

PRECISION
PEOPLE AND
EXTREME
TECHNOLOGY



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IMPORTANT NOTICE: If there are any diverging information between the English translation of Nammo's Annual Report and the Norwegian edition, the Norwegian edition will be the prevailing and legal version.



*The suspension bridge, **Högakustenbron**, stretching over the Ångerman river, has a span of 1 210 m. It is 17,8 m wide and 1 867 long. The height above water level is 40 m. The bridge was formally opened in 1997, and is today one of three suspension bridges in Europe.*

THIS YEAR'S ANNUAL REPORT FOCUSES ON EXTREME TECHNOLOGY. EXTREME TECHNOLOGY PRODUCTS FROM NAMMO PERFECTLY REFLECT THE PROCESS LEADING TO CONSTRUCTIONS WHICH ARE UNIQUE IN FORM AND FUNCTION. THE ANNUAL REPORT PORTRAYS EXTRAORDINARY BUILDINGS AND ARCHITECTURAL MASTERPIECES, FROM COUNTRIES WHERE NAMMO IS REPRESENTED, AS VISUAL METAPHORS. BOTH REQUIRE A THOROUGH INSIGHT INTO MATERIALS TECHNOLOGY, ENSURING THAT



THE FINAL RESULT WILL BE ABLE TO WITHSTAND EVERY ENVIRONMENTAL LOAD WITHOUT JEOPARDIZING THE FINAL FUNCTIONALITY. ARCHITECTURAL MONUMENTS, LIKE NAMMO PRODUCTS, ARE BASED ON THE ART OF HIGH-LEVEL AND MULTI-DISCIPLINARY ENGINEERING. TO STAY ON THE EDGE, THE NAMMO GROUP WILL TAKE EVERY MEASURE NEEDED TO INVEST IN NEW FORMS OF CROSS-FUNCTIONAL COLLABORATION AND WILL CONTINUE TO DEVELOP A FUTURE BUILT ON EXTREME TECHNOLOGY.

NAMMO

EXTREME TECHNOLOGY CREATED BY DEDICATED PEOPLE

We have just finished 2006 with very good results and all time high sales. Order backlog is also better than ever. These achievements along with interesting new technologies in many areas gives us a strong basis for the future and thus also a very optimistic outlook for 2007. The strong organic growth has made it much easier to meet our strategic goal of growth by acquisition. Late in 2006 we signed the purchase agreement of Talley Defense Systems (TDS), and expect to close the deal early 2007.

Nammo's continued positive development is the result of a combination of many elements. However, I am convinced that the key driving force behind this is very motivated and competent people with a common objective to perform their very best within their respective areas.

A key element in Nammo's success has been to develop and produce specialised and high-quality products, keeping us ahead of competition. This combination of dedicated people and extreme technology has proven successful.

Our strategy has also been to establish a stronger presence in key international markets, the acquisition of TDS being an

important step in that direction. TDS will offer the opportunity for Nammo to become a domestic US supplier and thereby strengthen and develop an already well-established US presence.

In parallel with our increasing internationalisation, we have focused on developing our position as a preferred supplier and partner to the Nordic Armed Forces.

We increasingly experience that many of our customers who are now involved in or have to be prepared for international operations, find that they have urgent requirements and are very focused on having the best equipment available for their soldiers. In this situation Nammo has become an attractive supplier to meet their requirements.

Nammo's successful development has been the result of organic growth and the continuous improvement of existing business, and this will also be the focal points in the future.

2007 will be another demanding and challenging year for Nammo, but I am confident that the company will continue to achieve good overall result and I am therefore optimistic for the coming year.



Edgar Fosheim
President and CEO



The Turning Torso in Sweden reaches a height of 190 metres (623 feet) with 54 stories. Upon completion, it was the tallest building in Scandinavia, and Europe's second highest apartment building. The design is based on a sculpture by Santiago Calatrava called *Twisting Torso*. It uses nine five-story cubes that twist as it rises; the top-most segment is twisted ninety degrees clockwise with respect to the ground floor.

A GLANCE AT 2006



Source: Diehl-BGT Defense

January

- Merger of two of Nammo's business units to Medium & Large Caliber Division.
- NARA Test center successfully qualified as NATO Test Centre for 30mm x 173 ammunition.
- Contracts from Finnish Defence Forces for 12.7mm, 21mm M72 Sub (training systems) and 63 mm Apilas training systems.
- Norwegian MoD approved development contract for 120mm HE MKII .
- New order of Evolved SeaSparrow Missile.

February

- Change of ownership in Nammo. Saab AB sold out their shares. The Norwegian State represented by the Ministry of Trade and Industry increased their shares from 45 to 50%. The Finnish Group Patria Oyj increased their shares from 27,5 to 50%.
- Contract signed for Nammo's Demil Division in Finland. The contract is for demilitarisation of 23 mm ammunition, with an option.
- Funding received from the Norwegian MoD for carrying out the first phase (Concept studies) in a potential development of new aircraft ammunition for JSF/Eurofighter.
- Great success in Torino Olympics: 18 of 24 Biathlon medals won with Nammo Lapua ammunition.



Source: Norwegian Navy

April

- M113 demilitarisation contract received from German Armed Forces.
- Demil contract signed with Mesko/Poland for build up of local demil capacity.
- Contract received from UK MoD for demil of LAW 80 systems.



Source: Rheinmetall

August

- PB Nammo Demil has received subcontract from General Dynamics for new 'CADC' demil program.
- 70 mm/MPP FCT contract signed.
- World Championships in Zagreb was a great success with Nammo Lapua sport ammunition: 5 Gold, 8 Silver and 11 Bronze medals.



Source: Norwegian Navy



Source: Saab Group



Source: Patria



Source: Lockheed Martin

September

- A successful demo-day was held at Raufoss Test Center in cooperation with Vinghøg and Kongsberg Protech. About 100 guests from 17 countries had found their way to Nammo Raufoss. Focus was on urban warfare and different ammunition types was demonstrated.
- In the European Cup Finals of the 300 m Centerfire competition, 14 medals from a total of 18 and all the Gold medals were achieved using the Nammo Lapua brand.

October

- After successful testings the French Exocet Missile has been qualified and goes to production.
- Important contract regarding 7,62 Blank ammunition for deliveries during 2007-09 to the Swedish Armed Forces.
- A long-term contract (2006-2010) with Mesko for Polish Armed Forces on 30mm and 12,7mm projectiles.

November

- Successful Training Camp for Nammo Representatives together with technical and marketing people was held at Raufoss.
- Nammo signed a purchase agreement for the company Talley Defense Systems. Final approval of the acquisition is expected from the American Authorities within first quarter of 2007.
- Demil contract received from FMV Sweden.

December

- Norwegian FLO and TRADOK has approved and qualified the M72 EC LAW development program.
- Contract signed with the Czech Republic on 30mm x 173 ammunition over a 3-year period.
- A contract has been signed with Lockheed Martin on the HYBRID rocket to further develop this technology. Phase 1 of the project will be concluded with a launch from Andøya rocket range in April 2007.

Walt Disney Concert Hall in Los Angeles is anticipated to be among the most acoustically superb spaces in the world for the performance and enjoyment of music. The 293,000 square foot Concert Hall's dynamic and provocative exterior superstructure is clad in architectural stainless steel and provides Los Angeles with a striking new landmark.





NAMMO IN BRIEF

The Nammo Group is a world-leading supplier of ammunition, missile products and demilitarisation services with respect to market position, efficiency and development capability. All thanks to the expertise within our human resources which has given us an extremely high level of in-house technology.

A HIGH TECH GROUP

Nammo designs, develops and produces a wide range of high quality ammunition products for hand weapons, medium caliber guns, tanks artillery including aircraft and naval platforms. Within regards to missile and space propulsion, Nammo possesses leading technology in rocket booster and thrust vector control. Our demilitarisation business comprises leading expertise and know-how related to environmentally friendly recycling and effective disposal processes for all conventional ammunition and explosive products. We also retain an extensive range of in-house developed equipment and technologies.

OPERATIONAL STRUCTURE

Nammo operates through its four business units; Small Caliber Division, Medium & Large Caliber Division, Missile Products Division, Demil Division.

HISTORY

Nammo Group was established in 1998 following a merger of the ammunition operations of three major Nordic defense companies; Celsius AB, Patria Industries Oyj and Raufoss ASA.

SHAREHOLDERS

Nammo's shareholders are The Norwegian Ministry of Trade and Industry (50%), and the Finnish Group Patria Oyj (50%). The ownership structure in Nammo AS changed on February 3, 2006 following the sale of Saab AB's shares to Patria Oyj and the Norwegian State represented by the Ministry of Trade and Industry.

VISION – "NAMMO, A CUSTOMER DRIVEN SUPPLIER"

Nammo is a leading Ammunition and Missile Products Group with a strong international industrial presence.

BUSINESS CONCEPT

Nammo shall develop a leading global position as a supplier of Ammunition and Missile Products and Services in a customer driven culture through strong market presence.

OUR VALUES

Nordic Cooperation for the benefit of our Customers and Shareholders

Always think Safety and Ethics

Make good ideas grow – share them

More leadership – less bureaucracy

Organise for speed and cash flow

KEY FIGURES NAMMO GROUP

MNOK	2002	2003	2004	2005	2006
Sales	1 379	1 529	1 521	1 641	1 991
Operating Result (EBIT)	92	125	131	206	270
EBITDA	142	178	180	256	332
Net Finance Result	-24	-21	-2	10	0,6
Net Income Before Tax (NIBT)	75	104	129	216	270
Net Income after tax	43	95	111	184	186
Dividend	0	20	30	92	74
Key Performance Indicators					
Return On Sales % (Sales/NIBT)	5,4	6,8	8,5	13,2	13,6
Economic Value Added (1)	8	27	38	83	109
Average Man Years	1 297	1 243	1 170	1 162	1 260
Sales per Man-Year	1,06	1,23	1,30	1,41	1,58

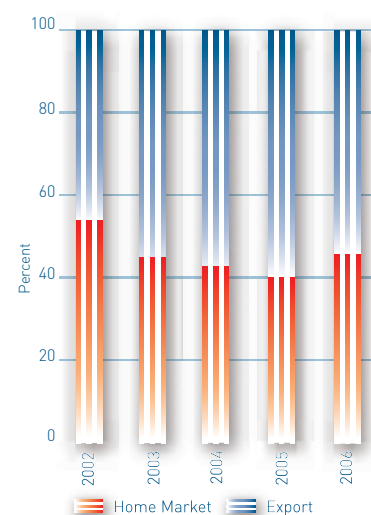
Balance Sheet:

Fixed & Long Term Assets	326	347	329	410	444
Current Assets	695	793	876	1 099	1 307
Total Assets	1 021	1 140	1 204	1 508	1 750
Invested Equity	359	359	359	359	359
Earned Equity	55	171	283	322	460
Total Equity	414	529	642	681	819
Provisions	105	112	121	120	124
Long-Term Debt	129	62	0	0	1
Short-Term Debt	373	436	442	707	807
Total Debt	607	610	562	827	932
Total Debt & Equity	1 021	1 140	1 204	1 508	1 750

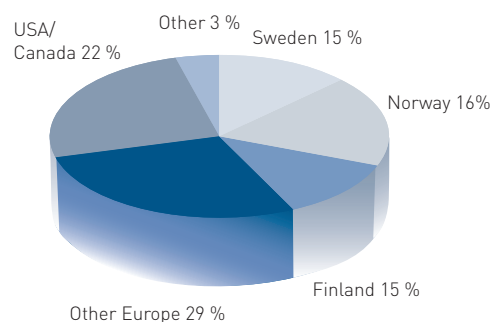
(1) 12 month rolling EVA with average cost of capital of 11% and 28% calculated tax

NAMMO SALES

HOME MARKET VS EXPORT MARKET



SALES BY GEOGRAPHICAL AREAS 2006



EXTREME TECHNOLOGY

TESTING THE AERODYNAMIC PROPERTIES OF A FORMULA 1 CAR - AND BULLETS FROM NAMMO!

A bullet's performance can be compared to that of a Formula 1 car. The same laws of aerodynamics and physics affect them both – and mastering these is the key to ultimate success.

The top quality and performance that are characteristic of all Nammo Small Calibre cartridges are achieved by a precise combination of the very best components. Reliable and timely ignition, optimal muzzle velocity and excellent ballistic properties are the result of well designed components and cartridges. Just like a Formula 1 vehicle, a cartridge can only be perfect when all the individual components are perfectly matched.

The manufacturing process of a Formula 1 car is an extreme manufacturing challenge.

This is also the case for manufacturing all the components of a cartridge in order to meet the highest requirements. Assembling them using thoroughly tested parameters and premium grade powders then creates the unique product range for a highly specialized product area. The real challenge however lies in repeating this manufacturing accuracy for millions of cartridges.

Every surface of a Formula 1 car is subjected to careful consideration and aerodynamic analysis in wind tunnels. In the same way, the characteristics of Nammo small caliber products within military, security, sport shooting and hunting applications, as well as other specialised bullets and cartridges, undergo thorough and constant testing in order to guarantee consistently top quality and performance.

