

2019

# Annual Report



**Nammo**  
SECURING THE FUTURE

# SECURING THE FUTURE

These are indeed extraordinary times – both for the world and for Nammo. It is nevertheless with great pride that I present the Annual Report for the Nammo Group. Despite facing a series of unexpected events last year, and now finding ourselves immersed in the greatest public health crisis of a century, we have managed to improve, develop and grow both ourselves and the products and services we offer our customers.

My greatest point of pride, as always, is in our employees. Our engineers have found solutions to challenges that have confounded our competitors for decades. Leaders have stepped up to help drive necessary organizational change, and you will hear from two of them in this report. And as always, our manufacturing personnel have delivered quality and value with the dedication, precision and care that we seek to embody in everything we do.

I am also proud of what we continue to deliver to our customers. Whether improved versions of systems that have been essential to our common security for a generation, or new designs that will do the same for

years to come, we are today offering a wider, more robust and more sophisticated range of products than ever before in our company's history. We are truly one of the world's leading providers of specialty ammunition and rocket motors for both military and civilian customers, and we will do all that we can to maintain that position going forward.

Doing so, however, will require us to maintain our relentless focus on costs and profits, as it is the only way we will be able to continue our investment in the people, the processes and the products that has made Nammo what it is today. Rooting out inefficiencies, streamlining our organization, and training our people – that is how we will ensure that we remain successful going forward.

Though our 2019 results were heavily influenced by unexpected and therefore unbudgeted events, our underlying numbers still must and will get better. Our company is however in a far better position to do so at the beginning of this year than the last, and while we still do not know the full extent of the impact of the Corona-virus on our operations, we do know that our efforts to improve Nammo continue. Our commitment is to deliver a truly reliable advantage – both today and tomorrow – and in this, we will not fail.

**Morten Brandtzæg**  
PRESIDENT & CEO



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## NAMMO GROUP

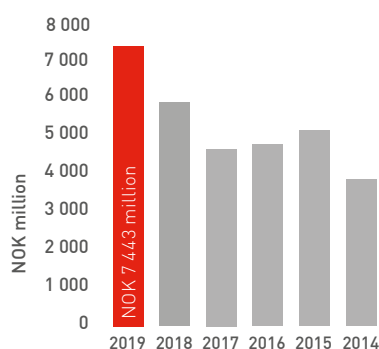
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## NAMMO AS

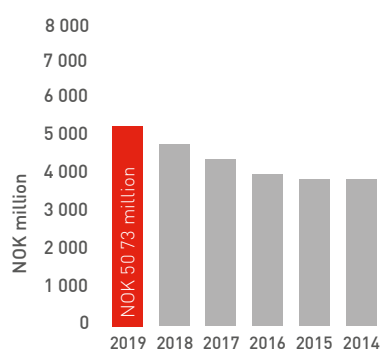
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# Key figures

## ORDER STOCK



## REVENUE



## SALES PER REGION



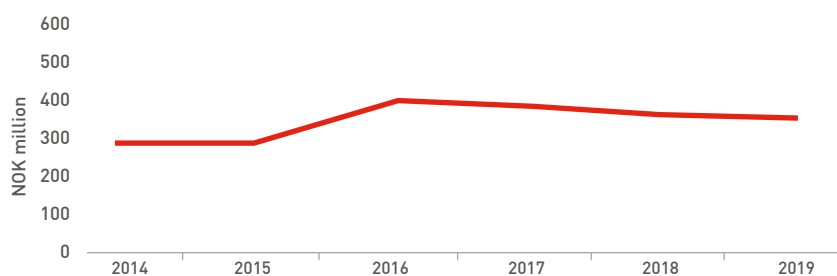
**23 %** NORDIC COUNTRIES

**26 %** REST OF EUROPE

**44 %** NORTH AMERICA

**7 %** OTHER

## EARNINGS BEFORE INTEREST AND TAX (EBIT)



(NOK MILLION)

	2019	2018	2017	2016	2015	2014
Order Stock	7 443	5 813	4 645	4 767	5 130	3 853
Revenue	5 073	4 920	4 462	4 132	3 783	3 718
Earnings Before Interest and Tax (EBIT)	352	362	367	384	284	286
Total Assets	6 229	6 083	5 632	5 050	4 641	4 011
Total Equity	2 776	2 688	2 537	2 383	2 329	2 069
Average Man Years	2 377	2 409	2 217	2 102	2 088	2 160
Return on Sales (ROS)	6.0%	6.8%	7.6%	9.3%	7.2%	7.5%

# RAUFOSS MADE NEW

**As Nammo's operations at Raufoss have developed, they have also become more diverse, with new offices and teams created to support new products and customers. In 2019, Nammo initiated a reorganization process to streamline operations at its largest site. Trine Tafjord took on the challenge of leading Raufoss' new integrated contracting office.**

She describes the move to the new organization as something that challenged both ways of thinking and day-to-day routines.

– The essential point has been to combine similar functions and to build stronger internal professional communities. Where we used to have smaller groups of contract managers, planners, purchasers and so on, spread across different business units, they are now gathered in one department covering all of the functions.

In order to achieve the goal of larger, stronger and more efficient units, Raufoss has now consolidated its operations into two main pillars – Operations and R&D, each headed by their own Vice President.

*– Is this one of the most significant reorganizations at Raufoss?*

– My impression is that this represents one of the biggest changes in recent years and it has affected the daily lives of a lot of people. An added factor here is the fact that Raufoss has seen significant growth over the last decades, and after shaking things up through this reorganization, many employees have both new functions and new reporting lines, with both employees and managers having never worked together in the past.

As leader of the contract office, Tafjord's primary mission was to guide her unit through this process. The staff in her department were among the first who pulled out of their old units, and into the new structure and asked to change both processes and mindsets.

– We had to work in parallel, both to define our new team, and to adapt into the new organization. It has been a demanding and challenging process with a lot of moving parts. As a leader, it has been important for me to keep focused on the goal, and to facilitate a smooth as possible transition period for the employees. As a department that is deeply involved in many of the core processes, the overall organization at Raufoss remains highly dependent on our success.

Tafjord says that the move towards a new organization was also driven by factors outside Nammo. The company operates in a business where expectations from customers and stakeholders have been steadily rising for years. In parallel, the regulatory regimes have become even more demanding. A lot more is required to keep the wheels turning today, compared to even just a few years ago.

– These changes have increasingly affected our business, and we ended up at a point where we needed to act. We had to adapt the way we operate to remain competitive and

to be in front when conditions change. With the new structure, I believe we can cultivate groups that are more robust and where knowledge and expertise is emphasized. We are also hoping to see new forms of synergies as this kind of structure more naturally facilitates sharing of knowledge and experience across different units.


– Our main goal overall is to build a stronger organization for the future. Some of the projects we run last for decades. That means we have to build structures that can handle challenging tasks and dynamic surroundings, both technically and administratively.

While Tafjord has been an enthusiastic supporter of the changes, she is also conscious of the challenges they represent. In her view, a major reorganization such as the one seen at Raufoss is more about changing how people work and communicate than writing new org-charts and lines of control.

– I actually see large changes in an organization as challenging and a threat in themselves, if not managed properly. Human beings, as a species, generally seem to prefer the world as it is. For most of us, it takes a certain degree of persuasion to accept that change is needed and to complete what is required from every one of us for the change to happen. This is especially true in cases where you already have some parts, units or structures that are functioning well. You then risk that change only happens on paper, but nothing happens in reality.

## NAMMO RAUFOSS AS

First established in 1896 as Rødfos Patronfabrik og Krudtverk (Cartridge factory and powder works). Located 120 km north of Oslo, it today employs more than 700 engineers and manufacturing personnel, delivering everything from medium and large caliber ammunition to shoulder fired systems and rocket motors. It is also home to large test facilities and Nammo's corporate HQ.

A portrait of Trine Tafjord, a woman with long, wavy brown hair and blue eyes, smiling. She is wearing a black and white patterned top. The background is a blurred office setting.

I believe this is a danger in any change process. To be successful, we need the employees to see, understand and accept the need for change. To achieve that, I believe information and communication are important keywords. There is always room for improvement when it comes to information and communication in an organization, including Nammo.

*– What would you say about your status right now?*

– Reorganization processes take time! When you finally have all the boxes well placed in the new organizational chart, the real work begins. You will not be successful by just moving boxes. A reorganization is so much more than that! You always need to put a lot of effort into working with infrastructure, people and cultures. I think that the effort needed to successfully merge different workplace cultures and to build new ones are often underestimated. Although, I do believe we are on the right track and well on our way to define the new steady state of the organization.

