GUARANTEES SHARE CAPITAL

(NOK 1 000)	2018	2017
Total interest bearing loans	1 315 029	1 304 026

Nammo AS long term loans from credit institutions as of 31 December, 2018 consist of:

(NOK 1 000)	Final maturity date	Facility total	Utilized	Available
Term loan facility, EUR 98.1 millions	19 September 2021	976 177	976 177	-
Revolving credit facility, NOK 1 000 millions	6 December 2021	1 000 000	338 852	661 148

Available unused cash credits at 31 December 2018:

(NOK 1 000)	Cash credits
Revolving credit facility	661 148
Additional cash credits available	203 246
Total unused cash credits at year-end	864 394

The financial covenants related to the long term loans from credit institution are:

- Net Debt to EBITDA maximum 4.0, and
- Total Equity to Total assets, minimum at 30%

At December 31, 2018 there are no default related to the financial covenants.

Guarantees:

Guarantees not recognized in the balance sheet as of 31 December 2018 is NOK 417.2 million.

13. CASH POOL

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., Nammo Technologies 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 621.8 million. See note 7.

14. IMPAIRMENT INVESTMENT IN SUBSIDIARY

At 31 December, 2018 Nammo AS had a cash credit receivable towards our subsidiary Nammo Buck GmbH at a total of NOK 83.5 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 (of which NOK 50 million was written off in 2017). 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.

AUDITOR'S REPORT



Building a better
working world

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Nammo AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Nammo AS, which comprise the financial statements for the parent company and the Group. The financial statements for the parent company and the Group comprise the balance sheets as at 31 December 2018, the income statement and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2018 and their financial performance and 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 in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations 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.

Other matters

The financial statements for the Company for the year ended 31 December 2017, were audited by another auditor who expressed an unmodified opinion on those statements on 20 March 2018.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. 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 management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the



preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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 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 the 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 law, regulations and generally accepted auditing principles 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, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- ▶ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 proposal for the allocation of the result 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 ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 20 March 2019
ERNST & YOUNG AS

Anders Gøbel
State Authorized Public Accountant (Norway)

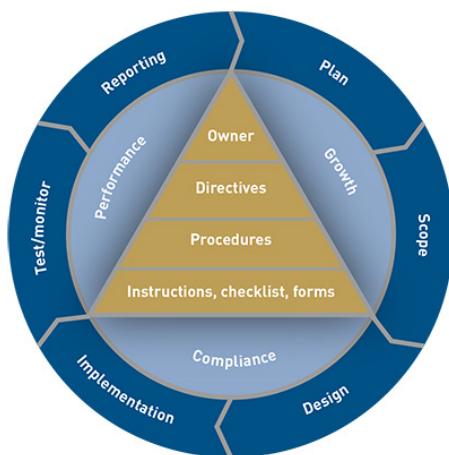
(This translation from Norwegian has been made for information purposes only.)

CORPORATE GOVERNANCE

INTRODUCTION

Nammo AS is a limited liability company established under Norwegian law, with a governance structure based on the Norwegian Limited Liability Companies Act (Aksjeloven) and similar laws in the other countries where we operate. 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 the NMS 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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