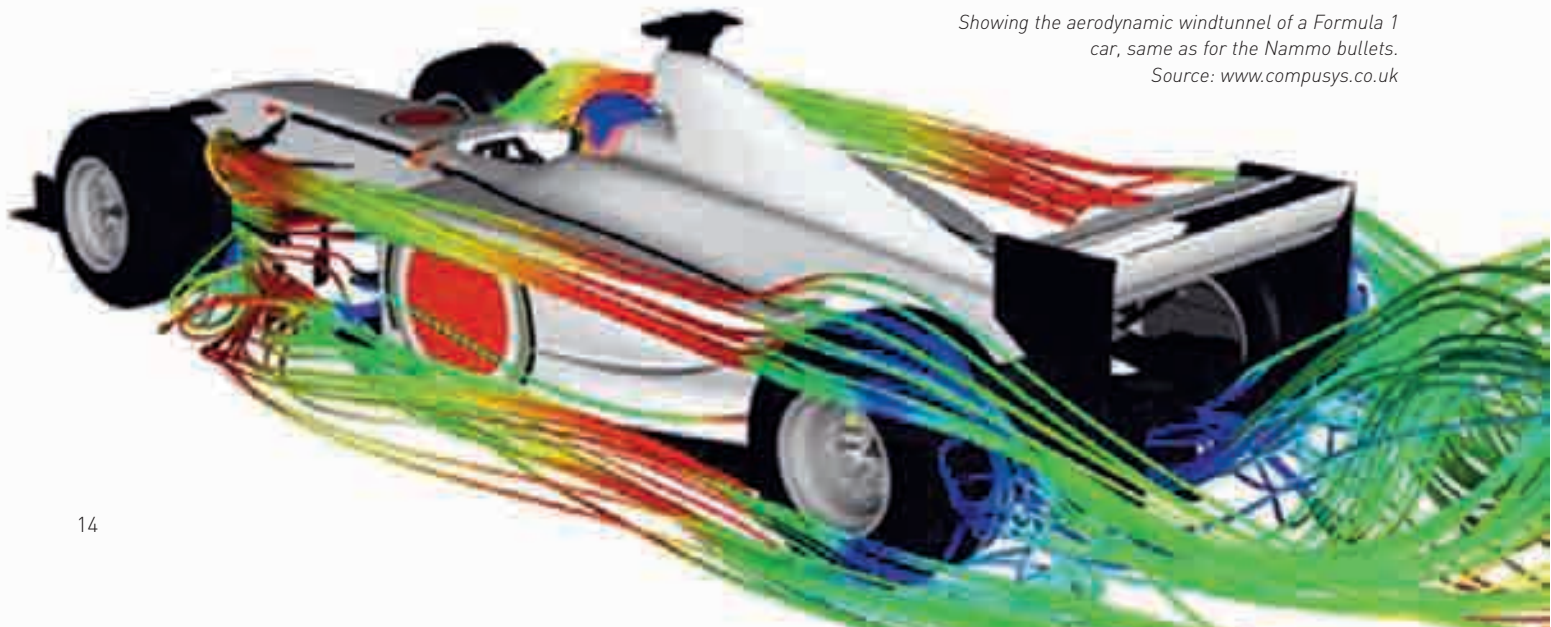
HYDRO BALLISTICS

There is an old Norwegian folklore about a ship that could travel by land, by sea and

even in the air. By utilizing a combination of state of the art technology for both air ballistics and hydro ballistics, we have designed projectiles that can both fly through the air and even swim through the water, almost as impressive as the ship in the old folklore.

Advanced hydro ballistic calculations and simulations have made it possible to design a projectile that could take out targets both on the surface, in the air and also in to the sea. This technology is specially developed for naval operations where the desired object to defeat in the air could either be a missile, airplane or a UAV, on the surface it could be a land-going vehicle, building, fortification, naval vessel or other technical targets, in the water it could be a water mine or a torpedo. Due to the hydro ballistic properties of the projectile, it also has a reduced risk for ricochets when firing at targets in the sea. When the projectile hits the water surface, it will continue into the water instead of creating a dangerous ricochet.

*Showing the aerodynamic windtunnel of a Formula 1 car, same as for the Nammo bullets.
Source: www.compusys.co.uk*



The key to the impressive properties required to defeat targets in the water is our unique technology for designing supercavitating kinetic energy projectiles.

$$y = \frac{d}{2} \sqrt{(kx/d) + 1}$$

Cavity Equation

COMPUTATIONAL FLUID DYNAMIC DEFINES PERFORMANCE OF TVC SYSTEMS

The Swedish ski jumper Jan Boklöv began spreading the tips of his skis into a "V" shape. At first, he was laughed at and penalized by the judges. Four years later, Boklöv won the 1989 World Cup title. Aerodynamic wind-tunnel tests and aerodynamic flow analyses proved that the «V» provided 28 percent more lift than the traditional, parallel style. An aerodynamic analysis, Computational Fluid Dynamic (CFD), performed

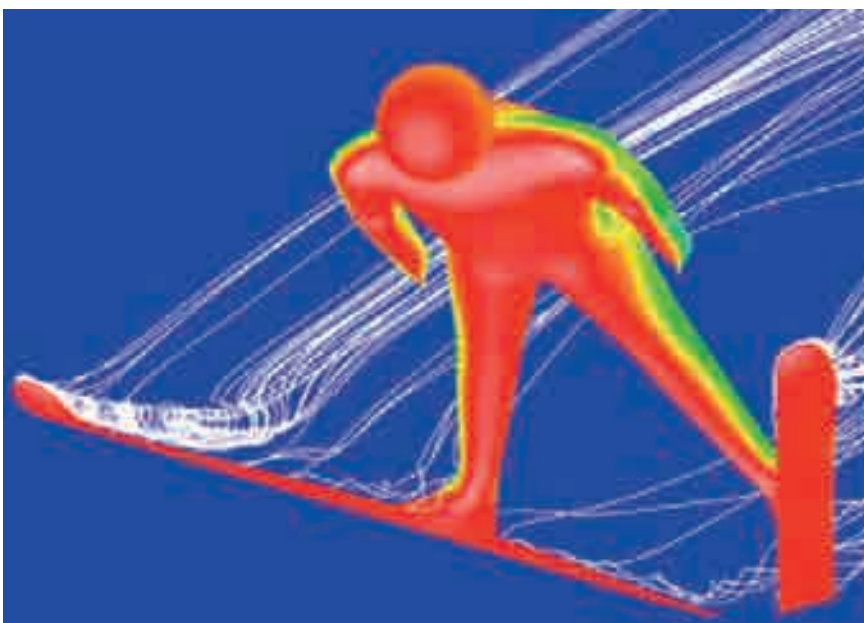
at CFD Norway is shown below. The new jumping style also afforded jumpers more control and safety. Ski jumpers started changing to this style. By 1992, every individual medal winner used the «V» style. The ski jumping sport has become a high tech sport with extreme focus on aerodynamics, and CFD analyses have been widely used for style optimisation.

Similarly, Nammo has several years of experience in design and development utilising advanced CFD solvers adapted for simulation of solid rocket motor flow phenomena. At our Missile Products Division, we work on the development of Thrust Vector Control Systems (TVC) – extreme technology with respect to heat, load, efficiency and system integration. The design tools are the same as those utilised for analyses of ski jumpers. The tool defines performance of TVC systems with excellent accuracy.



Thrust Vector Control System. Source: Nammo AS

Showing a 3D model of the Boklöv skijump style creating the same aerodynamic windtunnel as the Nammo rocket motor technology. Source: CFD Norway



DISASSEMBLING TECHNOLOGY

Demilitarisation technology is extreme in many ways. The task of disassembling an explosive item, that was not designed to be disassembled, is very challenging. Moreover, the procedure requires completely safe conditions for the operators, but without access to historical user data and sometimes also with very limited technical data and information about the build structure. And the procedure must also be performed at the lowest possible cost.

Nammo has developed extreme technology to disassemble, recover and recycle all materials, from all conventional ammunitions and explosive products, to both minimise environmental impact and maximise economic return. Nammo is taking its responsibility in trying to reach the global goal of creating a long-term environmentally sustainable society.

EXTREME SAFETY AND SPEED

Below is a good example of the high-tech demil environment. The picture shows in-house developed and designed equipment for full disassembly of the Multiple Launch Rocket System (MLRS) warhead. The MLRS warhead contains 644 sub-munitions with individual fusing and hollow charge warheads. The equipment totally disassembles 2,500 sub-munitions per shift and is placed inside a safety cell, designed to withstand an unintentional explosion. The process is fully automated and the operator monitors it from outside the safety cell, via a TV-monitor.

ENVIRONMENTAL CONCERN

Recycling is not only a key subject when it comes to reaching global and national environmental goals, recycling is also important within the demil market with

regard to both economic return and environmental impact. The recovery and recycling of metals is quite simple and common among most actors on the demil market. The recovery and recycling of energetic materials (high explosives, propellants, tracer/igniter compositions etc), however, is challenging from a number of aspects. Firstly, there is a very wide variety of compositions, which for safety reasons requires different recovery methods and consequently development of and investments in multiple processes. Secondly, the market for civilian recycling (military recycling is normally not accepted by customers) of energetic materials is limited and the typical customer is a producer of the same or similar materials. As a result, Nammo has developed both extreme blasting technology and end user products, for both the mining and construction industry.



Bomblet line from Nammo Buck GmbH, Pinnow in Germany. Source: Nammo AS.



Preparing for underground detonations at Nammo NAD AS, Løkken Verk in Norway. Source: Nammo AS.

RAUFOSS – NORWEGIAN CENTRE OF EXPERTISE (NCE) FOR ADVANCED LIGHTWEIGHT MATERIALS AND AUTOMATED MANUFACTURING

In 2006, the industrial cluster at Raufoss, including neighbouring industrial enterprises, local R&D establishments and educational institutions, was appointed a Norwegian Centre of Expertise for Advanced Lightweight Materials and Automated Manufacturing. News of this appointment was included in a joint announcement issued by the Minister of Trade and Industry and the Minister of Local Government and Regional Development. The announcement was the conclusion to a 3-year process to qualify as a National Centre of Expertise in a national program aimed at establishing up to 10 NCEs in different areas of technology. The program has a high national profile in research, technology and industrial development.

Nammo Raufoss has played an active role in the process leading up to the appointment, both directly and, with its 14.9% shareholding, as the main industrial owner of Raufoss Technology and Industrial Management (RTIM). RTIM is the main player in implementation the qualifying process and it will also be the main hub in realisation of the NCE.

The background to the appointment as an NCE is Raufoss' long history and its extensive expertise in the use of high-strength aluminium and other lightweight materials in efficient, industrialised product solutions

for defence, aerospace, automotive and commercial applications within a highly competitive international market.

Based on the original ammunition-production activities, today's industrial cluster consists of a wide range of highly competent enterprises operating in different branches, markets and technologies. What they have in common is a unique combination of advanced lightweight materials and the manufacturing processes required to develop and produce world-leading products in response to the most demanding customer needs. Keeping costs under control by sharing resources in selected areas and cross-fertilisation between the companies are other key factors.

The inclusion in the NCE of educational institutions and R&D establishments further promotes the future recruitment of qualified personnel of all categories and also keeps the NCE at the cutting edge of technological development. One of the main target areas for the NCE is innovation in new products and technologies and a regional venture capital fund is to be established to support the creation of new enterprises.

The NCE has a timeframe of ten years and an annual basic funding of 14 MNOK. An additional NCE-managed program backlog

has already built up to a level of 800 MNOK. For all NCE consortium members, these programs and the community created by the NCE activities provide a unique opportunity for the future development of their respective businesses. For Nammo, it also ensures acceptance as part of a nationally significant industrial structure.

The Raufoss Norwegian Centre of Expertise is currently regarded as the strongest industrial cluster of goods manufacturing companies in the country.



Norwegian Centres of Expertise
NCE Raufoss

FINANCE

The primary goal of Nammo's financial activities is to generate a total return to shareholders on par with the best companies in the defense industry. Nammo defines total return to shareholders as the sum of the increase in share value plus dividend over a period.

The defense industry is in a restructuring process, where new alliances and consolidation through mergers and acquisitions have set the agenda. In this framework, Nammo shall strive to maintain strong partnerships and have the financial strength to take advantage of investment opportunities in the core business areas, where Nammo's investment criteria and strategic benefits are met. The financial situation for Nammo at the end of 2006 provides opportunities for new acquisitions and further growth. Development of the company through organic and non-organic growth has been targeted and the acquisition of Bakelittfabrikken in July 2005 went according to plans.

CURRENCY RISK

In the financial management of Nammo, one of the focused areas has been to reduce exposure to currency fluctuations. This has been achieved via a risk-reduction programme, which has proved beneficial.

LIQUIDITY

Nammo has a strong liquidity situation. Cash is generated from operational and financial activities and the cash position also reflects significant prepayment from customers. A working capital programme was initiated in 2005 to free additional cash, which may be better utilized in other areas of the company.

TAXATION

Nammo has been in a situation where past major tax losses from our subsidiaries have contributed to low payable tax for the Group. Auditors and the authorities focus on the field of international taxation and therefore the focus in Nammo is on arm's-length principles between internal Nammo companies. In 2006, audit authorities in our operational countries conducted a number of reviews, but the findings from these have not resulted in significant changes to the Group's profit and balance sheet in 2006.

INTERNATIONAL

In our international operations, we have been focusing on establishing financial low-risk setups where the emphasis is on transparency in ownership and high ethical standards with our industrial partners.

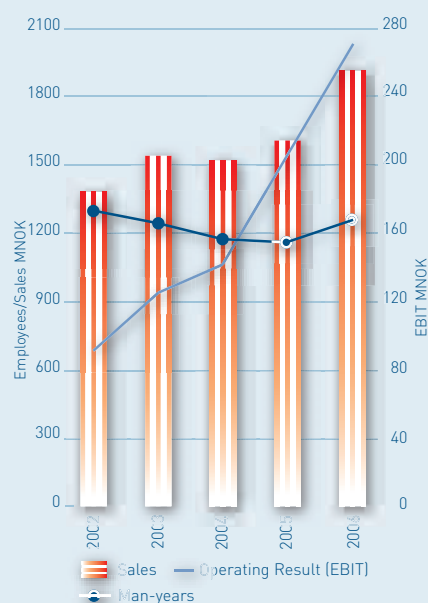
DISTRIBUTING FINANCIAL KNOWLEDGE

Internally, we strive to distribute this knowledge throughout all levels of the organisation. Our philosophy is also to familiarize personnel outside the financial organization in Nammo with the subject of business administration.