As Director of Contracts & Pricing, Trine Tafjord had a key role in the reorganization of Nammo Raufoss

# BUILDING A STRONGER NAMMO IN THE US

**Until last year, Nammo's operations in the US were run through five different legal units spanning eight locations, a result of years of expansion and acquisitions. A change had to be made, and as a result Gary Goodwin now leads a process aimed at consolidating, simplifying and improving the effectiveness of Nammo's US operations under one name: Nammo Defense Systems Inc., or NDS.**

– We have such a rich history between all of our sites and some very impressive legacy products, and being able to combine all of these products under one umbrella only strengthens our position. We can now pull common resources and spread common processes within all Nammo's US companies, which again makes us a much stronger company. With regards to new product development, being able to use best practices from all Nammo US companies will help us produce better products quicker.

*– You seem quite optimistic here – how would you describe the strengths of the new company?*

– Our strengths definitely lie in our ability to develop and produce products quickly and affordably. We have some very high technological abilities throughout the company, especially with regards to our propellant capabilities.

– We are providing groundbreaking components and systems for the military that will support evolving ammunition needs for the foreseeable future.

Gary is also confident in the skill of the employees of NDS, and takes great pride in his colleagues.

– I would say that our core strength in this new company is 100% the people that work here. Our people are our greatest assets and without them, none of the great things that we are working on happens, and we should never allow ourselves to forget it!

As NDS develops, the strength of the new organization will also allow Goodwin to focus on supporting the overall development for Nammo's operations in the US.

– My role is more of a strategic role and one that sets the tone. I hope to be able to guide the company into a better future and I know that everyone is looking at me for direction. I think my role will definitely change as we get more settled. Right now, I am directly involved in the day-to-day activities to make sure that everything is moving in the right direction.

– I believe that in the near future I will step back and take a more strategic and hands-off approach because the people here are definitely more than capable of doing their job.

*– In what respects will customers notice any changes from the creation of NDS?*

– The customer should see a more focused and enhanced company. In 2019 Nammo had eight different entities reaching into the customer pool. We are now moving towards having only two, one for defense and one commercial. The customer, particularly at a higher level, should begin noticing a difference in terms of moving towards single points of contact and quicker response times. The customer at a more technical level should really see no difference as they will still be interacting with the same people as they did in 2019, and receiving equal, or hopefully even better levels of service.

And while Gary is optimistic about the outlook for Nammo Defense Systems, he acknowledges that there are challenges. At the time of writing, the coronavirus is still having serious consequences for businesses in a lot of countries, including the US. The NDS President accordingly sees external factors as the greatest risks to his organization.

## NAMMO DEFENSE SYSTEMS

Nammo Defense Systems Inc (NDS) is Nammo's integrated defense manufacturing organization in the United States, headquartered in Mesa, AZ. Nammo Defense Systems develops, manufactures and assembles niche military and commercial ammunition, as well as shoulder fired systems, range extension rocket motor grains, CAD/PAD systems and large rocket motors.

- Of course I have worries. I think if you ever come across a president or any leader and they tell you that they have no worries, they are either lying to you or they are oblivious to the world around them. But my main fears are external - there are many things that are out of our control. My main concern these days is the COVID-19 pandemic. We are living in strange times and are in uncharted waters. Still, I have complete confidence in the people within NDS and from what I have witnessed in the last few months, I have good reason to be optimistic!



President of Nammo Defense Systems Inc.  
Gary Goodwin

# BOARD OF DIRECTORS' REPORT 2019

Nammo 2019 proved to be a year of contrasts for Nammo. It was a year when the Group set new records in revenues, order intake and order stock, further strengthening its position as a key provider in several of its core markets with strong expectations for future growth. However, in 2019 Nammo took additional reorganization costs to improve future profitability and incurred significant costs related to one-off loss contracts and write-downs, both of which impacted the financial performance of the Nammo Group for 2019.

Going forward, Nammo will maintain its focus on improved profitability, thereby securing the financial resources necessary to exploit the major opportunities successfully developed through decades of investments in competence and technology.

Net income of the year amounted to NOK 192 million, compared to NOK 240 million in 2018. Costs incurred in 2019 from continued restructuring and transformation initiatives are expected to yield improved profitability in the coming years.

The Board of Directors will propose an ordinary dividend of NOK 95.4 million (NOK 120.1 million) at the annual general meeting. The order backlog stood at a record high NOK 7 443 million (5 813) 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 maintains its position as the largest independent provider of specialty munitions and rocket motors within NATO, a position established through more than 20 years of growth, investment and close collaboration with partners and customers. This position both enables and obligates Nammo to play a key role in securing the future of its customers by providing them with a truly reliable advantage in the face of current and future challenges.

In 2019 Nammo continued its efforts in pursuit of this role. In June the company signed a historic framework agreement for ammunition supplies with the Norwegian Armed Forces, which in turn included a commitment to support Norway's long-term security of supply. During the year it also signed several development agreements to develop new propulsion solutions for artillery and missiles, supporting its customers' requirements. And crucially, Nammo announced new major investments in facilities and equipment in the United States, allowing Nammo's future consolidated US defense manufacturing company, Nammo Defense Systems Inc. to play an even greater role in delivering niche capabilities to the US Armed Forces.

## STRATEGY FOR PROFITABLE GROWTH

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

The group's strategy remains unchanged: to achieve profitable growth in the US, Europe and the Nordic markets. This strategy has been validated by the continued growth in revenues and order intake, demonstrating that Nammo's products and technologies are in high demand.

Continued profitability improvements remains a top priority for Nammo. These are essential for Nammo to maintain its position as a high-end niche provider in a highly regulated market, addressing some of the world's most demanding government customers. Consequently, Nammo will maintain an unrelenting focus on cost control and operational improvements, in order to maximize funds for continued investments in competence, technology and quality.

## OPERATIONS

Nammo's revenues and order intakes reached all-time high levels in 2019, though profitability is behind both expectations and future needs. Nammo therefore remains committed to continuing its efforts to improve long-term profitability.

The one-off costs seen in 2019 were caused by a multitude of factors, including delayed deliveries,



manufacturing errors, contractual issues and additional internal restructuring costs. Given Nammo's market position, with large, highly regulated government contracts and very strict performance requirements, these kinds of losses are not unheard of, and are in many ways inherent to the company's overall risk environment. However, with a magnitude of more than NOK 100 million, the total one-off costs incurred in 2019 is highly unusual. A significant part of the one-off losses are related to operational issues, and steps have already been taken to address these.

Regardless of cause, the one-off costs demonstrate the importance of Nammo's continued efforts to improve its operational performance, both in pursuit of profitability improvements as well as improved operations and risk reduction. Examples of such improvements carried out, or continued, in 2019 include:

- Reorganization of the operations at Nammo Raufoss AS in Norway.
- Continued reorganization of Nammo Sweden AB including closing-down of the activities in Lindesberg, improvements at the Karlskoga site, as well as building up new production capabilities in Vingåker.
- Activities to prepare for a merger and implementation of common processes and systems for all Nammo US-based Nammo defense manufacturing facilities under Nammo Defense Systems Inc. A new President is also appointed for the company.
- Focusing Group management resources on increased operational control and efficiency, including the appointment of a Chief Operations Officer from February 2020.

In addition to the aforementioned improvements in 2019, Nammo has already implemented several improvements aimed at improved profitability and operational control, including a reduction in the number of business units from 6 to 4, and a reduction in the number of legal entities. Other measures includes training and group-wide implementation of Lean 6Sigma across the organization as the Group's methodology for continuous improvement. It is expected that these measures combined will contribute to improvements in Nammo Group profitability going forward.

In parallel with improvements in operations and profitability, Nammo continues to invest in infrastructure and equipment, most notably in the United States. In 2019 Nammo announced its intention to invest up to USD 18 million in new infrastructure at its facilities in Mesa, Arizona, to support the delivery of base bleed and rocket assist units for the US Army artillery munitions, investments that are necessary to support planned requirements over the coming decade.

## 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.

## Operating profit and profitability

Nammo reported revenues of NOK 5 073 million in 2019 (4 920), which is 3.1 % higher than 2018. The largest single market for Nammo is the US, which represented 42 % of total Nammo revenues in 2019 vs. 39% in 2018. Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) ended at NOK 617 million (545). The accounts for 2019 include NOK 108 million in operating losses related to loss contracts, as well as write-down for impairment in inventory and fixed assets of NOK 31 million. Net financial expenses were NOK 47 million in 2019 (31) and 2019. Profit for the year was NOK 192 million in 2019 (240).

## Cash flow and liquidity

Nammo's net cash flow from operating activities in 2019 was NOK 498 million (293) while the net cash flow from investment activities was NOK -281 million (-379). The main improvement from last year is that Nammo in 2018 paid for the acquisition of 55 % of shares in MAC of NOK -71 million, which did not re-occur in 2019. The 2019 net cash flow from financing activities amounted to NOK -247 million (-134). The largest contributor to the deterioration was installments paid on the Term Loan Facility and paid dividend. The net cash position was MNOK -66 million on 31 December 2019 (-35). Nammo had unutilized credit facilities of NOK 868 million (864) measured at the exchange rates on 31 December 2019. In December Nammo extended the maturity date for its revolving multicurrency credit facility with SEB to December 2022. In spite of the 2019 cash flow

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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. 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 6 229 million at the end of 2019 (6 084). Net working capital, excluding cash, was NOK 2 013 million (2 020), while equity was NOK 2 776 million (2 688). Total liabilities were NOK 3 453 million (3 395) at 31 December 2019 and the equity ratio ended at 45 percent in 2019 (44 percent). The return on capital employed was 9.4 percent (10.5 percent). Total interest-bearing debt to financial institutions amounted to NOK 1 249 million (1 342) at 31 December 2019.