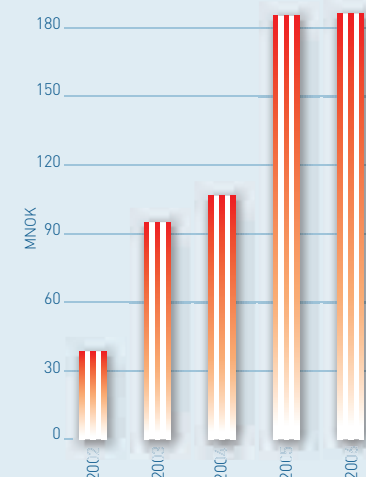
INFORMATION TECHNOLOGY

Nammo is in the process of reducing the total number of data system applications in the Group and supporting standardisation in all subsidiaries. Daily IT operation and application support has been outsourced for the last five years. The IT strategy is to actively utilize the technology to achieve competitive advantages in the marketplace and contribute to high internal productivity.

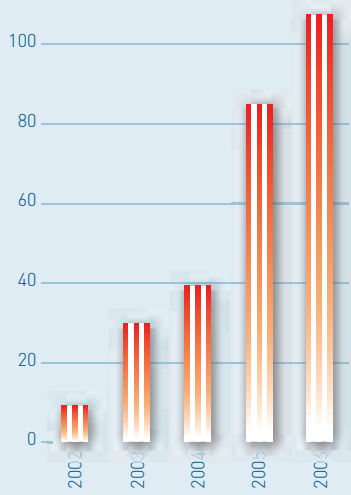
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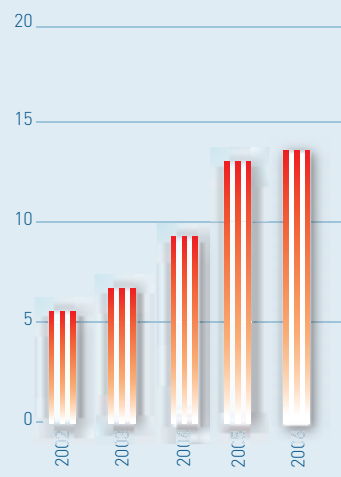
ANNUAL NET INCOME AFTER TAX



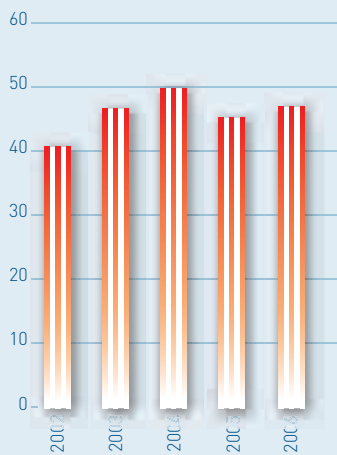
ECONOMIC VALUE ADDED



RETURN ON SALES %



EQUITY %



The Reichstag Dome in Berlin is a gleaming metal and glass structure with a ramp that spirals up to a roof terrace with 360-degree views of central Berlin. The building's energy strategy is radical. It uses renewable bio-fuel refined vegetable oil - which when burned in a co-generator to produce electricity is far cleaner than fossil fuels. The result is a 94 per cent reduction in carbon dioxide emissions.





BOARD REPORT 2006

GENERAL COMMENTS

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

The Board is pleased to report a continued positive development for Nammo in 2006 exceeding budgeted goals. This has to a large extent been the result of long-term continuous improvements to the company by highly motivated and dedicated employees who have focused on performing their best within their respective areas. Nammo's high technology, niche products meet the requirements of our customers who demand the best equipment available for their soldiers. Consistent with our strategy, the acquisition of Talley Defense Systems (TDS) will secure and enhance Nammo's already well-established position on the US market. As a result, Nammo has become an even stronger, more dedicated and focused supplier of ammunition, missile components and demil services to customers both in the Nordic countries and internationally.

Through close contact and dialog with demanding customers, the development of niche products with high performance has enabled Nammo to maintain a leading position within its core business areas as well as an important balance between R&D and ongoing production. A focus on the development of high technology niche products will continue to be a key to Nammo's success also in the future.

A long-term strategy of developing Nammo's position on the international market has gradually generated positive results and is expected to continue through partnering with national companies in several countries and acquisitions such as that of Talley Defense Systems.

The continuous improvement of operations has gradually strengthened Nammo's financial position, thus giving the company greater flexibility to further develop the company both organically and through acquisitions according to our strategy. The acquisition in 2005 of Bakelittfabrikken AS, Norway – a specialised company in plastic training ammunition – to increase the product range offered to our customers, has proven successful. The final acquisition of Talley Defense Systems in 2007 is expected to consolidate and strengthen Nammo's position as a supplier to US customers.

At the end of 2005 the Norwegian State and Patria Oyj agreed to buy SAAB's 27,5% shares in Nammo, thus establishing a new ownership structure of 50:50 between the Norwegian State and Patria Oyj.

As a developer, producer and supplier of ammunition and missile products to the international market, Nammo is conscious of the ethical issues and the responsibility we have related to our business activities. We therefore cooperate closely with the respective national authorities to ensure that we are in full compliance with laws and regulations and the guidelines of

our owners, and that we are operating consistently with our ethical standards with respect to products and marketing efforts.

THE NORDIC PLATFORM

The defense industry operates in a regulated market, and is generally dependent on a domestic, demanding customer as a platform from which to develop. This is the key to new technology and new products, and it creates a production base from which to compete on the international market. For Nammo, the Nordic countries form the domestic base, and it is vital for Nammo to be part of the Nordic development and future structure and to feature in the plans of their Armed Forces.

The restructuring of the Armed Forces in the Nordic countries is progressing according to the separate plans and objectives for each country. Nammo has developed a constructive dialogue relative to our role and interests in this complicated and difficult process. The overall demand for ammunition has seen a decline over the last years, except in Finland. However, the Nordic customers accounted for 46% of total sales in 2006, up from 40% in 2005. The Nordic countries are still key customers with a need to upgrade and modernize their equipment to meet the requirements of the new structures.

Nammo considers that the Armed Forces' focus on core activities will gradually require partnering arrangements and new opportunities for the industry. We are in dialogue with the Armed Forces in each country to develop a mutual acceptable model for part-

nering in order to establish "Ammunition Life Cycle Management Services".

We have also experienced that preparation for and participation in international operations have created sudden demands for ammunition. Therefore, flexibility for short-term deliveries has become increasingly important on the market.

The Finnish Defence Forces continued to contract their long-term modernization programme of particularly large caliber artillery ammunition with the Finnish industry. Nammo co-operates with Patria and Eurengo to fulfil these requirements and is aiming at establishing a long-term Finnish industrial structure within large caliber ammunition. The next long-term large calibre contract between FDF and the Finnish industry is under evaluation.

In Sweden and Norway, the transition process for the Armed Forces is underway, with significant impact for the industry. However, as this process moves forward and a new structure of the Armed Forces emerges, the dialogue and contracting with the industry has become more focused and has entered into a more constructive phase.

Nammo's position on the domestic Nordic markets as "the Nordic Ammunition Company" represents a continuous challenge to develop the best competitive solutions together with our authorities, the customers, other Nordic defense industry and international partners.

THE INTERNATIONAL MARKET

The domestic Nordic platform is a key to Nammo's development, despite the overall reduction in sales over a number of years. Since Nammo was established in 1998, the domestic Nordic market decreased from around 55% to 40%. The turnover and export increased to 60%. This overall trend may have changed in 2006 with export accounting for 54% of the turnover. The international market has however, become increasingly important and Nammo has therefore focused on strengthening its international position.

In order to be politically accepted as a supplier, there is an increased requirement for close co-operation with national industry and a local presence on international markets. This is valid for small countries supporting their local industry, as well as for the major countries with "free competition" protecting their domestic industrial base. The need for Nammo to be operationally present in key markets has therefore increased.

The US continues to be an important customer for Nammo by taking a leading role in the development and qualification of new technology for integration within their Armed Forces. New technology and niche products developed by Nammo have continued to be accepted and qualified for use by US Armed Forces. Nammo's potential and presence in the US is therefore considered important and will continue to be evaluated with the objective to building a

stronger operational presence in the future. The acquisition of TDS is consistent with this strategy and is considered a platform for further development of Nammo as a supplier to US customers.

On the European defense market, leading national industry still dominates in most countries. However, there have been opportunities for Nammo's niche products in co-operation with national suppliers or by direct deliveries, and Europe still remains a key market for Nammo.

Nammo has established a wide network of co-operation both with the Armed Forces and with the local industry in the new NATO countries. Key ammunition projects for new platforms acquired by the Polish Armed Forces are being successfully developed in co-operation with our Polish partners Mesko and Bumar. This partnership is developing into a long-term relationship. A similar partnership with ZVI in the Czech Republic, has resulted in significant new ammunition programmes.

South East Asian countries have become important markets for Nammo with key contracts awarded and additional potential being developed. The positive results from the efforts so far provide the basis for further follow-up and focus on our presence in this area. For Nammo to be successful in these markets, a focus on leading technology and niche products has been a key element.

Nammo's position on most markets has seen an overall positive development in accordance with long-term goals, leading to continued growth and positive results.

OPERATIONS

Operations have shown significant progress from last year with improved quality and efficiency. Operating income increased from 1,641 MNOK in 2005 by 21% to 1,991 MNOK and operating profit from 216.5 MNOK by 24% to 269,5 MNOK. This extraordinary result is partly the result of accumulated long-term improvement processes and adjustments of the organisation to the actual market requirements, and partly the result of success in the market for Nammo's leading technology and high performance, niche products which meet customer requirements.

The company order backlog increased from 2,445 MNOK in 2005 by 7% to 2,631 MNOK, establishing a long-term basis for a stable and efficient production.

The number of average man-years increased to 1260 compared to 1162 in year 2005, reflecting an organisation adjusted to the increased turnover and order structure of the company.

The company sustained its focus on continuous improvements in all aspects of the organisation, from the operational to the administrative areas, keeping in mind the importance of having a structured

and organized process accepted by the employees. An important tool in the improvement efforts has been the use of "6 Sigma" processes developed from the AGILE tool, adopted from Raytheon through the co-operation on the Evolved Sea Sparrow Missile programme. A strong commitment to our HESS programme is also included in the improvement process to ensure that health, environment, safety and security aspects are all taken into consideration.

The Board is proud to report that Nammo has managed to continue to develop an effective and reliable improvement process to the benefit of the company both in terms of increased results, and with respect to HESS factors to the benefit of the employees and the local communities.

FINANCE

The 2006 results have further strengthened the financial position of Nammo. In order to be able to pursue Nammo's strategy to strengthen the company's position in the market through acquisitions, the Board is of the opinion that Nammo should maintain a strong financial position.

FINANCIAL RISK

The nature of business in Nammo comprises a number of financial risk elements. The customer base is global and currency fluctuations have a major impact on Nammo's financial results. The Nammo Group has both transaction risk and translation risk. Transaction risk is reduced through internal risk matching and hedging in the

market through financial instruments. Hedging of forecast currency cash flows is carried out continuously and the strategy is to secure calculated earnings on industrial contracts and thereby reduce the exposure to fluctuations. The translation risk is the effect on balance sheet items in foreign currencies due to fluctuations. This risk comprises equity in subsidiaries and joint controlled companies reported in foreign currency. This risk is not hedged.

The interest volatility is a potential risk area for Nammo. The focus area for 2006 has been to achieve a high yield on cash deposits, with a low risk, through accurate monitoring procedures.

Nammo's long-term assets are mostly in buildings, machinery and property. These assets are depreciated according to Norwegian GAAP. The tangible assets have a consolidated value of 336 MNOK and depreciations during the year were 63 MNOK giving a corresponding average remaining economical life of 5.3 years, which is satisfactory.

It is the Board's opinion that the financial risk has remained low in 2006.

Credit risk is low since Nammo mostly trades with Governments and major defense companies through long-term established relationships. The Board foresees no major change in trading pattern and credit risk for 2007. Liquidity risk is considered low for the Group. The Board has assessed the criteria for the going concern assumption according

to Norwegian Corporate Law and confirms that Nammo is well within these criteria.

The Board recommends to the General Meeting of Shareholders a dividend payment for 2006 limited to 74.3 MNOK. The Board's proposed application of the annual net profit of Nammo AS is as follows:

Dividend	74.3 MNOK
Other equity	39.2 MNOK
Total	113.5 MNOK

The Board's proposed application of the annual net profit of the Nammo Group is as follows:

Dividend	74.3 MNOK
Additional other equity	111.6 MNOK
Total	185.9 MNOK

HEALTH, ENVIRONMENT, SAFETY AND SECURITY (HESS)

Policy

Nammo operates in the explosive industry, handling energetic materials. Our HESS-policy states therefore that HESS has priority over all other business objectives and goals. That means that HESS for people working in Nammo is an important issue for the management.

HESS is on the agenda in every Management meeting. Policy is evaluated every year. All accidents resulting in absence and serious near accidents are reported and discussed. Monthly reports are sent to all sites for infor-

mation and actions. HESS-audits from Corporate were performed on all sites in 2006.

HESS results

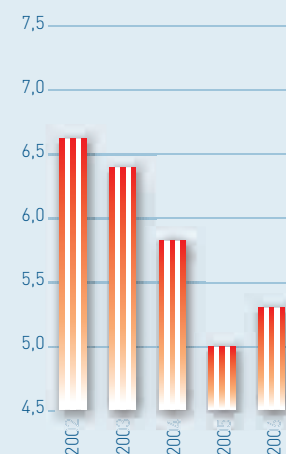
Sickness absence in Nammo at the end of 2006 was 5.3% compared to 5.0% in 2005. This development shows that a focus and follow-up from management and unions are still required in order to achieve even better results next year. Different activities, such as workplace improvement, environmental attention, protection equipment and physical training have been on the agenda.