### RISK FACTORS

Nammo operates in a global market characterized by a potential for unexpected and rapid shifts in political stability and security environment, 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 military and commercial ammunition markets. The fact that Nammo operates through four business units, each within a number of different segments, and a large range of products, is regarded as an advantage, as it spreads

the risk over a broad platform of business 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 materials. Finally, procedures have been implemented to secure deliveries of critical raw materials and key components from suppliers.

#### Financial risk

Nammo has established policies 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 with the long-term debt financing as the hedging instrument.

**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 through both of the above.

**Credit risk:** Nammo's customers are mainly national defense ministries, armed forces 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.

Nammo has zero tolerance for corruption and runs training programs aimed at a continuously strengthening the understanding

of ethics and compliance within the company, ref. Nammo Group Ethical Code of Conduct.

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. Nammo's license to operate is dependent on its compliance with strict national export regulations. Failure to do so represents a significant risk to company reputation, and thereby its business. Nammo maintains internal management systems to support the various quality 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 to develop and produce high quality defense products to support and protect national and allied forces.

Nammo assumes its corporate social responsibility through its business operations and legal entities with a strong emphasis on minimizing effects on the environment from the operations, ethical business behavior and social responsibility in the local communities surrounding its facilities. Nammo is committed to ensuring compliance with human and labor rights in all operational sites and prevent its business from having any negative effect on the local environments.

Nammo's suppliers are expected to comply with Nammo Supplier Conduct Principles. These principles along with the Modern Slavery Act Statement supports the flow down of customer requirements within Nammo's supply chain.

Nammo has followed the Global Reporting Initiative's (GRI) Standard

for sustainability reporting since 2009 and supported the UN Global Compact's ten principles since 2012 and reported its sixth company report, Communication on Progress (COP) in 2019.

Nammo supports the OECD Guidelines for Multinational Enterprises. The OECD has developed a self-assessment tool called the "Responsible Business Conduct Compass". During 2019 the tool was tested at two Nammo entities. When completed, the Compass gives a snapshot to which extent the company complies with the requirements of the guidelines. Nammo will continue to run the Compass as an internal self-assessment tool at all Nammo legal entities in 2020 in order to identify and implement improvements within responsible business conduct.

## **Sustainability**

Nammo continues its focus on sustainability and during 2019 Nammo conducted a materiality assessment to identify relevant environmental, social and ethical issues in order to build a comprehensive sustainability strategy that is integrated with the company's overall business strategy.

Based on the assessment of the materiality matrix, themes have been selected to focus the development of enhanced strategic objectives considered critical to the group's internal and external stakeholders.

## **Ethics and anti-corruption**

During 2019 Nammo has emphasized risk mitigating factors within several areas of the organization. One is the enhanced due diligence procedure for onboarding of selected third parties. This work continues into 2020 with the implementation of a new risk management tool and the establishment of an overall risk management process at the Group level.

Roll-out of an updated procedure for reporting concerns including an additional "last resort" reporting

mechanism was completed at the end of the year 2019. The new reporting mechanism gives employees the possibility to report concerns anonymously, if need be. All legal entities in Europe have implemented the new reporting mechanism. Introduction of a similar system is planned for Nammo's US facilities during 2020.

In 2019 Nammo also established an Ethics & Integrity Council, replacing the previous Ethics Committee.

Nammo has a zero-tolerance policy on corruption and bribery and believes the best risk mitigating activity is to organize regular training sessions for both its employees and third parties acting on behalf of the Group. The ethics and anti-corruption training is divided into three different programs; web based e-learning training, dilemma workshops for employees in high risk positions, and tailor-made red-flag training on fraud detection.

Regular e-learning training is implemented to increase employee awareness. During 2019 the training reached 1750 employees and 87% completed the e-learning. Five leadership groups participated in dilemma training in 2019.

## **People**

Nammo has a Human Resource policy to ensure equal opportunities and rights, as well as preventing 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 and competence development, equal pay for equal work and working conditions. However, the recruitment of personnel must 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 and this is also supported by the fact that the turnover rate in most parts of Nammo is low.

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Women account for 25.3 percent of the employees. The company continues its efforts to encourage female university graduates and women with other educational backgrounds to join the company. Additionally, the activities to increase the number of women in leadership positions continues.

Nammo is increasing its focus on nurturing competence development in the Group as this is a key asset in a technology company like Nammo. This is supported by the establishment of a "Nammo Academy", leadership and team development programs, as well as an internal mentoring program during 2019.

During 2019 Nammo Group had an average of 2 377 full time equivalent employees.

### Society

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

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, a practice that will continue through 2020.

### Health, Environment, Safety & Security (HESS)

Operating in the aerospace and defense industry, Nammo Group employees regularly handle energetic materials in addition to conducting significant amounts of mechanical manufacturing, heat treatment, chemical surface treatment and assembly operations. HESS matters have the highest priority within the Nammo Group and are reviewed regularly by

management at all levels.

The Nammo Group's HESS policy and associated KPI's are evaluated and revised annually. All accidents or near-misses involving employees are reported and investigated. Corrective and preventive actions resulting from root cause analysis are tracked to completion and shared throughout the group to promote organizational learning. Monthly reports regarding accidents, near-misses, and sick absence are collected from all sites and shared throughout the Nammo Group.

### Audits

Twenty-four HESS audits were completed at Nammo Group facilities during 2019. Annual audits are conducted in accordance with a procedure and plan developed by the Nammo Group HESS Director. All sites conduct their own internal HESS audits in accordance with the Nammo Group HESS procedure for HESS improvements and periodic audits as part of their local HESS program.

### Activities and results

Each operating or distribution location within the Nammo Group has their own education and training plan for HESS related topics. Nammo AS organizes an annual HESS Seminar to provide a platform for sharing of information about best practices and accidents/near-misses to help improve the overall level of HESS knowledge and competence within the Nammo Group.

Overall performance in the HESS functional area for 2019 was solid with no life-threatening injuries or fatalities reported. KPI performance was consistent with 2018 performance and maintained the improvements seen since 2017. To enhance HESS program structure at all Nammo Group locations, all employees responsible for HESS will complete Lean Six Sigma Green Belt training during 2020/2021.

Sick absence remained unchanged from 2018 at 3.7 percent. The total number of Lost Time Injuries (LTI) and the corresponding LTI Value (LTI per million working hours) also remained steady at 27 and 6 respectively. Reducing both the total number of LTIs and the LTI value is a high priority. Several actions have been taken to reduce LTIs including improved sharing of accident reports and high-potential near-misses via Nammo Group "Safety Flashes"

Trend analysis conducted on the LTIs shows that the majority resulted from slips, falls, back strains, or finger/hand injuries. However, the four eye injuries suffered during 2019 are an area of concern; all of which could have been prevented with the use of safety glasses. Increased focus on personal protection equipment (PPE) usage during 2020 aims to eliminate these types of LTIs.

Reporting of accidents, near-misses and hazardous conditions continued the upward trend observed since 2017 with 2,596 reports recorded during 2019 compared to 2,178 during 2018. Near-miss/hazardous condition reporting is a leading indicator and continued focus in this area should result in a decrease in both the total number of LTIs and the LTI value.

### Environment

Nammo Group's business has a direct impact on the environment through production and testing of ordnance products and services, energy usage, water usage, waste stream management, and transportation. Sixty-six percent of Nammo Group employees work at an operating location which is certified in accordance with ISO 14001.

All Nammo Group sites have a goal to complete an energy or water saving initiative annually. Energy and water consumption data from 2019 reported via the Global Reporting Initiative standard will serve as a baseline from which the Nammo Group will develop KPIs for reductions in both energy and water consumption. Two sites continue to deal with

environmental issues related to historical pollution, however both are considered to be under control and are being remediated through plans developed in close coordination with relevant local and national authorities.

### Security

Security continues to be a strong focus for the Nammo Group companies due to the nature of products manufactured by the group. Nammo Raufoss has invested in security improvements during 2019 with support from Norwegian national authorities. There have been no reports of major security violations during 2019.

IT security is critical to safeguarding vital product information generated by both the Nammo Group, its customers and suppliers. The Nammo Group continues to experience cyber-attacks as adversaries attempt to infiltrate company networks via various methods including phishing and man-in-the-middle attacks.