There were 19 accidents resulting in absence in 2006, representing an H-value of 8, compared to 13 in 2005. Last year's results were the best since the start of the company. There was only one serious accident with explosives involved in 2006. This accident resulted in finger damages on one employee. The most frequent types of accidents are minor accidents such as injuries on fingers and hands as a result of handling of machines and materials. Other causes have been injuries related to fall. We need to continue our preventive work in all areas and to maintain a special focus on the attitudes of our employees.

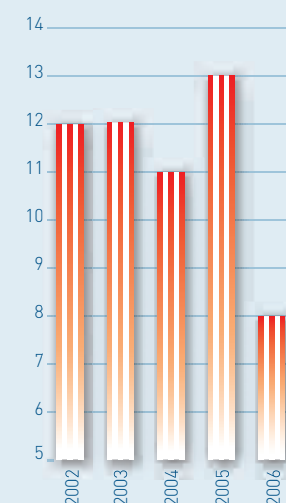
Environmental

Nammo's HESS-policy requires that all sites shall be certified according to ISO 14001, environmental certification. Most of the sites have reached this goal and the remaining sites and new sites will be certified in the near future. Environmental conditions for personnel exposed to hazardous

SICKNESS ABSENCE IN NAMMO 2002 - 2006
Sickness absence in %



H-VALUE IN NAMMO 2002 - 2006
H-value: Number of accidents with absence per million working hours



and toxic materials are registered and followed up via regular medical tests.

The Norwegian Government has made a commitment to take over responsibility for all of Raufoss ASA's environmental liabilities both at the industrial site at Raufoss, including the Test Centre, and for ammunition previously disposed of in Lake Mjøsa. This commitment was presented to the Parliament and approved in the 1st quarter of 2004.

Registration and mapping of pollution in the Raufoss Industrial Park has been carried out and will continue. Nammo Raufoss AS plays an active role in this process. Some of the areas have been cleaned up and plans have been made for clearing of other areas in the near future.

During 2004, Nammo carried out a full survey and analyses of potential environmental liabilities at all operational sites. Based on this review, necessary actions and the owner's responsibility for these liabilities, which will expire in 2008, were identified and addressed in 2006. More detailed investigations have been performed and discussed with the authorities and owners. In 2007 and the years to come, each site will have a special focus on preventing pollution to water, air and ground and will follow up these items according to national regulations. Every site reports to their local and governmental authorities.

A common effort in the area of energy efficiency, special waste, and water consumption will receive special focus with plans and goals for continuous improvement in 2007.

Safety and security

During the annual HESS-seminar, we discussed common experience gathered from accidents and incidents. Accidents with fork-lifts have received a particular focus in 2006. An action plan for 2006-2007 was worked out as a guideline for continuous HESS improvements. A working group was established with personnel from each country to review the HESS strategy in Nammo. Main topics are reduced sickness absence, environmental issues, safety and security, improvement of common HESS system, explosive education/training and transfer of know-how. In some of the countries, the regulations for handling and storage of explosives have been changed to prevent burglary. Security systems in all production and storage areas for explosives in Nammo will be evaluated in 2007. The group will present their work during the next seminar in Finland in 2007.

Education and training

In 2006, the focus has been on proactive work, training and education. Nammo AS has signed a Partner agreement in the EU-programme for training and education of operators in explosive industry, called EuExcert. This project runs as a co-operation between Sweden, United Kingdom, Finland, Italy and Norway. The project started in 2004 and was finalized in 2006. A new program was initiated called EuExcert 2. The aim of this program is to compile standards for certification of personnel working in the explosive area in

Europe. In this program there are a number of new partners from Europe. The aim for Nammo is to build new training and education programmes based on the EuExcert standard and to increase the know-how needed to ensure accident reduction.

A common program for training and education together with the Norwegian Armed Forces was established in 2006. The first training session together with the Norwegian military is planned for early 2007.

HUMAN RESOURCES MANAGEMENT

Gender Equality

Equal opportunities for all employees form an important platform in our Human Resources policy. This applies particularly to recruitment, career development, equal pay for equal work, and working conditions. In 2006 Nammo participated in the Norwegian program, Female Future. The Confederation of Norwegian Enterprises (NHO) took the initiative for this program, and the aim is to give female employees improved opportunities to take on leading positions in the Company. Activities to motivate female University graduates to go into our business will be an important action.

Key numbers

- Nammo AS is a Group with 1311 employees by year end with business units in Norway (587 employees), Sweden (381 employees), Finland (205 employees), Germany (134 employees) and USA (4 employees).

- Women account for 29,5 % of the total employees within the Group. Nammo has one female Board Member on the Board of Directors. The Corporate Management team has one female member.
- Nammo has equal pay for work of equal value.
- When recruiting, there are equal opportunities for both women and men.
- Women and men have the same working conditions.
- Due to increased activity level, the recruitment in some parts of the organisation has been significant.

- The Nammo Group will continue to enforce the Group's salary policy, which requires equal pay for both women and men employed in the same position. Any and all future recruitments will continue to encourage women to apply.

OUTLOOK FOR THE NAMMO GROUP

Since its creation in 1998, Nammo has developed into a financially healthy company with a strong Nordic foundation. Further strengthening of the international position including a number of international partners and alliances together with

advanced technologies and niche products, has created a solid basis for the company's future development both organically and by acquisitions. This overall positive development was confirmed and strengthened in 2006.

The order books were strengthened during 2006 and are already well covered in most areas and the overall outlook is good also for the coming year. The Board expresses its appreciation to all employees for their commitment and strong individual efforts which made Nammo a successful and even stronger company in 2006.

Helsinki, March 27th 2007



Karl Glad
Vice Chairman



Jorma Wiitakorpi
Chairman



Tone Lindberg
Board Member



Jan T. Jørgensen
Board Member



Seppo Seppälä
Board Member



Jarmo Puputti
Board Member



Einar Linnerud
Board Member



Edgar Fosshiem
President & CEO



Juha Eväsoja
Board Member

BOARD OF DIRECTORS



Jorma Wiitakorpi, Chairman

Jorma was elected Chairman of the Board of Directors in 2006. He represents Patria Oyj. Jorma has been on the Nammo Board since 2001. His professional experience ranges from improvements and reorganisations to acquisitions and merging processes as well as international trade with consumer goods, industrial projects and components. Jorma has eight years as CEO in the Asko Appliance Group before he became President and CEO in Patria Oyj in 2001.



Juha Eväsoja, Board Member

Juha has been an employee elected representative on the Board of Directors in Nammo since 1999. Juha is educated as an engineer and has specialized within product development in Nammo Lapua. He has worked for the company (previously Lapua Cartridge Factory) for over 40 years. Juha has also acted as the local representative for the Engineering Union in Lapua.

Karl Glad, Vice Chairman

Karl was elected Vice Chairman of the Board of Directors in 2006. He represents the Norwegian State. Karl has been on the Nammo Board since 2000. He is a lawyer by education and has experience from Norway and Japan. He started his career in the Aker Group ASA until he concluded as President and CEO. He has been Director General of the Confederation of Norwegian Enterprise (NHO) for ten years. Karl work as Judge nominated by NHO in the Norwegian Labour Court.



Astrid Berg-Ardesjö, Observer

Astrid was elected as Employee Observer to the Nammo Board of Directors in 2006. Astrid started in Bofors AB in 1979 as Administration Officer and Marketing Coordinator. She followed the company until it became Nammo in 1998. In the Nammo Group, she has held several positions, among others Executive Assistant to the President of two Divisions. Since 2002 she has been working as economy assistant at Nammo Liab.

Einar Linnerud, Board Member

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

Einar work as Operator within one of Nammo Raufoss' production departments.



Jan T. Jørgensen, Board Member

Jan was appointed Member of the Board of Directors in 2006. He represents the Norwegian State. Jan has an M.Sc degree from NTNU in Trondheim. He has additional education at BI in Norway and at the Norwegian Navy as well as a management program at Harvard Business School. His professional experience started in the Norwegian Navy and led him to Elektrisk Bureau AS (today ABB). He spent 12 years in the Kongsberg Group as CEO before he started as CEO in Kværner Oil & Gas and later to Kitron ASA. Today he works as CEO in Arbaflame AS.



Seppo Seppälä, Board Member

Seppo was appointed Member of the Board of Directors in 2006. He represents Patria Oyj. Seppo has an M.Sc degree in Hydraulic and Mechanical Engineering.

Seppo has more than 20 years of experience and a career in the Rauma Group before he worked in Sandvik Tamrock Corp, Inco Ltd, Canmet and Dyno Nobel Inc as Executive Director for the Joint Research & Development Program. He started in Patria Finavicomp Oy as Managing Director in 2000 and works today as Executive Vice President in Patria Oyj.

Jarmo Puputti, Board Member

Jarmo was appointed Member of the Board of Directors in 2006. He represents Patria Oyj. Jarmo has a M.Sc degree in Electrical Engineering from the University of Technology in Helsinki. He is a Captain in the Army Reserve and has served in the UNDOF Peace Keeping Operation in Golan Heights. Jarmo has a wide experience from international businesses, business development, marketing, sales and project management.

He joined the Patria Group in 2004 and works as Executive Vice President of Patria Weapon Systems Oy.



Tone Lindberg, Board Member

Tone was appointed Member of the Board of Directors in 2006. She represents the Norwegian State. Tone has her education from human resources development, project and quality management. She has various working experience within logistics, project management and program management. Tone has also worked actively within the Home Guard as Instructor and Lt & Troop Cdr. Mrs Lindberg work as Marketing and Quality Manager in Natech NSV AS.

***The Eiffel Tower,
the Nammo 2006 Photo Competition.***

As a part of the 2006 Christmas presents to our employees, Nammo launched a photo competition. The objective was to identify motives focusing on our company slogan: Precision, People and Technology. We received a huge number of excellent photographs, and mr. Pekka Eriksson from Demil Division at the Vingåker site was awarded the 1st prize. His photo of the Eiffel Tower shows an excellent blend of engineering work, performed precision and material technology. Congratulations, Pekka!

The Eiffel Tower was built for the World Exhibition in 1889 to celebrate the 100 years anniversary of the French Revolution. 300 steelworkers put together 18.038 pieces of steel and used 2,5 million bolts. The tower has a total height of 324 meters, and remained the highest building in the world until 1930.





NAMMO GROUP

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INCOME STATEMENT NAMMO GROUP

Figures in 1000 NOK	Notes	2006	2005
OPERATING INCOME	1	1 990 652	1 641 025
OPERATING EXPENSES			
Changes in stock of manufactured goods		48 047	(123 742)
Changes in stock of manufactured fixed assets		(187)	(310)
Cost of raw materials, purchased components and finished goods		675 936	669 410
Salaries, wages, vacation pay and professional fees	3, 11	552 926	506 478
Depreciations of fixed assets	6	62 833	49 986
Other operating expenses		381 529	333 288
Total operating expenses		1 721 084	1 435 110
OPERATING PROFIT		269 568	205 915
FINANCIAL INCOME AND EXPENSES			
Share of profit (Loss) - Equity method	5	(296)	120
Interest received		11 640	9 707
Other financial income	4	12 521	14 351
Interest paid		(6 017)	(5 761)
Other financial expenses	4	(17 238)	(7 797)
Net financial income (expenses)		610	10 620
PROFIT BEFORE TAX AND EXTRAORDINARY ITEMS		270 178	216 535
Taxes on ordinary result	12	(84 286)	(32 784)
PROFIT BEFORE EXTRAORDINARY ITEMS		185 892	183 751
EXTRAORDINARY INCOME AND EXPENSES			
Net extraordinary items		0	0
Profit (Loss) for the year		185 892	183 751

BALANCE SHEET NAMMO GROUP

Figures in 1000 NOK

ASSETS	Notes	As of 31.12.06	As of 31.12.05	As of 31.12.04
FIXED ASSETS				
Intangible assets				
Deferred tax advantage	12	63 047	53 424	40 486
Other intangible assets	6	3 800	9300	0
Goodwill	6	12 599	16 214	9
Total intangible assets		79 446	78 938	40 495
Tangible assets				
Buildings	6	110 108	116 233	122 833
Property	6	16 212	11 100	11 395
Machinery and equipment	6	136 052	132 711	111 184
Fittings, office machines etc.	6	18 475	14 403	12 322
Plant under construction	6	54 815	35 427	15 401
Total tangible assets		335 662	309 879	273 135
Financial assets				
Shares in joint-controlled companies	5	9 594	9 742	9 499
Other shares and participations	5	9 040	1 508	1 513
Other long-term assets	7	9 942	9 485	9 579
Total financial assets		28 576	20 735	20 591
Total Fixed assets		443 684	409 547	334 221
CURRENT ASSETS				
Inventories				
Raw materials		155 969	164 257	124 519
Work in progress		106 853	140 835	69 688
Finished goods		98 230	104 007	51 412
Total inventory		361 052	409 099	245 619
Receivables				
Prepayments to suppliers		29 273	4 857	13 274
Accounts receivable	8	498 613	245 651	336 252
Other receivables	7	29 865	49 714	18 684
Other financial assets		10 489	10 166	10 000
Total receivables		568 240	310 388	378 210
Cash and bank balances	9	377 223	379 419	252 110
Total current assets		1 306 515	1 098 906	875 939
TOTAL ASSETS		1 750 199	1 508 453	1 210 160