In an effort to improve the Nammo Group's IT security the core network services in Europe are in the process of being certified in accordance with the ISO 27001 standard for Information Security Management. All employees having access to computers receive mandatory and continuous e-learning throughout the year.

### DISTRIBUTION OF DIVIDEND

At the annual general meeting, the Board of Directors will propose a dividend payment of NOK 95.4 million for 2019. Assuming the proposed dividend, the profit in the parent company Nammo AS will be distributed as follows: dividend NOK 95.4 million, other equity NOK -1.6 million, hence a net total of NOK 93.8 million distributed.

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

### OUTLOOK FOR THE NAMMO GROUP

2019 revenues confirmed that the core markets are still the US and Europe, as 42% of the revenues were to US customers, 23% to the Nordic countries, 26% to other European countries and finally 9% to other countries, which predominantly includes advanced users in South East Asia.

A primary driver behind this is Nammo's investments in new technologies, and its efforts to secure long-term partnerships with countries and companies willing to partner on development programs to bring new capabilities to the market. A secondary driver is the growing importance placed on readiness and security of supply by several of Nammo's key customers, which has created a renewed focus on

rebuilding and maintaining stocks of vital supplies, such as ammunition.

A third driver is that Nammo's growth primarily relies on winning a greater market share in niche areas, which again means its success will depend on its ability to align its offerings with the operational priorities of its core markets.

Through the coming decade, all three of these trends are expected to continue, with the company's primary growth opportunities being in the US. This is largely due to the interest shown by the US government in several of Nammo's key technology areas, such as range extension, new shoulder fired weapons and tactical rocket motors. However, it is also due to fact that several European countries continue to limit access to their domestic markets. This in turn limits Nammo's ability to offer its technologies to these markets, and develop sustainable long-term partnerships.

The largest opportunities, both in the short and in the longer term, are related to extended range technologies for artillery and missiles, where Nammo is well positioned with both its conventional solid fueled and air-breathing solutions. A decisive factor in favor of Nammo's technologies is the integration of such capabilities to existing launch platforms, reducing both acquisition cost and integration time for its customers.

Norwegian Biathlon team season 2019/2020, sponsored by Nammo



Picture: Sondre Hensema Eriksen/Norwegian Biathlon Federation

## BOARD OF DIRECTORS' REPORT 2019

Nammo is also seeing significant potential for systems and technologies in the other end of the range spectrum, related to the close combat. After nearly a decade of development, the new M72 Fire From Enclosure (FFE) has completed its qualification tests, bringing an improved ability for light forces to deliver massive, accurate firepower from enclosed spaces, such as in urban and underground environments.

Nammo's US market opportunities are not limited solely to defense. While the majority of the commercial ammunition sector in the US has faced a significant downturn in recent years, the impact on Nammo's commercial brands, which remain focused on the premium segment, has been more limited. Going forward it is expected that the US market will stabilize and return to growth, and as it does, Nammo is in a prime position to bring additional niche offerings to the market both in the US and Europe. This will also allow Nammo to take the lead in responding to developing regulatory changes, particularly on metals and chemicals, which are expected to have a significant impact on the commercial ammunition sector over the coming decade.

Improved profitability is paramount in order to be able to deliver on the strategy and on the identified

opportunities. Desired profitability has not been delivered over the last couple of years, but some of the one-off costs taken in recent years are reorganization costs that will help improve the future profitability of Nammo, e.g. closing of various production sites, stop loss-making programs, internal reorganizations, focus on continuous improvements (Lean Six Sigma) etc.

In support of these efforts, Nammo will continue to invest in building competence throughout the Group. Organizational development and the introduction of state of the art processes and systems will be important building blocks for the Nammo of the future.

Currently, an outbreak of a viral disease is in progress throughout the world, caused by a previously unknown coronavirus (COVID-19). The disease has spread from China to the rest of the world, including the nine countries in which the Nammo Group operates.

The Nammo Group follows the rules and regulations that are implemented by the local authorities in the countries where it operates, first and foremost to reduce the transmission of infection and to secure the lives and health of the employees and other people in the communities we are part of.

When presenting the Board of Directors' report, we have not yet identified any significant impact on our supply chain or production in the short term. However, the consequences of the COVID-19 outbreak will depend on the spread of the infection, as well as the duration of the outbreak. If it is prolonged, we will likely see negative financial impact, as a result of increased sick absence and internal productivity challenges, as well negative impact due to disruption in the supply chains.

Nammo Group is monitoring the situation closely, and will implement measures on an ongoing basis to secure our employees and the community we are part of, as well as ensuring that we safeguard our primary mission to secure the supply of our products and services to our defense forces and those of our allies.

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 undertaken during 2018 and 2019, will contribute to securing the interests of Nammo's Customers, Shareholders and Employees.

Ullensaker, 24 March 2020



Dag Schjerven, Chairman of the Board



Esa Rautalinko, Vice Chairman of the Board



Dag J. Opedal, Board member



Cathrine Bjaarstad, Board member



Ville Jaakonsalo, Board member



Sirpa-Helena Sormunen, Board member



Marianne Stensrud, Board member



Petri Kontola, Board member



Morten Brandtzæg, President & CEO



# Nammo

## CLOSING THE RANGE GAP

Allied missiles and artillery are today significantly out-ranged by their potential future adversaries. Nammo's extended range technologies will help close the range gap.



### 400+ km

High-performance air intake design inside the body of the missile, ensuring compatibility with existing launch platforms

### 40+ km

Streamlined, thin-walled shell. High velocity. High accuracy.

### 70+ km

Does not require any changes to the shell, body or to the gun

### 100-150+ km

Can be integrated with several different guidance systems

Throttleable solid fuel ramjet capable of supporting 15 km extended cruise velocity and during end game maneuvers

Gas bleed from propellant grain produces drag, thereby increasing the range of the shell

Rocket assist unit that nearly doubles the range of the shell

Solid fuel Ramjet ignited at launch

Balance between payload and fuel can be altered to deliver variants of the shell that meet

Exhibits at Nammo's booth at AUSA in Washington D.C. October 2019.

Photo: Thorstein Korsvold/ Nammo AS

# NAMMO GROUP

## INCOME STATEMENT NAMMO GROUP

(NOK 1 000)	Notes	2019	2018
<b>Revenue</b>	1	<b>5 073 279</b>	4 919 588
<b>Operating expenses</b>			
Changes in stock of work in progress and finished goods		(339 184)	(121 128)
Changes in self-manufactured fixed assets		(207)	(787)
Cost of goods sold		2 121 845	1 979 771
Payroll expenses	3, 4, 12	1 684 050	1 607 223
Depreciation of tangible and intangible fixed assets	7	251 074	182 777
Write down of fixed assets		13 109	-
Other operating expenses		990 253	909 449
<b>Total operating expenses</b>		<b>4 720 940</b>	4 557 305
<b>Operating result</b>		<b>352 339</b>	362 283
<b>Financial income and expenses</b>			
Income from associates and joint ventures - equity method	6	3 341	7 917
Interest income		34 504	26 100
Other financial income	5	23 214	12 873
Interest expenses		(73 095)	(58 757)
Other financial expenses	5	(35 037)	(18 702)
<b>Net financial income (expense)</b>		<b>(47 073)</b>	(30 569)
<b>Profit before tax</b>		<b>305 266</b>	331 714
<b>Income taxes</b>	13	<b>(114 603)</b>	(91 517)
<b>Net income</b>		<b>190 663</b>	240 197
<b>Minority share</b>		<b>1 560</b>	-
<b>Profit (loss) for the year</b>		<b>192 223</b>	240 197



# BALANCE SHEET

## NAMMO GROUP

NAMMO GROUP

(NOK 1 000)	Notes	As of 31.12.19	As of 31.12.18
<b>Assets</b>			
<b>Non-current assets</b>			
<b>Intangible assets</b>			
Deferred tax asset	13	88 352	96 534
Licenses, trademarks and other intangible assets	7	255 175	278 083
Research and development		246 377	238 516
Goodwill	7	179 891	215 381
<b>Total intangible assets</b>		<b>769 795</b>	828 514
<b>Tangible assets</b>			
Buildings	7	395 394	354 120
Land	7	34 060	35 330
Machines and equipment	7	711 394	622 846
Fixtures and fittings, tools, office machinery, etc.	7	88 456	97 629
Plant under construction	7	247 632	298 693
<b>Total tangible assets</b>		<b>1 476 936</b>	1 408 618
<b>Financial fixed assets</b>			
Shares in joint controlled companies	6	36 246	32 905
Other shares and participations	6	17 366	8 222
Pension assets	12	84 777	85 408
Other receivables	8	14 254	12 342
<b>Total financial fixed assets</b>		<b>152 643</b>	138 877
<b>Total non-current assets</b>		<b>2 399 374</b>	2 376 009
<b>Current assets</b>			
<b>Inventory</b>			
Raw materials		845 737	897 811
Work in progress		1 341 681	1 087 733
Finished goods		367 993	282 757
<b>Total inventory</b>		<b>2 555 411</b>	2 268 301
<b>Receivables</b>			
Accounts receivable	9	685 699	1 022 712
Other receivables	8	416 690	308 226
Advance payments to suppliers		171 548	108 418
<b>Total receivables</b>		<b>1 273 937</b>	1 439 356
<b>Cash and cash equivalents</b>	10	-	-
<b>Total current assets</b>		<b>3 829 348</b>	3 707 657
<b>Total assets</b>		<b>6 228 722</b>	6 083 666

## NAMMO GROUP

(NOK 1 000)	Notes	As of 31.12.19	As of 31.12.18
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital		100 000	100 000
Other paid in capital		258 670	258 670
Other equity		2 417 917	2 328 434
<b>Total equity</b>		<b>2 776 587</b>	2 687 104
<b>Minority interest</b>		<b>(622)</b>	912
<b>Total equity and minority interest</b>	11	<b>2 775 965</b>	2 688 016
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Pension liabilities	12	183 569	185 933
Deferred tax liabilities	13	53 550	41 198
Other provisions		1 253	1 353
<b>Total non-current liabilities</b>		<b>238 372</b>	228 484
<b>Other non-current liabilities</b>			
Liabilities to financial institutions	14	1 248 735	1 342 188
Other non-current liabilities		84 034	101 900
<b>Total other non-current liabilities</b>		<b>1 332 769</b>	1 444 088
<b>Current liabilities</b>			
Bank overdraft	10	65 538	35 324
Warranty provisions		60 237	59 826
Accounts payables		332 241	280 162
Current tax payables	13	39 486	55 967
Public duties		95 798	142 622
Dividend payable		95 400	120 100
Prepayments from customers		898 640	725 304
Other short term liabilities		294 276	303 773
<b>Total current liabilities</b>		<b>1 881 616</b>	1 723 078
<b>Total liabilities</b>		<b>3 452 757</b>	3 395 650
<b>Total equity and liabilities</b>		<b>6 228 722</b>	6 083 666

Ullensaker, 24 March 2020



Dag Schjerven, Chairman of the Board



Esa Rautalinko, Vice Chairman of the Board



Dag J. Opedal, Board member



Cathrine Bjaarstad, Board member



Ville Jaakonsalo, Board member



Sirpa-Helena Sormunen, Board member



Marianne Stensrud, Board member



Petri Kontola, Board member



Morten Brandtzæg, President &amp; CEO

## CASH FLOW

### NAMMO GROUP

(NOK 1 000)	2019	2018
<b>Cash flow from operational activities</b>		
Result before tax	305 266	331 714
Tax payments	(104 798)	(118 728)
Gain and loss on sales of fixed assets	(93)	3 800
Ordinary depreciation	251 074	182 777
Net interest cost	38 591	32 657
Changes in inventory	(292 016)	(186 450)
Changes regarding accounts receivables	336 191	(214 259)
Changes regarding accounts payables	52 491	(65 950)
Difference pension costs and paid pension premiums	3 315	(14 551)
Changes in other dispositions	(92 289)	342 168
<b>Net cash flow from operational activities (a)</b>	<b>497 732</b>	293 178
<b>Cash flow from investment activities</b>		
Sale of fixed assets	13 435	883
Purchase of fixed assets	(293 496)	(306 917)
Sale of long-term investments	10 750	-
Purchase of other long-term investments	(11 520)	(73 254)
<b>Net cash flow from investment activities (b)</b>	<b>(280 831)</b>	(379 288)
<b>Cash flow from financing activities</b>		
Payments received regarding new long-term loans	5 624	19 192
Installments on long-term loans	(94 048)	(30 198)
Net interest payments	(38 591)	(32 657)
Paid dividend	(120 100)	(90 300)
<b>Net cash flow from financing activities (c)</b>	<b>(247 115)</b>	(133 963)
Net changes in cash and bank accounts (a+b+c)	(30 214)	(220 073)
Cash and bank accounts as of 01.01.	(35 324)	184 749
<b>Cash and bank accounts as of 31.12.</b>	<b>(65 538)</b>	(35 324)

Total unused cash credits as of 31 December 2019 is NOK 868.4 million. See note 14.

## NAMMO GROUP 2019 - CONSOLIDATED FINANCIAL STATEMENTS CONTENT NOTES

Accounting policies Nammo Group  
Notes to the financial statements

1. Revenue
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
10. Cash reserve
11. Equity and shareholders
12. Pension liability and pension cost
13. Income taxes
14. Interest bearing loans and guarantees

### 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 attributable 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 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.

#### **TRADE RECEIVABLES AND OTHER SHORT-TERM LIABILITIES**

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

#### **IMPAIRMENT OF FINANCIAL ASSETS**

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

between the asset's carrying amount and the present value of estimated future cash flows.

#### **INTEREST-BEARING BORROWINGS**

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

#### **FINANCIAL INSTRUMENTS**

The group uses financial instruments to hedge exposure against foreign exchange risk in operating, financing and investment activities. The financial instruments are entered into based on a 'back-to-back' 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)	2019	2018
Norway	1 519 635	1 842 286
USA	1 321 989	1 017 141
Germany	645 480	714 113
Finland	610 295	467 374
Sweden	553 461	487 995
Spain	320 154	299 833
England	82 062	70 056
Ireland	19 558	19 385
Switzerland	645	1 405
<b>Total</b>	<b>5 073 279</b>	<b>4 919 588</b>

##### *Revenue per geographical location of customers*

(NOK 1 000)	2019	2018
Norway, Sweden and Finland	1 181 609	991 205
Other Europe	1 338 202	1 415 628
North America	2 201 128	2 002 119
Asia	175 839	411 891
Other countries	176 501	98 745
<b>Total</b>	<b>5 073 279</b>	<b>4 919 588</b>

#### 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 2019:*

(Amounts in currency 1 000)

Transaction type	Buy/Sell(-)	CAD	CHF	EUR	GBP	SEK	DKK	USD
FX Forward	Buy	1 539	8 403	23 790	741	5 922	3 014	19 932
	Sell(-)	-	-	(62 339)	(2 768)	(26 686)	(3 094)	(213 293)
FX SWAP	Buy	-	185	31 128	-	9 563	-	10 086
	Sell	-	-	(9 686)	(6 181)	-	-	(28 585)



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

Transaction type	Buy/Sell	Year 2020	Year 2021	Year 2022	Later
FX Forward	Buy	80%	20%	-	-
	Sell	56%	43%	1%	-
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 2020, up until the annual general meeting in 2021. 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.

- 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 continuous improvements in operations, financial results and other company key objectives

might be somewhat adjusted to meet local market conditions in terms of salary level and pension schemes.

Nammo executive management does not have any long-term incentive agreements or part of value creation (e.g. measured by stock values) agreements. Most stock exchange and/or international companies have such compensation packages.

**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:

- 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

**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 benchmarks (for the industry ex. oil & gas sector in Norway) are made to ensure that overall compensation packages are competitive, but not leading. For Nammo management, latest benchmark shows that total fixed and variable remuneration is lower than for comparable international companies. Based on the benchmarking, the board has concluded the following main criteria for the top-manager's salary level:

- Position grading, relative to size and complexity of the area of responsibility

## NAMMO GROUP

- Competence (education, experience and other competencies)
- Length of employment at Nammo
- Time in current position and achieved results

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.

### Base compensation

Base compensation consists of both base salary and a 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 retirement should be 60 percent of the salary at that time, is reflected in the CEO annual pension compensation agreement. This compensation is calculated (by an external insurance & pension partner) fixed, not to be adjusted, yearly amount. The compensation is handled as ordinary salary.

### 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 2020, the top-management of Nammo has two main targets; improved operational and financial performance. The performance targets for 2020 are linked to these overall targets for all the top managers. Therefore, the bonus scheme is based on improvements in operational, such as delivering on defined improvement programs and other specific operational objectives, and financial, i.e. NIBT, 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 an "employment-ending-compensation" corresponding to 12 months base salary. No other senior executives are entitled to pay after termination of employment beyond the regular dismissal period.