Figures in 1000 NOK

	Notes	As of 31.12.06	As of 31.12.05	As of 31.12.04
SHAREHOLDERS' EQUITY AND LIABILITIES				
EQUITY				
Share Capital	10	100 000	100 000	100 000
Premium Funds		258 670	258 670	258 670
Other Equity	10	459 954	322 298	244 266
Total equity		818 624	680 968	602 936
LIABILITIES				
Provisions				
Pension engagement	11	103 774	93 723	89 754
Allocation for restructuring	13	20 237	26 275	30 946
Total provisions		124 011	119 998	120 700
Other long-term liabilities				
Other long-term liabilities		824	0	0
Total other long-term liabilities		824	0	0
Short-term liabilities				
Allocation for guarantee liability		82 476	73 094	54 236
Advance payments from customers		183 488	174 532	94 207
Accounts payable		143 585	159 331	114 109
Taxes payable	12	84 573	42 449	19 998
Withheld taxes and VAT		67 681	45 229	67 727
Dividend payable to shareholders		74 300	92 000	30 000
Other short-term liabilities		170 637	120 852	106 247
Total short-term liabilities		806 740	707 487	486 524
Total liabilities		931 575	827 485	607 224
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		1 750 199	1 508 453	1 210 160

Helsinki, March 27th 2007



Karl Glad
Vice Chairman




Jorma Wiitakorpi
Chairman



Tone Lindberg
Board Member



Jan T. Jørgensen
Board Member



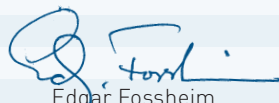
Seppo Seppälä
Board Member



Jarmo Puputti
Board Member



Einar Linnerud
Board Member



Edgar Fossheim
President & CEO



Juha Eväsoja
Board Member

CASH FLOW NAMMO GROUP

Figures in 1000 NOK.	2006	2005	2004
CASH FLOW FROM OPERATIONAL ACTIVITIES			
Result before tax	270 178	216 535	129 445
Tax payments	(29 190)	(24 226)	(20 087)
Profit and loss on sale of fixed assets	0	(4)	(9 778)
Ordinary depreciations	62 833	49 986	52 623
Changes in stock	48 047	(163 480)	(14 911)
Changes regarding debtors	(252 962)	90 601	3 001
Changes regarding creditors	(12 290)	44 672	49 352
Changes in other depositions	82 761	34 323	(25 575)
Net cash flow from operational activities (a)	169 377	248 407	164 070
CASH FLOW FROM INVESTMENTS ACTIVITIES			
Payments from sales of long-term assets	107	132	17 031
Purchase of long-term assets	(86 468)	(93 118)	(39 130)
Net cash flow from investment activities (b)	(86 361)	(92 986)	(22 099)
CASH FLOW FROM FINANCING ACTIVITIES			
Payments received renew short term debt	1 648	0	0
Repayment of short term debt	(824)	0	0
Installments on long-term loans	0	0	(62 222)
Net payment of interest	5 964	1 888	2 006
Paid dividend	(92 000)	(30 000)	(20 000)
Net cash flow from financing activities (c)	(85 212)	(28 112)	(80 216)
Net changes in cash and bank accounts (a+b+c)	(2 196)	127 309	61 755
Cash and bank accounts as of 01.01	379 419	252 110	190 355
Cash and bank accounts as of 31.12.	377 223	379 419	252 110

Unused part of overdraft facility is 50 MNOK.

GENERAL PRINCIPLES

Annual Accounts of the Nammo Group

Nammo Group's annual accounts are prepared according to Norwegian Generally Accepted Accounting Principles (NGAAP). The Group include Nammo AS and all those subsidiaries directly owned or controlled by agreement. All receivables and liabilities between the Group companies have been eliminated. The same applies to internal transactions from changes in stock values. The past equity method is applied as a consolidated Group principle for the elimination of shares in subsidiaries.

The past equity method implies that the parent company's book value of the shares in the subsidiary is eliminated against the booked equity in the subsidiaries at the time of purchase. Differences are entered as goodwill and will be depreciated over a period of 5 years.

Shareholding companies, which are jointly controlled with other owners, are entered according to the proportional consolidation method if they have major impact on the group results. Jointly controlled companies with less impact on the group results are included according to the equity method. See note 5 for details.

The foreign subsidiaries' profit and loss accounts are calculated in NOK at the average rates valid during the year, whereas assets and liabilities are calculated at the exchange rate valid at 31.12. Changes arising from recalculation of foreign subsidiaries are entered against the equity capital.

Operating Income

Revenue is measured at fair value of consideration received or receivable. Revenue is recognized when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliably. The transfer of risk and reward of ownership to the goods must also be considered to have taken place. Normally, the recognition of revenue from sale of goods takes place at the time of delivery unless otherwise documented.

Revenues arising from the sale of services or the execution of development and long-term

production contracts are recognized on a percentage of completion basis. The share of revenues related to future rendering of services is booked as deferred income and is recognized as revenues when performed. Losses are charged as an expense when they occur. Value added tax, rebates and bonuses and other related costs are deducted from revenue.

Research and Development

Costs incurred for research and development are in general booked as cost on a continuous basis.

Maintenance

Maintenance is mainly booked when costs incur. Updating and replacement of operating equipment are viewed as investment and activated accordingly.

Warranty cost

Generally all warranty costs are booked when possible claims occur. Periodic allocations for warranty cost have been made to meet possible warranty claims in the future. The allocation is based on the nature of our business and long-term experience. The allocation is booked as short-term liabilities in the balance sheet.

Financial Instruments

The main principle in the group is to hedge the exchange rate of major transactions. The objective is to secure the calculated margin on contracts and thus eliminate the currency risk.

Tax expenses

Income tax expenses consist of taxes currently payable and changes in deferred tax assets and liabilities. Deferred tax assets and liabilities are based on temporary differences that arise between the book basis and tax basis of assets and liabilities and the expected future tax benefit of tax carry forwards. Taxes on extraordinary items, if any, are specified according to the Norwegian accounting standard.

Property and Equipment

Property and equipment are entered at the original purchase price minus specific depre-

ciation plans on linear basis. The rates for calculations of linear depreciations are fixed at an evaluation of the economic longevity of the individual asset. For sales of property or equipment, profit/loss is calculated as the difference between the selling price and the asset's booked value.

Accounts receivable and Credit Risk

Accounts receivable are recorded net of an allowance for doubtful accounts, if any.

In Nammo Group only a small part of the total sales is to the civilian market, mainly small caliber ammunition and sea safety products. The major part of the sales is to governmental and major industrial companies and therefore the credit risk is considered and experienced as minimal.

Leasing

Operational leasing is expensed periodically. Building leased under normal contracts are treated as operational leasing.

Stocks

Stocks of raw materials are valued at purchase price and stocks of goods in progress and finished goods are valued at acquisition cost [direct and indirect fixed and variable production costs]. Care has been taken to ensure that no stock exceeds its real value.

Assets and Liabilities in Foreign Currency

Accessible capital in foreign currency is booked at the exchange rate valid at closing date. Secured settlement of receivables/ liabilities are entered in the balance at the security rates.

Pension commitments/costs

Calculation of pension and pension costs is effectuated in accordance with accountancy standards for pension costs in each country where such standards apply. The net capitalised value of the Company's pension commitments is entered in the balance as a Long-term Debt entry. The effect of estimate alterations is dispersed over the current average earning period. The deferred tax advantage connected to pension, is included under long-term assets in the balance sheet.

NOTES TO THE ACCOUNTS

1. OPERATIONAL INCOME AND RESULT FOR THE NAMMO GROUP

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

Turnover from Nammo Subsidiaries pr. country	(Figures in 1000 NOK)	2006
Norway		927 471
Sweden		551 379
Finland		414 494
Germany		90 392
USA		6 915
Total		1 990 652

Turnover pr. Geographical location of Customers	(Figures in 1000 NOK)	2006
Norway		318 605
Sweden		288 659
Finland		306 937
Germany		192 990
Denmark		19 677
Great Britain		144 136
France		47 097
Netherlands		7 272
Belgium		10 781
Other European Countries		159 312
USA		442 333
Canada		-353
Australia		5 652
Asia		31 365
Other countries		16 190
Total		1 990 652

2. FINANCIAL MARKET RISK

The Nammo subsidiaries make both sales and purchases in foreign currencies. To reduce the financial risk on currency changes, secured exchange rate instruments are used to hedge substantial contracts in foreign currency with both the customers and the suppliers. Transactions are recorded at the hedged rates of exchange.

3. SALARIES AND SOCIAL COST

(Figures in 1000 NOK)	2006	2005
Salaries	403 338	360 689
Employment taxes	74 111	66 455
Pension costs	41 858	52 695
Other social costs	33 619	26 640
Total	552 926	506 478

Average number of employees	1 293	1 193
------------------------------------	--------------	--------------

Certain members of Nammo Management have a bonus agreement based on the EVA result in the unit they are responsible for. Economic Value Added (EVA) is operating result reduced by average capital employed multiplied by the Weighted Average Cost of Capital (WACC). Half of the bonus is paid the year after the year it was earned, together with half the remaining net bonus from previous years and tax.

Auditors	(Figures in 1000 NOK)	2006
Auditors fee for 2006		1 804
Other fees		1 302
Total		3 106

4. FINANCIAL ITEMS

(Figures in 1000 NOK)	2006	2005
Gain on exchange	11 316	14 104
Other financial income	1 205	246
Total other financial income	12 521	14 351
Exchange costs	(15 421)	(6 754)
Other financial expenses	(1 818)	(1 043)
Total other financial expenses	(17 238)	(7 797)

5. SHARES IN OTHER COMPANIES

(Figures in 1000 NOK)	Company's share capital	Number of shares owned	Nominal value	Booked value NOK	Ownership
Joint controlled companies:					
PB Nammo Demil, Virginia, USA					49 %
Norwegian Ammunition Disposal Company AS, Løkken verk, Norway	NOK 4782	23910	NOK 2391	5 269	50 %
Norabel Ignition Systems AB, Lindesberg, Sweden	SEK 400	2000	SEK 200	3 353	50 %
SN Technologies SA, Meyrin, Switzerland	CHF 200	100	CHF 100	660	50 %
Nammon Works Oy, Finland				107	25 %
Special Ammunition Services GmbH, Germany				206	50 %
Total				9 594	
Other shares and participations					
Raufoss Technology & Industrial Management, Raufoss, Norway				1 302	14 %
Raufoss Næringspark AS, Raufoss, Norway				7 508	7 %
Others				230	
Total				9 040	

Recorded value for jointly-controlled companies are included as Nammo's relative share of the profit/loss in the company in accordance with the proportional consolidation method for companies with substantial impact on the groups accounts. Companies with less impact on the groups accounts are included according to the equity-method.

NOTES TO THE ACCOUNTS continues

6. FIXED AND INTANGIBLE ASSETS

(Figures in 1000 NOK)

	Other intangible assets	Goodwill	Buildings	Other Fixed assets	Machinery	Fittings and office equipm.	Plant under construct.	Total
Acquisition cost as of 01.01.06	12 955	21 143	212 472	16 083	706 234	87 920	36 281	1 093 088
Additions during the year			4 784	129	43 858	9 918	18 534	77 223
Disposal's during the year	-	-	7	-	3 232	131	-	3 370
Acquisition cost as of 31.12.06	12 955	21 143	217 249	16 212	746 860	97 707	54 816	1 166 942
Accumulated depreciations	9 155	8 544	107 141	-	610 808	79 232	-	814 880
Balance value as of 31.12.06	3 800	12 599	110 108	16 212	136 052	18 475	54 816	352 062
Ordinary depreciations for the year	5504	3607	10445	-	37146	6131	-	62 833
Annual leasing cost on assets not in the balance sheet	-	-	20119	-	-	-	-	20 119
Economic life time (years)	1 - 3	5	10 - 30	7 ->	5 - 10	3 - 10		
Depreciation plan		linear	linear	linear	linear	linear		

Goodwill is related to Purchase of Nammo Buck GmbH and Nammo Bakelittfabrikken AS.

7. OTHER RECEIVABLES (LONG AND SHORT TERM)

These items include receivables regarding employees, prepayments and accruals.

8. RECEIVABLES AND LOSSES ON BAD DEBTS

(Figures in 1000 NOK)

	2006	2005
Accounts receivable	498 883	246 338
Provision for bad debt	270	687
Book value of accounts receivables	498 613	245 651

After an evaluation of the accounts receivable, the above provision is considered to be adequate to meet eventual future losses on bad debts as of 31.12.2006

9. CASH RESERVE

(Figures in 1000 NOK)	2006	2005
Cash, Bank accounts	377 223	379 419
Unused credit facility	50 000	50 000
Net cash reserve	427 223	429 419

Nammo AS has established an international cash pool with an overdraft facility of 50 MNOK along with Nammo Raufoss AS, Nammo Sweden AB, Nammo Liab AB, Vanäsverken AB, Nammo Vingåkersverken AB, Hansson Pyrotech AB, Nammo Lapua Oy, Lapua GmbH, Nammo Buck GmbH and Nammo Inc.

The account receivable in Nammo Raufoss AS is used as collateral for an overdraft facility limited to 50 MNOK.

Value of accounts receivable used as collateral as of 31.12.2006	(Figures in 1000 NOK)
Accounts receivable	277 985

10. EQUITY - ALTERATIONS TO EQUITY

(Figures in 1000 NOK)	Share capital	Funds	Net result	Dividend *)	Total
Equity as of 01.01.2006	100 000	580 968			680 968
Net result			185 892		185 892
Application of net result		111 592	(185 892)	74 300	(74 300)
Transferred direct to equity 1)		26 064			26 064
Equity as of 31.12.2006	100 000	718 624	0		818 624

1) Exchange rate adjustments from translation of foreign subsidiaries, bookings regarding previous years and consolidation corrections.