### Statement for the fiscal year 2019

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. The remuneration for other executive management is set in line with this remuneration policy and with reference to country wise salary development/inflation rate. In addition, the performance-based salary outlined above, has resulted in payments as described below in note 4. Base salary increase for Executive Management in 2019 was 3,4%. 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)	2019	2018
Salaries	1 296 059	1 231 802
Employment taxes	111 924	107 107
Pension costs	123 361	107 775
Other personnel costs	152 706	160 539
<b>Total</b>	<b>1 684 050</b>	<b>1 607 223</b>
<b>Average number of man years</b>	<b>2 377</b>	<b>2 409</b>

**Remuneration CEO, board of directors and corporate management**

(NOK)	Function	Salary	Bonus payment	Other compensation	Pension cost	Total
Morten Brandtzæg	President and CEO	6 615 520	539 437	488 695	238 401	<b>7 882 053</b>
Kjell Kringsjå	SVP Business Development	2 280 481	150 863	227 037	255 884	<b>2 914 265</b>
Stein Erik Nodeland	EVP AP	1 769 873	43 044	179 200	211 095	<b>2 203 212</b>
Vegard Sande	EVP LCS	2 078 982	257 076	228 405	224 851	<b>2 789 314</b>
Reijo Bragberg	EVP SMCA	1 784 607	324 269	680 554	27 381	<b>2 816 811</b>
Stein E.Ommundsen	CFO (ended August)	1 446 240	97 896	88 828	288 871	<b>1 921 835</b>
Lars Furuseth	Acting CFO (from September)	567 787	-	25 659	73 333	<b>666 779</b>
Camilla Becker	SVP Human Resources	1 631 736	110 451	122 187	356 160	<b>2 220 534</b>
Bertil Pålsrud	SVP Business Integration (through October)	1 379 424	148 985	164 594	262 193	<b>1 955 196</b>
Sissel Solum	SVP Compliance (through October)	1 331 202	174 168	92 533	197 331	<b>1 795 234</b>
Endre Lunde	SVP Communications	1 250 158	130 045	94 309	205 782	<b>1 680 294</b>
Anne Haugen-Flermoe	SVP Legal	1 364 004	62 205	77 993	236 799	<b>1 741 001</b>

**Board of Directors**

Dag Schjerven	Chairman	393 733
Esa Heikki Elias Rautalinko	Vice Chairman (from August)	169 083
Dag Opdeal	Board Member	242 834
Cathrine Bjaarstad	Board Member (from May)	147 500
Sirpa-Helena Sormunen	Board Member	230 400
Ville Jaakonsalo	Board Member	286 233
Pasi Niinikoski	Board Member (January- July)	110 000
Marianne Stensrud	Board Member	223 500
Petri Kontala	Board Member	230 400
Ingelise Arntsen	Board Member (January - April)	72 834
Per Alenfelt	Observer	38 600

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

## NAMMO GROUP

**Auditor's fee**

All numbers are presented exclusive VAT.

(NOK 1 000)	2019	2018
Group auditors fees	5 919	3 850
Other auditors fees	-	869
Fees for other assurance work	29	-
Tax advisory services	2 402	-
Other services	483	-
<b>Total</b>	<b>8 833</b>	<b>4 719</b>

**5. FINANCIAL ITEMS**

(NOK 1 000)	2019	2018
Gain on exchange	13 222	12 840
Other financial income	9 992	33
<b>Total other financial income</b>	<b>23 214</b>	<b>12 873</b>
Loss on exchange	(26 894)	(13 702)
Other financial expenses	(8 143)	(5 000)
<b>Total other financial expenses</b>	<b>(35 037)</b>	<b>(18 702)</b>

**6. SHARES IN OTHER COMPANIES**

(NOK 1 000)	Company's share capital	Numbers of shares owned	Nominal value	Booked value	Ownership
<b>Joint controlled companies:</b>					
SN Technologies SA, Meyrin, Switzerland	CHF 200 000	100	CHF 100 000	36 246	50%
<b>Total</b>				<b>36 246</b>	
<b>Other shares and participations:</b>					
Komm-In AS, Norway				4 500	8%
Sintef Raufoss Manufacturing AS, Raufoss, Norway				1 302	14%
Raufoss Industripark Holding, Raufoss, Norway				11 520	2%
Others				44	-
<b>Total</b>				<b>17 366</b>	

Joint controlled companies are recognized according to the equity method in the consolidated financial statements. In 2019 the Nammo Group accounted for a share of the net income from SN Technologies SA at NOK 3.3 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 01.01.19	721 130	415 688	806 382	46 932	2 128 512	419 962	314 898	4 853 504
Reclassifications	1		(3 746)	-	85 798	18 323	(100 376)	-
Additions during the year	10 019		66 757	194	128 658	14 184	74 277	294 089
Disposals during the year	-	(18 008)	(1 065)	-	(8 214)	(3 658)	(12 330)	(43 275)
Exchange difference acq. cost	5 113	4 483	(3 828)	(406)	(7 797)	(2 463)	296	(4 603)
Acquisition cost 31.12.19	736 263	402 162	864 500	46 720	2 326 957	446 348	276 765	5 099 715
Accum. depreciations 31.12.19	(480 684)	(222 271)	(453 708)	(12 660)	(1 588 635)	(348 216)	(16 059)	(3 122 233)
Accum. write-down 31.12.19	(404)	-	(15 398)	-	(26 928)	(9 676)	(13 074)	(65 480)
<b>Book value as of 31.12.19</b>	<b>255 175</b>	<b>179 891</b>	<b>395 394</b>	<b>34 060</b>	<b>711 394</b>	<b>88 456</b>	<b>247 632</b>	<b>1 912 002</b>
<b>Depreciations this year</b>	<b>34 214</b>	<b>36 532</b>	<b>33 831</b>	<b>814</b>	<b>117 943</b>	<b>27 740</b>	<b>-</b>	<b>251 074</b>
<b>Write-down this year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13 109</b>	<b>13 109</b>

Annual leasing cost of assets not recognized in balance sheet

	-	-	89 977	18	20 716	3 477	-	108 188
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Economic life time (years)	1-25	5-10	10-50	-	5-20	3-10	-	-
Depreciation plan	Linear	Linear	Linear	Linear	Linear	Linear	Linear	Linear

Included in machinery and equipment there are two financial lease contracts in Finland capitalized with NOK 60 million. The lease expires in 2029 and 2032 respectively. Yearly lease cost is NOK 7.5 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)	2019	2018
Accounts receivables	686 524	1 028 037
Provision for bad debt	(825)	(5 325)
<b>Book value of accounts receivables</b>	<b>685 699</b>	<b>1 022 712</b>

No receivables fall due later than 5 years from 31 December 2019.

## 10. CASH RESERVE

(NOK 1 000)	2019	2018
<b>Total available cash and cash credits December 31st</b>	<b>982 030</b>	<b>1 012 710</b>

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 Division AB.

**USA:** Nammo Inc., Nammo Defense Systems Inc., Nammo Composite Solutions LLC., Nammo Tactical Ammunition LLC., Nammo Pocal Inc., Nammo Technologies Inc., Capstone Precision Group LLC. And Nammo Energetics Indian Head Inc.

**Spain:** Nammo Palencia S.L.

**Ireland:** Nammo Ireland Ltd.

All parties participating in the cash pool are mutually liable.

## NAMMO GROUP

**11. EQUITY AND SHAREHOLDERS**

(NOK 1 000)	Share capital	Other paid in capital	Other equity	Minority interest	Total
Equity as of 31.12.18	100 000	258 670	2 328 434	912	2 688 016
Profit for the year	-	-	192 223	-	192 223
Proposed dividend to shareholders <sup>1)</sup>	-	-	(95 400)	-	(95 400)
Minority share	-	-	-	(1 544)	(1 544)
Other items	-	-	(5 624)	-	(5 624)
Exchange differences	-	-	(1 716)	10	(1 706)
<b>Equity as of 31.12.19</b>	<b>100 000</b>	<b>258 670</b>	<b>2 417 917</b>	<b>(622)</b>	<b>2 775 965</b>

<sup>1)</sup> Board of director's proposal to the general meeting of shareholders.

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

**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 2019 was NOK 183.6 million, which is derived from the companies in Sweden, Germany and Finland. Pension assets in Norway were 84.8 million at 31 December 2019. The defined benefit plan in Norway has 794 active members, whereas in Sweden there are 109 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%	1.30%
Yield from pension funds	3.80%	-
Annual salary increase	2.25%	2.20%
Annual increase in G	2.00%	-
Annual increase Income Base amount	-	2.20%
Annual change in pensions	0.50%	-
Inflation	-	1.70%

**Pensions costs**

(NOK 1 000)	2019	2018
Service costs	80 278	70 374
Amortization of net actuarial losses (gains)	12 091	10 001
Interest costs (income)	845	218
Expected return on plan assets	(12 677)	(10 821)
Pension cost related to defined contribution plans	42 824	38 003
<b>Net periodic pension costs</b>	<b>123 361</b>	<b>107 775</b>

**Pension liabilities/assets**

(NOK 1 000)	2019	2018
Defined benefit obligation incl. social security tax	777 080	750 432
- Fair value of plan assets	(483 275)	(439 870)
Gross pension obligation	293 805	310 562
Items not recorded in the profit and loss:		
Unrecognized net actuarial loss (gain)	(195 013)	(210 037)
<b>Net pension liability</b>	<b>98 792</b>	<b>100 525</b>
<b>Classified as pension asset in the balance sheet</b>	<b>84 777</b>	<b>85 408</b>
<b>Classified as pension liabilities in the balance sheet</b>	<b>183 569</b>	<b>185 933</b>

**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)	2019	2018	Change
<b>Temporary differences:</b>			
Intangible assets	14 852	7 580	(7 272)
Fixed assets	(115 242)	(42 793)	72 449
Accounts receivables	3 055	7 972	4 917
Inventory	151 859	(37 414)	(189 273)
Pension liabilities	39 201	37 429	(1 772)
Warranty liabilities	(58 340)	(55 859)	2 481
Financial non-current temporary differences	98 641	103 391	4 750
Other non-current temporary differences	(42 505)	(45 151)	(2 646)
Other current temporary differences	(77 479)	(21 993)	55 486
<b>Temporary differences</b>	<b>14 042</b>	<b>(46 838)</b>	<b>(60 880)</b>
Carried forward losses for tax purposes	(439 219)	(399 145)	
<b>Total temporary differences</b>	<b>(425 177)</b>	<b>(445 983)</b>	
Gross deferred tax / deferred tax assets (-)	(110 378)	(110 347)	
Deferred tax assets not recognized in the balance sheet	75 576	55 011	
<b>Net deferred tax liability/deferred tax asset (-)</b>	<b>(34 802)</b>	<b>(55 336)</b>	
<b>Classified as deferred tax asset</b>	<b>88 352</b>	<b>96 534</b>	
<b>Deferred tax liability in the balance sheet</b>	<b>53 550</b>	<b>41 198</b>	

## NAMMO GROUP

*Payable income taxes*

(NOK 1 000)	2019
Net income before tax	305 265
Changes in temporary differences	(60 880)
Exchange differences temporary differences	7 792
Permanent differences	35 165
Use of carried forward losses	(33 002)
Taxable income	254 340
<b>Payable income tax</b>	<b>95 988</b>

*Tax expenses in profit and loss*

(NOK 1 000)	2019
Payable tax on this year's result	95 869
Adjustments prior years	119
Payable tax in this year's tax cost	95 988
Change in deferred tax / deferred tax asset	21 706
Other items	(3 091)
<b>Tax expense in the P&amp;L</b>	<b>114 603</b>

*Payable tax in the balance sheet*

(NOK 1 000)	2019
Payable taxes	95 662
Prepaid taxes	(56 867)
Other items	691
<b>Payable tax in balance sheet</b>	<b>39 486</b>



**14. INTEREST BEARING LOANS, AVAILABLE CASH CREDITS AND GUARANTEES**

(NOK 1 000)	2019	2018
<b>Total interest bearing loans</b>	<b>1 248 735</b>	1 342 188

***Nammo AS long term loans from credit institutions per 31 December 2019:***

(NOK 1 000)	<b>Final maturity date</b>	<b>Facility total</b>	<b>Utilized</b>	<b>Available</b>
Term loan facility, EUR 90.6 millions	19 September 2021	893 907	893 907	-
Revolving credit facility, NOK 1 000 millions	6 December 2022	1 000 000	342 432	657 568

***Available unused cash credits at 31 December 2019:***

(NOK 1 000)	<b>Cash credit</b>
Revolving credit facility	657 568
Additional cash credits available	210 853
<b>Total unused cash credits at year-end</b>	<b>868 421</b>

***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, 2019 there are no default related to the financial covenants.

***Guarantees:***

Guarantees not recognized in the balance sheet as of 31 December 2019 is NOK 379.8 million.

# NAMMO AS

## INCOME STATEMENT NAMMO AS

(NOK 1 000)	Notes	2019	2018
<b>Revenue</b>	1	<b>97 856</b>	100 650
<b>Operating expenses</b>			
Payroll expenses	2	59 216	54 805
Depreciation of tangible and intangible fixed assets	4	1 089	477
Other operating expenses		76 789	76 560
<b>Total operating expenses</b>		<b>137 094</b>	131 842
<b>Operating profit</b>		<b>(39 238)</b>	(31 192)
<b>Financial income and expenses</b>			
Received group contribution		130 000	100 000
Interest income	3	68 120	50 773
Other financial income	3	23 983	71 375
Interest expenses	3	(38 723)	(32 449)
Other financial expenses	3, 14	(30 528)	(64 970)
<b>Net financial income (expense)</b>		<b>152 852</b>	124 729
<b>Profit before tax</b>		<b>113 614</b>	93 537
<b>Income taxes</b>	11	<b>(19 827)</b>	(24 406)
<b>Net income</b>		<b>93 787</b>	69 131
<b>The board's proposal for allocation of the profit</b>			
Dividend		95 400	120 100
Other equity		(1 613)	(50 969)
<b>Total</b>		<b>93 787</b>	69 131

## BALANCE SHEET

### NAMMO AS

(NOK 1 000)

	Notes	As of 31.12.19	As of 31.12.18
<b>Assets</b>			
<b>Non-current assets</b>			
<b>Tangible assets</b>			
Buildings	4	46	59
Machines and equipment	4	70	99
Fixtures and fittings, tools, office machinery, etc.	4	3 454	4 010
<b>Total tangible assets</b>		<b>3 570</b>	4 168
<b>Financial assets</b>			
Investments in subsidiariess	5	609 365	609 365
Investments in other shares and participations		11 520	1 375
Loans to group companies		913 150	1 013 293
Pension assets	10	3 759	3 157
Other receivables		2 081	2 547
<b>Total financial assets</b>		<b>1 539 875</b>	1 629 737
<b>Total non-current assets</b>		<b>1 543 445</b>	1 633 905
<b>Current assets</b>			
<b>Receivables</b>			
Accounts receivable	6	-	568
Receivables from group companies	13	801 655	644 426
Receivable group contributions		-	100 000
Prepayments to vendors		9 677	5 378
Other receivables		7 199	8 532
<b>Total receivables</b>		<b>818 531</b>	758 904
<b>Cash and cash equivalent</b> s	7, 13	-	-
<b>Total current assets</b>		<b>818 531</b>	758 904
<b>Total assets</b>		<b>2 361 976</b>	2 392 809

# BALANCE SHEET

## NAMMO AS

(NOK 1 000)	Notes	As of 31.12.19	As of 31.12.18
<b>Shareholders' equity and liabilities</b>			
<b>Equity</b>			
Share capital	8, 9	100 000	100 000
Premium fund	9	258 670	258 670
<b>Total paid in capital</b>		<b>358 670</b>	358 670
Other equity	9	441 822	443 436
<b>Total earned equity</b>		<b>441 822</b>	443 436
<b>Total equity</b>		<b>800 492</b>	802 106
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred tax	11	22 696	23 130
<b>Total non-current liabilities</b>		<b>22 696</b>	23 130
<b>Other non-current liabilities</b>			
Liabilities to financial institutions	12	1 236 339	1 315 029
<b>Total other non-current liabilities</b>		<b>1 236 339</b>	<b>1 315 029</b>
<b>Current liabilities</b>			
Bank overdraft	7	155 227	87 121
Accounts payables		8 019	5 256
Payables to group companies		8 392	8 014
Income tax payable	11	20 271	20 773
Public duties payable		4 388	4 486
Dividend payable to shareholders		95 400	120 100
Other current liabilities		10 752	6 794
<b>Total current liabilities</b>		<b>302 449</b>	252 544
<b>Total liabilities</b>		<b>1 561 484</b>	1 590 703
<b>Total equity and liabilities</b>		<b>2 361 976</b>	2 392 809

Ullensaker, 24 March 2020



Dag Schjerven, Chairman of the Board



Esa Rautalinko, Vice Chairman of the Board



Dag J. Opedal, Board member



Cathrine Bjaarstad, Board member



Ville Jaakonsalo, 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)

	2019	2018
<b>Cash flow from operational activities</b>		
Result before tax	113 614	93 537
Tax payments	(20 773)	(25 181)
Ordinary depreciation	1 089	477
Changes in accounts receivable	(835)	19 604
Changes in accounts payable	3 141	(4 039)
Pension cost less paid pension premium	(603)	(831)
Changes in loans to group companies	100 143	(111 809)
Changes in other dispositions	(198 592)	(185 964)
<b>Net cash flow from operational activities (a)</b>	<b>(2 816)</b>	(214 206)
<b>Cash flow from investment activities</b>		
Investments in financial fixed assets	(11 520)	-
Investments in fixed assets	(491)	(3 662)
Disposal financial fixed assets	10 750	-
<b>Net cash flow from investment activities (b)</b>	<b>(1 261)</b>	(3 662)
<b>Cash flow from financing activities</b>		
Installments long term loans	(73 929)	(18 702)
Received dividend	30 000	19 153
Received group contribution	100 000	100 000
Paid dividend	(120 100)	(90 300)
<b>Net cash flow from financing activities (c)</b>	<b>(64 029)</b>	10 151
Net changes in cash and bank accounts (a+b+c)	(68 106)	(207 717)
Cash and bank accounts as of 01.01.	(87 121)	120 596
<b>Cash and bank accounts as of 31.12.</b>	<b>(155 227)</b>	(87 121)

Unused credit facilities is NOK 868.4 million. See note 12.