*) Board of Directors proposal for the General Assembly

11. PENSION COMMITMENTS - PENSION COSTS

The companies with pension arrangements, which provide the employees with the right to determine future pension payments (payment plan), are included in the pension commitment calculations. Net pension cost is included in salaries, wages, vacation pay and professional fees.

Net pension commitments as at the end of the year amounted to 103,8 MNOK. The pension liabilities in the balance sheet are from the companies in Sweden and Norway. In Finland and Germany the pension liabilities are covered by insurance according to local practice.

Pension cost

(Figures in 1000 NOK)	2006	2005
Accrued pension	19 578	21 093
The share of estimated changes and alterations for the year	5 230	20 030
Interest cost, pension commitments	10 137	9 217
Anticipated yield from pension funds	(7 113)	(6 210)
Pension cost related to defined contribution plans	14 026	8 565
Net pension costs	41 858	52 695

Pension commitments		
(Figures in 1000 NOK)	2006	2005
Gross pension commitments	293 246	263 316
+ Employment tax	3 542	1 736
Gross pension commitments incl. Employment tax	296 788	265 052
- Pension funds	129 670	115 674
Net pension commitments	167 118	149 378
Items not recorded under the result		
Estimated alteration	(63 344)	(55 655)
Pension commitments noted in the balance sheet	103 774	93 723

The pension liability in 2006 is calculated with the same assumptions as in 2005.

12. CALCULATIONS OF DEFERRED TAX LIABILITIES/TAX ADVANTAGE

12.1 This years tax cost

(Figures in 1000 NOK)	
Tax payable	84 573
Changes in temporary differences	(287)
This years tax cost	84 286

Payable tax refers to Nammo AS, Nammo Lapua OY and the swedish companies.

12.2 Calculation of deferred tax/deferred tax liability

The deferred tax liabilities/tax advantage 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 advantage as at the end of the accounting year.

12.3 Deferred tax liability

(Figures in 1000 NOK)	2006	2005
Differences in:		
Stock-in-trade	17 292	40 768
Guarantee allocations	(82 476)	(66 040)
Allocations pursuant to generally accepted accounting principles	(23 053)	(1 091)
Total short-term items	(88 238)	(26 363)
Plant and equipment funds	6 163	(27 597)
Total long-term items	6 163	(27 597)
Tax losses carried forward	(58 257)	(59 888)
Corrections during consolidation and internal profits	(4 876)	1 083
Basis for calculation of deferred tax liabilities	(145 208)	(112 764)
Deferred tax liabilities	(46 659)	(37 742)
Correction on deferred tax	46 659	37 742
Deferred tax liabilities in the balance sheet	0	(0)

12.4 Deferred tax advantage

Pursuant to the accounting standard for the calculation of taxes, any future realisable tax advantage shall, as rule, be off-set against deferred tax liabilities. Tax advantages attached to pension commitments can not be off-set and are consequently entered in the balance sheet. Deferred tax advantages regarding the restructuring in the companies outside Norway are recorded as assets due to the fact that taxes can not be eliminated between the countries.

(Figures in 1000 NOK)	2006	2005
Allocation according to international accounting standards	18 406	23 200
Pension commitments	40 122	32 808
Basis for calculation of deferred tax liabilities	58 528	56 008
Deferred tax advantage	16 388	15 682
Correction on deferred tax	46 659	37 742
Deferred tax advantage in the balance sheet	63 047	53 424

Negative deferred tax is included in deferred tax advantage in the balance sheet.

13. ALLOCATION FOR RESTRUCTURING

(Figures in 1000 NOK)

Allocations as of 31.12.2005	26275
Non operating expenses related to restructuring, incl. professional fees	(5 538)
Allocation as of 31.12.2006	20 737

Nammo was established in 1998 in order to create a strong Nordic player in the ammunition market. One of the intentions was to streamline production lines across the Nordic borders. Along with those intentions the Board has taken a preliminary decision to move and/or close the production of various products in order to avoid double capacity and to gain synergy-effects within the Nammo Group. The allocation for restructuring is made to cover the cost of these activities.

14. INTEREST BEARING LOANS AND GUARANTEES

Guarantees not in the balance sheet as of 31.12.2006 are 224,3 MNOK.

AUDITORS REPORT FOR 2006



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Enterprise 935 174 627MVA

To the Annual Shareholders' Meeting of Nammo AS

AUDITOR'S REPORT FOR 2006

Respective Responsibilities of Directors and Auditors

We have audited the annual financial statements of Nammo AS as of 31 December 2006, showing a profit of NOK 113.515.000 for the parent company and a profit of NOK 185.892.000 for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit. The annual financial statements comprise the parent company's financial statements and the group accounts. The parent company's financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The group accounts comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The rules of the Norwegian accounting act and good accounting practice in Norway have been applied to prepare the financial statements. These financial statements and the Board of Directors' report are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

Basis of Opinion

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good auditing practice in Norway, including standards on auditing adopted by Den norske Revisorforening. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and good auditing practice an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion,

- the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Company and of the Group as of 31 December 2006, the results of its operations and its cash flows for the year then ended, in accordance with the rules of the Norwegian accounting act and good accounting practice in Norway
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and comply with the law and regulations.

Hamar, March 27, 2007

KPMG AS

Arne Frogner
State Authorized Public Accountant

Thore Kleppen
State Authorized Public Accountant

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

Offices in:

Oslo	Haugesund	Sandnessjøen
Bodo	Kristiansand	Stavanger
Alta	Larvik	Stord
Arendal	Lillehammer	Tromsø
Bergen	Mo i Rana	Trondheim
Elverum	Molde	Tensberg
Finnsnes	Roros	Ålesund
Hamar	Sandefjord	

KPMG AS is the Norwegian member firm of KPMG International,
a Swiss cooperative.

Statsautoriserte revisorer - medlemmer av Den norske Revisorforening

www.nammo.com

NAMMO AS

INCOME STATEMENT NAMMO AS

Figures in 1.000 NOK	Notes	2006	2005
OPERATING INCOME		33 689	29 563
OPERATING EXPENSES			
Salaries, wages, vacation pay and professional fees	1	15 695	14 703
Other operating expenses		40 120	30 041
Total operating expenses		55 815	44 744
OPERATING PROFIT		(22 126)	(15 181)
FINANCIAL INCOME AND EXPENSES			
Received concern contribution		19 613	90 000
Interest received	2	8 004	8 423
Other financial income	2	117 800	14 081
Interest paid	2	(4 180)	(4 904)
Other financial expenses	2	(6 036)	0
Net financial income (expenses)		135 201	107 600
PROFIT BEFORE TAX AND EXTRAORDINARY ITEMS		113 075	92 419
Taxes on ordinary result	9	440	(17 232)
Profit (Loss) for the year		113 515	75 187
The Board's proposal for allocation of the profit for the year			
Dividend		74 300	92 000
Other equity		39 215	(16 813)
Total		113 515	75 187

BALANCE SHEET NAMMO AS

Figures in 1000 NOK

ASSETS	Notes	As of 31.12.06	As of 31.12.05	As of 31.12.04
FIXED ASSETS				
Intangible assets				
Deferred tax advantage	9	1 565	1 125	2 871
Total intangible assets		1 565	1 125	2 871
Financial assets				
Shares in group companies	3	347 249	347 249	347 249
Other shares and participations	3	4 033	4 033	4 033
Loans to group companies		69 438	86 416	108 959
Other long-term assets	3	3 245	2 248	2 585
Total financial assets		423 965	439 946	462 826
Total fixed assets		425 530	441 071	465 697
CURRENT ASSETS				
Receivables				
Accounts receivable		48	0	0
Receivables from group companies		86 520	48 426	53 778
Receivables related to concern contributions		19 613	90 000	15 000
Other receivables		2 869	4 816	587
Other financial instruments		10 489	10 166	10 000
Total receivables		119 539	153 408	79 365
Cash and bank balances	5	303 609	179 094	117 968
Total current assets		423 148	332 502	197 333
TOTAL ASSETS		848 678	773 573	663 030

Figures in 1000 NOK

	Notes	As of 31.12.06	As of 31.12.05	As of 31.12.04
SHAREHOLDERS' EQUITY AND LIABILITIES				
EQUITY				
Share Capital	6, 7	100 000	100 000	100 000
Premium Funds	7	258 670	258 670	258 670
Total invested equity		358 670	358 670	358 670
Other equity	7	46 230	7 015	23 828
Total earned equity		46 230	7 015	23 828
Total equity		404 900	365 685	382 498
LIABILITIES				
Provisions				
Pension liability	8	5 591	4 018	10 253
Total provisions		5 591	4 018	10 253
Short-term liabilities				
Prepayments from customers		14 230	73 260	0
Accounts payable		7 525	359	0
Payables to Group companies		336 075	218 683	234 289
Taxes payable	9	0	15 486	2 040
Withheld taxes, VAT and salaries		1 997	0	0
Dividend payable to shareholders		74 300	92 000	30 000
Other short-term liabilities		4 060	4 082	3 950
Total short-term liabilities		438 187	403 870	270 279
Total liabilities		443 778	407 888	280 532
TOTAL SHAREHOLDERS EQUITY AND LIABILITIES		848 678	773 573	663 030

Helsinki, March 27th 2007



Karl Glad
Vice Chairman



Jorma Wiitakorpi
Chairman



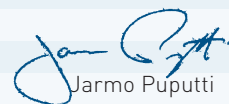
Tone Lindberg
Board Member



Jan T. Jørgensen
Board Member



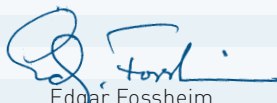
Seppo Seppälä
Board Member



Jarmo Puputti
Board Member



Einar Linnerud
Board Member



Edgar Fossheim
President & CEO



Juha Eväsoja
Board Member

CASH FLOW NAMMO AS

Figures in 1000 NOK	2006	2005	2004
CASH FLOW FROM OPERATIONAL ACTIVITIES			
Result before tax and group contribution	93 462	2 419	37 927
Tax payments	(15 485)	(1 781)	(3 256)
Changes in accounts receivable	(38 094)	(39 494)	382
Changes regarding creditors	7 166	359	(344)
Pension cost less paid pension premium	1 722	(103)	5 334
Changes in loans to group and joint control companies	20 182	49 185	46 237
Changes in other depositions	53 608	62 022	13 970
Net cash flow from operational activities (a)	122 561	72 607	100 250
CASH FLOW FROM INVESTMENT ACTIVITIES			
Other investments	0	0	(7)
Net cash flow from investment activities (b)	0	0	(7)
CASH FLOW FROM FINANCING ACTIVITIES			
Installments on long-term loans	0	0	(62 222)
Net payment of interest	3 954	3 519	2 450
Received concern contribution	90 000	15 000	51 200
Paid dividend	(92 000)	(30 000)	(20 000)
Net cash flow from financing activities (c)	1 954	(11 481)	(28 572)
Net changes in cash and bank accounts (a+b+c)	124 515	61 126	71 671
Cash and bank accounts as of 01.01.06	179 094	117 968	46 297
Cash and bank accounts as of 31.12.06	303 609	179 094	117 968

Unused part of overdraft facility is 50 MNOK . See note 11.

GENERAL PRINCIPLES

Annual Accounts of the Nammo Group

Nammo Group's annual accounts are prepared according to Norwegian Generally Accepted Accounting Principles (NGAAP). The Group include Nammo AS and all those subsidiaries directly owned or controlled by agreement. All receivables and liabilities between the Group companies have been eliminated. The same applies to internal transactions from changes in stock values. The past equity method is applied as a consolidated Group principle for the elimination of shares in subsidiaries.

The past equity method implies that the parent company's book value of the shares in the subsidiary is eliminated against the booked equity in the subsidiaries at the time of purchase. Differences are entered as goodwill and will be depreciated over a period of 5 years.

Shareholding companies, which are jointly controlled with other owners, are entered according to the proportional consolidation method if they have major impact on the group results. Jointly controlled companies with less impact on the group results are included according to the equity method. See note 5 for details.

The foreign subsidiaries' profit and loss accounts are calculated in NOK at the average rates valid during the year, whereas assets and liabilities are calculated at the exchange rate valid at 31.12. Changes arising from recalculation of foreign subsidiaries are entered against the equity capital.

Operating Income

Revenue is measured at fair value of consideration received or receivable. Revenue is recognized when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliably. The transfer of risk and reward of ownership to the goods must also be considered to have taken place. Normally, the recognition of revenue from sale of goods takes place at the time of delivery unless otherwise documented.

Revenues arising from the sale of services or the execution of development and long-term

production contracts are recognized on a percentage of completion basis. The share of revenues related to future rendering of services is booked as deferred income and is recognized as revenues when performed. Losses are charged as an expense when they occur. Value added tax, rebates and bonuses and other related costs are deducted from revenue.

Research and Development

Costs incurred for research and development are in general booked as cost on a continuous basis.

Maintenance

Maintenance is mainly booked when costs incur. Updating and replacement of operating equipment are viewed as investment and activated accordingly.

Warranty cost

Generally all warranty costs are booked when possible claims occur. Periodic allocations for warranty cost have been made to meet possible warranty claims in the future. The allocation is based on the nature of our business and long-term experience. The allocation is booked as short-term liabilities in the balance sheet.

Financial Instruments

The main principle in the group is to hedge the exchange rate of major transactions. The objective is to secure the calculated margin on contracts and thus eliminate the currency risk.

Tax expenses

Income tax expenses consist of taxes currently payable and changes in deferred tax assets and liabilities. Deferred tax assets and liabilities are based on temporary differences that arise between the book basis and tax basis of assets and liabilities and the expected future tax benefit of tax carry forwards. Taxes on extraordinary items, if any, are specified according to the Norwegian accounting standard.

Property and Equipment

Property and equipment are entered at the original purchase price minus specific depre-

ciation plans on linear basis. The rates for calculations of linear depreciations are fixed at an evaluation of the economic longevity of the individual asset. For sales of property or equipment, profit/loss is calculated as the difference between the selling price and the asset's booked value.

Accounts receivable and Credit Risk

Accounts receivable are recorded net of an allowance for doubtful accounts, if any.

In Nammo Group only a small part of the total sales is to the civilian market, mainly small caliber ammunition and sea safety products. The major part of the sales is to governmental and major industrial companies and therefore the credit risk is considered and experienced as minimal.

Leasing

Operational leasing is expensed periodically. Building leased under normal contracts are treated as operational leasing.

Stocks

Stocks of raw materials are valued at purchase price and stocks of goods in progress and finished goods are valued at acquisition cost [direct and indirect fixed and variable production costs]. Care has been taken to ensure that no stock exceeds its real value.

Assets and Liabilities in Foreign Currency

Accessible capital in foreign currency is booked at the exchange rate valid at closing date. Secured settlement of receivables/ liabilities are entered in the balance at the security rates.

Pension commitments/costs

Calculation of pension and pension costs is effectuated in accordance with accountancy standards for pension costs in each country where such standards apply. The net capitalized value of the Company's pension commitments is entered in the balance as a Long-term Debt entry. The effect of estimate alterations is dispersed over the current average earning period. The deferred tax advantage connected to pension, is included under long-term assets in the balance sheet.

NOTES TO THE ACCOUNTS

1. SALARIES AND SOCIAL COST

(Figures in 1000 NOK)	2006	2005
Salaries	10916	9 139
Employment taxes	1419	1 425
Pension costs	2735	3 086
Other social costs	625	1 053
Total	15695	14 703
Average number of employees	9	9

Compensation to top management	President and CEO	Board of Directors
Salaries including bonus for 2003-2005	2 174	1 147
Pension cost	1 407	
Other compensation	117	
Total	3 698	1 147

A loan is given to the President and CEO with the balance of 483 TNOK as of 31.12.2006. The loan is due in 10 years and has an interest rate of 0 % p.a. in the year 2006.

Loans to other employees amounts to TNOK 926.

The CEO's annual pension from 63 years of age will be 60 % of the salary at the retirement date after a consolidation with the annual pension from the public pension system (Folketrygden).

Some members of Nammo Management have a bonus agreement based on the EVA result in the unit they are responsible for. Economic Value Added (EVA) is operating result reduced by average capital employed multiplied by the Weighted Average Cost of Capital (WACC). Half of the bonus is paid the year after the year it was earned, together with half the remaining net bonus from previous years.

Auditor	2006
Auditors fee for 2006	380
Other fees	283
Total	663

2. FINANCIAL ITEMS

(Figures in 1000 NOK)	2006	2005
Interest income from Group companies	5 148	4 239
Other interest income	2 856	4 184
Total interest income	8 004	8 423
Gain on exchange	2 957	1762
Dividend from group company	114 520	12119
Dividend from joint control company	0	200
Other financial income	323	0
Total other financial income	117 800	14 081

Interest cost from Group companies	(448)	(531)
Other interest cost	(3 732)	(4 373)
Total interest cost	(4 180)	(4 904)
Exchange costs	(5 736)	0
Other financial expenses	(300)	0
Total other financial expenses	(6 036)	0

3. NAMMO AS SHARES IN OTHER COMPANIES

(Figures in 1000 NOK)

Name of the company	Company's share capital	Number of shares owned	Nominal value	Booked Value NOK	Ownership
Group companies:					
Nammo Raufoss AS, Raufoss	NOK 150000	150 000	150 000	175 000	100%
Nammo Sweden AB, Lindesberg	SEK 10000	-	-	59 961	100%
Nammo Lapua OY, Lapua	EUR 4793	-	-	105 006	100%
Nammo Buck GmbH, Pinnow	EUR 895	-	-	7 243	100%
Nammo Incorporated, Virginia	USD 580	-	-	39	100%
Total				347 249	

Other shares and participations:

Norwegian Ammunition Disposal Company AS, Løkken Verk	NOK 4782	23 910	2 391	3 938	50 %
Toten Golf AS, Reinsvoll				95	
Total				4 033	

	2006	2005
Loans to associated companies	600	1 050

Loans to associated companies are included in Other long-term assets.

4. ACCOUNTS RECEIVABLE

(Figures in 1000 NOK)

Accounts Receivable	48
----------------------------	-----------

Accounts receivable are booked at face value. There have been no loss on accounts receivable in 2006.

5. CASH RESERVE

This amount includes bank balances of Group companies that participate in the international cash pool by 330,5 MNOK. See note 11

NOTES TO THE ACCOUNTS continues

6. SHARE CAPITAL

As of 31.12.06 Nammo AS' share capital is 100 MNOK, split on 1.000.000 shares of 100 NOK each.

6.1 Nammo AS' shareholders as of 31.12.2006:	Number of shareholders	Number of shares	
The Norwegian state, by Ministry of Trade and Industry		500 000	50,0 %
Patria Oyj		500 000	50,0 %
Total	2	1 000 000	100,0 %

6.2 RISK-value

The shares in Nammo AS have a RISK-value of
 as of Jan 1, 2004 NOK -,30 each share (final)
 as of Jan 1, 2005 NOK -2,27 each share (final)
 as of Jan 1, 2006 NOK -111,25 each share (final)

7. EQUITY - ALTERATIONS TO EQUITY

(Figures in 1000 NOK)	Share capital	Other paid in capital	Other equity	Net result	Total	Dividend *)
Equity as of 01.01.2006	100 000	258 670	7 015		365 685	
Net result				113 515	113 515	
Application of the net result *			113 515	(113 515)	(74 300)	74 300
Equity as of 31.12.2006	100 000	258 670	120 530	0	404 900	74 300

*) Board of Directors proposal for the General Meeting

8. PENSION COMMITMENTS - PENSION COSTS

Accounting principles for calculation of pension commitments are in accordance with Norwegian accounting standards. Nammo AS have established a collective pension plan according to the Norwegian tax law for all employees. The plan includes 11 active members. In the calculation of the liability the company's membership in the L0/NHO AFP-system is taken into consideration. The inclination to use AFP is calculated at 50%. For the pension benefit for the period 62 - 67 years of age, the agreed pension level is used. The net pension cost for the year is based on actuarial calculations of this years earning of pension rights and is included in salaries and social cost. The actuarial calculation is done in September 2006. The following parameters are the basis for the calculation for 2006:

Yield from pension funds	6,0 %
Interest rate used to discount future cash flows	5,0 %
Annual salary increase/increase in G	3,5 %
Annual change in pension	2,5 %
Net pension liability at the end of the year is 5,6 MNOK. Deferred tax advantage is 1,6 MNOK.	

Pension cost		
(Figures in 1000 NOK)	2006	2005
Accrued pension	1 839	1 192
The share of estimated changes and alterations for the year	840	1748
Interest cost, pension commitments	405	405
Anticipated yield from pension funds	(349)	(259)
Net pension costs	2 735	3 086

Pension commitments		
(Figures in 1000 NOK)	2006	2005
Gross pension commitments	11 376	9 923
+ Employment tax	531	319
Gross pension commitments incl. employment tax	11 907	10 242
- Pension funds	6 316	6 177
Net pension commitments	5 591	4 065
Items not recorded under the result		
Estimated alteration	0	(47)
Pension commitments noted in the balance sheet	5 591	4 018

9. TAX

9.1 This years tax cost

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

(Figures in 1000 NOK)	2006	2005
Net income before tax	113 075	92 419
Permanent differences	(114 647)	(30 878)
Changes in temporary differences	1 572	(6 235)
Basis for the tax calculation	0	55 306
Tax payable		15 486
Changes in temporary differences	(440)	1 746
This years tax cost	(440)	17 232

9.2 Deferred taxes

The deferred tax liabilities/tax advantage 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 advantage as at the end of the accounting year.

9.3 Deferred tax advantage

According to Norwegian GAAP for tax accounting, future realizable tax advantage shall generally be offset against deferred tax cost. Deferred tax related to pension liability is according to present practice not offset and is shown in the balance sheet as a deferred tax advantage.

	31.12.06	31.12.05
Pension liability	5 591	4 018
Deferred tax advantage in the balance sheet (28%)	1 565	1 125

10. INTEREST BEARING LOANS AND GUARANTEES

Guarantees on behalf of Group companies not in the balance sheet as of 31.12.2006 are 86,3 MNOK.

11. CREDIT FACILITY

Nammo AS has established an international cash pool with an overdraft facility of 50 MNOK along with Nammo Raufoss AS, Nammo Sweden AB, Nammo Liab AB, Vanäsverken AB, Nammo Demil Division AB, Hansson Pyrotech AB, Nammo Vingåkersverken AB, Nammo Lapua Oy, Lapua GmbH, Nammo Buck GmbH and Nammo Inc.

Nammo AS subsidiaries' balance on the overdraft facility is included in payables to Group companies. This amounts to 330,5 MNOK.
See note 5

AUDITORS REPORT FOR 2006



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N-2302 Hamar

Telephone +47 62 59 87 50
Fax +47 62 59 87 60
Internet www.kpmg.no
Enterprise 935 174 627MVA

To the Annual Shareholders' Meeting of Nammo AS

AUDITOR'S REPORT FOR 2006

Respective Responsibilities of Directors and Auditors

We have audited the annual financial statements of Nammo AS as of 31 December 2006, showing a profit of NOK 113.515.000 for the parent company and a profit of NOK 185.892.000 for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit. The annual financial statements comprise the parent company's financial statements and the group accounts. The parent company's financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The group accounts comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The rules of the Norwegian accounting act and good accounting practice in Norway have been applied to prepare the financial statements. These financial statements and the Board of Directors' report are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

Basis of Opinion

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and good auditing practice in Norway, including standards on auditing adopted by Den norske Revisorforening. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and good auditing practice an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion,

- the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Company and of the Group as of 31 December 2006, the results of its operations and its cash flows for the year then ended, in accordance with the rules of the Norwegian accounting act and good accounting practice in Norway
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and comply with the law and regulations.

Hamar, March 27, 2007

KPMG AS

Arne Frogner
State Authorized Public Accountant

Thore Kleppen
State Authorized Public Accountant

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

Offices in:

Oslo	Haugesund	Sandnessjøen
Bodo	Kristiansand	Stavanger
Alta	Larvik	Stord
Arendal	Lillehammer	Tromsø
Bergen	Mo i Rana	Trondheim
Elverum	Molde	Tensberg
Finnsnes	Roros	Ålesund
Hamar	Sandefjord	

KPMG AS is the Norwegian member firm of KPMG International,
a Swiss cooperative.

Statsautoriserte revisorer - medlemmer av Den norske Revisorforening

GROUP MANAGEMENT



Edgar Fossheim
President & CEO



Morten Brandtzæg
Senior Vice President
Finance & CFO



Sissel Solum
Vice President
Communication



Bertil Pålsrud
Senior Vice President
Human Resources



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



Johs Norheim
Senior Vice President,
Business Development



Raimo Helasmäki
Exec. Vice President
Small Caliber Division



Reijo Bragberg
Exec. Vice President
Demil Division



Ola Skrivervik
Exec. Vice President
Missile Products Division



A. Erland Paulsrud
Vice President
Business Development &
President Nammo Raufoss

The Swiss clock tower was Bern's first western city gate (1191 - 1256) and formed the boundary of the first city extension. The tower clock was the city's main clock and therefore had an authoritative function in Bern. It was from there that travel times indicated on the hour stones along the cantonal roads were measured. Length units - formerly cubit and fathom, today meter and double meter - for public inspection are displayed in the arch of the gate.





PEEME

SMALL CALIBER DIVISION



2006 - The best year ever! Both revenue and operational results exceeded budget. We expect to achieve further growth in 2007, a considerable challenge as it involves increasing productivity and smartly adjusting our cost levels.

MAIN ACTIVITIES

2006 was a success, the best year ever for SCD. Total sales growth was 33% with good operational margins. The biggest growth was on the Military Home Market (MHM) including Norwegian, Swedish and Finnish Defence Forces and Military Specialties (MS) to the export market. Sales to civilian markets also showed an increase. Excellent customer relations and highly motivated employees in the SCD organization made these results possible.

THE CHALLENGE – PROFITABLE GROWTH

The market forecast indicates a positive development for SCD also in the years

ahead. After substantial growth in sales from 2005 to 2006, the trend is expected to continue. With focus on costs in all areas and on operational effectiveness, our goal is in sight – Profitable Growth. To maintain and secure our positive development and excellent customer relations, SCD is investing significant resources and expertise in improvement programs for quality, logistics, internal development and organizational learning.

TECHNOLOGY AND PRODUCTS

The SCD product portfolio and technology can best be expressed by;



“Best Quality and Specialties in Selected Segments”.

The premium quality brand Lapua in Rim-fire and Civil Center Fire ammunition, and the high quality Non-Toxic and specialised products for Military customers, have placed SCD in pole position in these areas. To keep this position, SCD will continue to invest in R&D and production technology. Customer satisfaction and feedback are our prime motivators, without forgetting our innovative resources.

OUTLOOK FOR 2007

With a solid platform in the Nordic market, a record in order backlog, quality and specialty products recognized by the international customers and highly motivated and qualified employees, there are good reasons to be optimistic about 2007. Our main challenge will be to manage profitable growth and at the same time meet the expectations of the customers.

MEDIUM & LARGE CALIBER DIVISION



The Medium & Large Caliber Division is a leading supplier of a broad range of combat and training ammunition for Army, Navy and Air Force applications.

The Division provides full up rounds and components for ammunition ranging from 12.7mm up to 155mm artillery. Pyrotechnics, M72 light anti-armor weapons, hand-grenades and restoring of ammunition are also important parts of the product range. In addition, the Division offers services such as ballistic, environmental and hazard ("IM-Insensitive Munitions") testing, laboratory services, mechanical manufacturing, surface treatment and explosive filling.