## NAMMO AS 2019 - 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 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 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.

### **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)	2019	2018
Management service fee group companies	92 969	95 802
Other	4 887	4 778
<b>Total</b>	<b>97 856</b>	<b>100 650</b>

#### 2. SALARIES AND SOCIAL COST

(NOK 1 000)	2019	2018
Salaries	44 661	39 816
Employment taxes	5 849	5 384
Pension costs	4 937	4 399
Other social costs	3 769	5 206
<b>Total</b>	<b>59 216</b>	<b>54 805</b>
<b>Average number of man-years</b>	<b>18</b>	<b>18</b>

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	2019	2018
Auditor's fee	783	272
Tax advisory services	44	-
Other services	86	-
<b>Total</b>	<b>913</b>	<b>272</b>

#### 3. FINANCIAL ITEMS

(NOK 1 000)	2019	2018
Interest income from group companies	39 953	33 851
Other interest income	28 167	16 922
<b>Total interest income</b>	<b>68 120</b>	<b>50 773</b>
Gain on exchange	14 353	52 222
Dividend from group companies	-	19 153
Other financial income	9 630	-
<b>Total other financial income</b>	<b>23 983</b>	<b>71 375</b>
Other interest cost	(38 723)	(32 449)
<b>Total interest cost</b>	<b>(38 723)</b>	<b>(32 449)</b>
Loss on exchange	(10 833)	(28 356)
Write-down receivable Nammo Buck GmbH, see note 14	(14 330)	(33 387)
Other financial expenses	(5 365)	(3 227)
<b>Total other financial expenses</b>	<b>(30 528)</b>	<b>(64 970)</b>



**4. FIXED AND INTANGIBLE ASSETS**

(NOK 1 000)	Buildings	Machines and equipment	Fixtures, fittings and office equipment	Total
Acquisition cost as of 01.01.19	912	694	10 561	12 167
Additions during the year	1	-	490	491
Acquisition cost as of 31.12.19	913	694	11 051	12 658
Accumulated depreciations 31.12.19	(867)	(624)	(7 597)	(9 088)
<b>Book value as of 31.12.19</b>	<b>46</b>	<b>70</b>	<b>3 454</b>	<b>3 570</b>
<b>Ordinary depreciations for the year</b>	<b>14</b>	<b>29</b>	<b>1 046</b>	<b>1 089</b>
Annual leasing cost on assets not in the balance sheet	515	69	7	591
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	-	-	239 981	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	13	100%
Nammo UK Holding Ltd., Westcott	-	-	-	-	100%
Nammo Ireland Ltd., Dublin	EUR 476 250	375 000	476 250	21 160	100%
Nammo Technologies Inc., Virginia	-	-	-	-	100%
<b>Total</b>				<b>609 365</b>	

**6. ACCOUNTS RECEIVABLES**

(NOK 1 000)	2019	2018
<b>Accounts receivables</b>	-	568

Accounts receivable are booked at nominal value. There has been no loss on accounts receivable in 2019.

**7. CASH RESERVE**

Cash is reduced with the draw that the group companies has in the international cash pool of NOK 692.0 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 2019, 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 2019:**

(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%
<b>Total</b>	<b>2</b>	<b>1 000 000</b>	<b>100%</b>

**9. EQUITY**

(NOK 1 000)	Share capital	Other paid in capital	Other equity	Total
Equity as of 01.01.19	100 000	258 670	443 436	802 106
Net income	-	-	93 787	93 787
Dividend *)	-	-	(95 400)	(95 400)
Other items	-	-	(1)	(1)
<b>Equity as of 31.12.19</b>	<b>100 000</b>	<b>258 670</b>	<b>441 822</b>	<b>800 492</b>

\*) 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 January 2019 with the following assumptions:

Yield from pension funds	3.80%
Interest rate used to discount future cash flows	2.30%
Annual salary increase	2.25%
Annual increase in G	2.00%
Annual change in pension	0.50%

**Pension cost**

(NOK 1 000)	2019	2018
Service costs	5 019	4 412
Amortization of net actuarial losses (gains)	780	756
Interest costs	38	22
Pension cost related to defined contribution plans	46	-
Expected return on plan assets	(946)	(791)
<b>Net pension cost</b>	<b>4 937</b>	<b>4 399</b>

**Pension liabilities**

(NOK 1 000)	2019	2018
Defined benefit obligation incl. payroll tax	43 104	40 912
- Fair value of plan assets	(35 005)	(31 086)
<b>Gross pension liability</b>	<b>8 099</b>	<b>9 826</b>
Items not recognized in the profit and loss:		
Unrecognized net actuarial loss (gain)	(11 858)	(12 983)
<b>Net amount recognized in the balance sheet</b>	<b>(3 759)</b>	<b>(3 157)</b>

**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)	2019	2018
Profit before tax	113 614	93 537
Permanent differences	16 166	17 025
Changes in temporary differences	1 992	(20 251)
Non taxable income	(39 630)	-
<b>Taxable income</b>	<b>92 142</b>	<b>90 311</b>
Specification of the tax cost in the profit and loss:		
Tax payable	20 271	20 773
Changes in deferred tax	(438)	3 606
Adjustment previous period	(6)	27
<b>This year's tax cost</b>	<b>19 827</b>	<b>24 406</b>

Explanation to why the tax cost is not 22% of profit before tax:

<b>Profit before tax</b>	<b>113 614</b>
22 % of profit before tax	24 995
22% of permanent differences	3 556
Adjustment last year	(6)
22% of non taxable income	(8 718)
<b>Calculated tax cost</b>	<b>19 827</b>
<b>Effective tax rate</b>	<b>17.5 %</b>

**11.2. Deferred taxes**

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

**Deferred tax calculation**

(NOK 1 000)	31.12.19	31.12.18
Tangible fixed assets	118	(67)
Financial fixed asset	98 641	102 346
Accounts receivables	648	(300)
Pension liability/asset	3 759	3 157
<b>Net temporary differences as basis for deferred tax /tax asset (-) calculation</b>	<b>103 166</b>	<b>105 136</b>
<b>Deferred tax/deferred tax asset (-)</b>	<b>22 696</b>	<b>23 130</b>

## NAMMO AS

**12. INTEREST BEARING LOANS AND GUARANTEES SHARE CAPITAL**

(NOK 1 000)	<b>2019</b>	2018
<b>Total interest bearing loans</b>	<b>1 236 339</b>	1 315 029

**Nammo AS long term loans from credit institutions as of 31 December, 2019 consist of:**

(NOK 1 000)	Final maturity date	Facility total	Utilized	Available
Term loan facility, EUR 90.6 millions	19 September 2021	893 907	893 907	-
Revolving credit facility, NOK 1 000 millions	6 December 2022	1 000 000	342 432	657 568

**Available unused cash credits at 31 December 2019:**

(NOK 1 000)	Cash credits
Revolving credit facility	657 568
Additional cash credits available	210 853
<b>Total unused cash credits at year-end</b>	<b>868 421</b>

**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, 2019 there are no default related to the financial covenants.

**Guarantees:**

Guarantees not recognized in the balance sheet as of 31 December 2019 is NOK 376.2 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 Defense Systems Inc., Nammo Composite Solutions LLC., Nammo Tactical Ammunition LLC., Nammo Pocal Inc., Nammo Technologies Inc., Capstone Precision Group LLC. And Nammo Energetics Indian Head Inc.

**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 692.0 million. See note 7.

**14. IMPAIRMENT INVESTMENT IN SUBSIDIARY**

At 31 December, 2019 Nammo AS had a cash credit receivable towards our subsidiary Nammo Buck GmbH at a total of NOK 97.8 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 83.5 million was written off in 2018). 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



Statsautoriserte revisorer  
Ernst & Young AS

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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 2019, 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 2019 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 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 on the other information obtained prior to the date of the auditor's report, 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, 24 March 2020  
ERNST & YOUNG AS

Anders Gøbel  
State Authorised 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

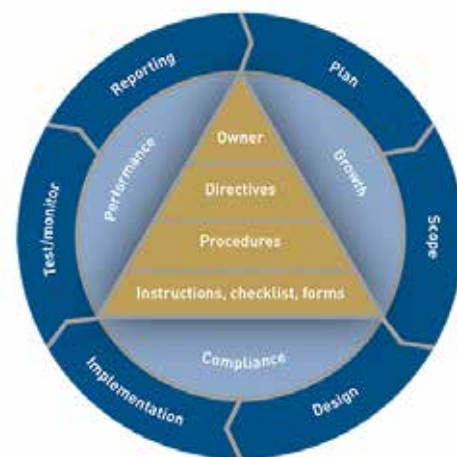
the status will be reported to the Board of Directors on a regular basis, minimum once per year.

## 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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