MARKETS AND COOPERATION

Alliances and co-operation with recognized industrial partners around the world are central to the Division's strategy. This strategic element has clearly contributed to strengthening our market position internationally. During 2006, the division won its first contract in several new markets. The division has further strengthened its position in the Nordic home market during 2006, and new opportunities are emerging.

TECHNOLOGY

MLCD is committed to developing new technologies and products that meet the demands of our customers. We have been highly successful with our airburst technology in the 40mm Grenade Launcher segment, where we won our first delivery contract to the US in 2006. We are already under way with the next generation of programmable ammunition for medium and large caliber applications. The Division also has several other new products in the pipeline. Examples of these are 25mm APEX aircraft ammunition, 30mm TPDS-T, M72-ASM (Anti Structure Munitions), 120mm HE ammunition and 155mm artillery charge system.

GOALS AND CHALLENGES

The two previous divisions, medium caliber, and large caliber divisions, were merged into MLCD on January 1st 2006. The merger has been a success, and the new Division had substantial growth both in sales and operating results in 2006 compared to previous years.

This growth has stretched the available resources in the Division extensively. Meeting agreed deliveries and performance at planned time and cost is of highest importance.

In some areas, increased volumes, productivity or efficiency are critical to make a viable basis for future activity. A systematic approach to improvement processes, such as application of 6-sigma methods, will continue to be highly prioritized.

OUTLOOK FOR 2007

The combination of continuous improvements and our ability to be flexible and act rapidly with a high degree of precision to fulfill our customers' needs, is expected to yield strong results also in the future. The Division does have a good basis and it is expected that its 2007 performance will be in line with the 2006 achievements.

MISSILE PRODUCTS DIVISION



The business of the Missile Products Division (MPD) includes rocket motors and warheads for missiles and rockets, thrust vector control systems as well as separation/acceleration motors and devices for space systems.

The Division's major products in 2006 have been the rocket motors for ESSM (10 nation cooperative programme), IRIS-T (6 nation cooperative programme), Sidewinder 9L, Exocet Block 3, Ariane 5 Separation/Acceleration motors and 70 mm rocket warheads.

MARKET

MPD's market or customers are the major defence contractors in allied countries, such as Raytheon, MBDA, Diehl BGT Defence (DBD), Saab, Bristol Aerospace and KDA as well as EADS/Astrium in the space segment. The Divisions' customers have one thing in common, they require

increasingly advanced – but still affordable – solutions. They “help us” drive technology to the extreme, and our products operate in very tough environments. Our advanced development activities therefore often result in new solutions and materials.

TECHNOLOGY

MPD's technology has been under evolution for several decades. In recent years, the focus has been on advanced propellants, thrust management systems including advanced materials, insensitive munitions solutions, hypervelocity propulsion as well as hybrid (a combination of liquid/solid) propulsion technology.

OUTLOOK FOR 2007

The 2006 targets have to a large extent been met - major production programmes have shown good progress, production ramp-up activities provide a constant

challenge, and development activities are under control. The division has consequently seen a slight increase in turnover and return on sales.

The outlook for 2007 is promising. There is stability and growth in some production programmes and there is significant growth in the warhead business. MPD is also competing for certain major new development programmes, which could take the business to a new dimension. MPD competes with the advantage of relevant and advanced technology, driven by the extreme technical requirements as well as highly competent and challenging customers.

DEMIL DIVISION



The Demil Division has 35 years of know-how and experience in demilitarisation. The Division is specialised in handling excess, outdated and obsolete conventional ammunition.

As a result of the increased interest in our services and to ensure that we professionally manage our business opportunities, we have strengthened the Divisional Marketing function during the year, and are now better staffed to handle future opportunities.

MARKET AND CO-OPERATION

We have again been able to secure a number of very important contracts from our main customers: FMV/Sweden, BWB/Germany and NAMSA.

2006 was the last year under the 5-year ID/IQ contract from the US Army, being placed with our part-owned company PB-Nammo Demil/USA in 1999. We are therefore very happy that PB-Nammo Demil during the year managed to obtain a sub-contract from GD-OTS/USA, which is for a substantial part of the work under the new US Army CADC contract.

During 2006, we also received a contract from Mesko/Poland, to build up a demil capability at Mesko. This is part of the overall co-operation and offset arrangements between Nammo, Lockheed Martin/USA and Mesko/Bumar. We aim for a long term demil co-operation with Mesko for the Polish market.

We work to establish a demil capability in the Republic of South Africa and the framework agreement is now in place with the South African Department of Defence. This project is a co-operation between Nammo, SAAB/Sweden and a South African company, for establishing a "state of the art" demil facility for Sub-Saharan Africa and entering into a long-term demil contract with South Africa.

2006 was also somewhat of a breakthrough on the UK market, from which we were able to secure important contracts.

TECHNOLOGY

The Demil Division has developed extreme technology to disassemble, recover and recycle all materials, from all conventional ammunitions and explosive products, to both minimise environmental impact and maximise economic return.

TARGETS AND CHALLENGES REACHED IN 2006

The year involved hard work to obtain the orders described, for the necessary workload for all units, and involved adapting our resources to the future. We have successfully managed these challenges during 2006, thanks to the hard work and dedication of all our employees.

OUTLOOK FOR 2007

Next year seem to be a continuation of the strong efforts in 2006, although there are many opportunities which will hopefully materialise during 2007. The main challenge will be to get more countries and customers to prioritise demil of old and excess ammunition and explosives, with environmentally methods and to commit to a long-term budget for this purpose.

We have continued to lower our costs, at the same time as we have invested for the future. This makes me confident that we will not only be able to maintain our position as a world leader in industrial demil services but further develop and strengthen it in 2007.

Finlandia Hall is the leading congress and concert venue in Helsinki and a masterpiece by the great Finnish architect Alvar Aalto. Finlandia Hall was designed in 1962 and built between 1967-72. The congress wing was finalized in 1975. Aalto remained faithful to functionalism to the extent that he always sought a practical reason for his forms. In Finlandia Hall details are stretched to the limit. Every lighting fixture, every piece of furniture as well as all mouldings, panels and flooring materials were specially designed. The closed hall has space enough for 1700 people.





PEOPLE FROM A HUMAN RESOURCES PERSPECTIVE

In a business where the need for high technology and quality is increasing every year, the importance of having the right people with the right skills in the right place is and will be increasingly important. Our operation moves in the direction towards extreme technology and therefore it is important to understand the value of the employees' participation, motivation and expertise within the company.

A skilled and motivated staff is a key factor in our efforts to meet our objectives. We believe that good management in all parts of the organisation has a great impact on the motivation level of the employees. It is essential for our managers to understand the importance of making all employees get involved and appreciate the importance of their work.

Nammo therefore finalised the fourth Talent Factory in 2006. The Talent Factory is Nammo's internal management program on which all divisions have participated. Our philosophy is to have good leadership at all levels. Good leadership within Nammo can be defined as gaining access to and using all the expertise, skills and creativity we know all our employees hold. We know that Nammo's base values and its requirement for uniform practice together with the strategy for the company form the cornerstones of the leadership program. The leadership development program together with continuous skill training of our employees in the units, will secure the knowledge and expertise level needed for safety in all our operations and to be a competitive supplier of our products and services in the future.

Good leadership also implies strong teamwork within our different operations. We aim to have highly motivated employees and therefore make sure employees get involved in projects and decision-making processes of crucial importance to our daily work-practice. Our focus on motivation factors, leadership practice and every single employee's environmental factor has shown positive results in 2006. Our turnover rate in employment is extremely low, our sick leave shows a substantial positive trend and our economical results have a satisfactory positive trend.

Because of high activity in many parts of our operations, the numbers of employees has increased by 10% compared with 2005. Nammo Vanäsverken had 180 employees at the end of 2006, the company's highest number of employees for decades. Recruitment of the right people to the different departments in Vanäsverken and the other sites in Nammo has therefore been a critical factor in 2006. Education of the new employees in the different sites, to ensure their levels of expertise are in line with Nammo standard, and has been an important and prioritised factor.

RETIREMENT CHALLENGES

The challenge for us in the years to come is to be able to secure our expertise levels in a period where many employees with high expertise levels will retire. The recruitment of new people with the right personality and expertise is and will be a critical factor if we are to continue our extreme level of technology in our operations.

EQUAL OPPORTUNITIES

Equal opportunities for all employees form an important platform in our Human Resources policy. This applies particularly to recruitment, career development, equal pay for equal work, and working conditions. In 2006 Nammo started a participation in the Norwegian program, Female Future. The Confederation of Norwegian Enterprises (NHO) took the initiative for this program, and the aim is to give female employees improved opportunities to take on leading positions in the Company. Activities to motivate female University graduates to go into our business will be an important action in the future.

ACQUISITION OF HUMAN CAPITAL

Nammo's acquisition of the US Company Talley Defense Systems (TDS) brings new and inspiring elements into Nammo. We will strive to provide the 220 employees in TDS with a good feeling about joining the Nammo Group. It has been a challenge to merge Nammo's collective culture with the five countries involved; now the challenge will be to include TDS into the common platform based on our values. We strongly believe that – if we are to continue as a strong company also in the future – we require a strong collective company culture based on our values. We will therefore continue to develop the Company culture through different programs involving all people inside the Nammo Group.

QUALITY CONTROL - PRODUCT ASSURANCE IN NAMMO

A number of years ago, the quality control function was a separate independent group in the organization. Today these activities are integrated along the operational axis, with the exception of the system management and audit functions.

Traditionally, the tasks for the quality control function have been to verify compliance with requirements during final inspections and tests, which remains an important activity for the fulfilment of the customer's expectations and requirements.

Today's challenge is to advance our quality control function along the value chain via a stronger contribution from teams and reviews to define optimal product requirements and characteristics. The objective is to achieve proper function and performance definitions for the individual products.

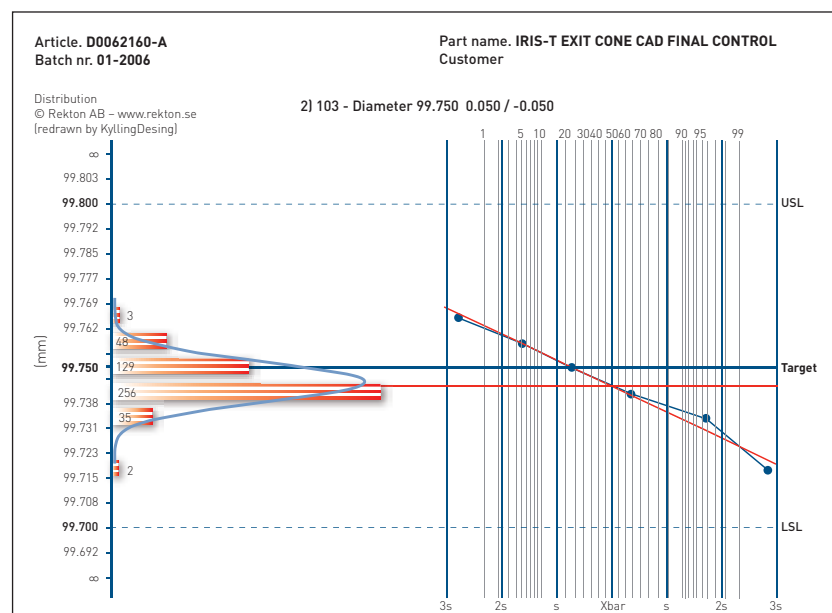
Furthermore, strong efforts are being made to increase the electronic collection of process and product data. Statistic Process Control (SPC) is a priority tool utilised to accomplish this task, both for the regular manufacturing of components and testing as well as for the 6 sigma improvement tools.

When we analyse and implement the results, we can verify that our continuous improvement work has generated reduced non-conformance costs.

Additional process knowledge will contribute to more predictable results which will further identify where to utilize the resources.



IRIS-T Exit Cones, in two operations these units are automatic measured for nearly 150 defined characteristics each.



CORPORATE GOVERNANCE

In Nammo, corporate governance is regarded as a key factor to sustainable business in all areas of our operations. It governs the creation of value, promotes ethical values, builds respect and drives performance by our employees.

Nammo's governance structure is based on Norwegian Corporate Law (Aksjeloven) and the laws in the countries where we are established.

GENERAL MEETING

The annual General Meeting is normally held in the 2nd quarter of each year. Nammo AS is owned by Patria Oyj and The Norwegian State represented by The Norwegian Ministry of Trade and Industry. The Shareholders Agreement outlines the number of representatives of each of the owners and the guidelines for election of the Chairman of the Board.

The annual General Meeting approves the annual result, stipulates the dividend to the owners, decides the remuneration for the CEO and elects the external auditor in addition to mandatory issues covered by Norwegian law.

BOARD OF DIRECTORS

The Board of Directors in Nammo AS shall, according to the Shareholders Agreement, consist of 6 to 8 Directors, three from each owner and two Directors representing the employees. The employees may also nominate one additional observer so that in total Norway, Sweden and Finland are represented. The Chairman of the Board alternates yearly between the two owners. The Board of Directors meets regularly with a minimum of four times per year.

PRESIDENT AND CEO

The President and CEO constitute a formal corporate body according to Norwegian Corporate Law (Aksjeloven). The CEO is responsible for day-to-day management of the Group. The CEO's responsibility and financial commitment are outlined in the Shareholders Agreement.

The CEO governs the operation through internally established Directives, Policies and Management Meetings and the legal structure through Board meetings for the respective subsidiaries of Nammo AS. These are dynamic instruments for the CEO and are continuously maintained according to the operational environment.

MANAGEMENT MEETINGS AND BUSINESS REVIEWS

Management Meetings are held on a regular basis and are called for by the CEO. The Executive Vice presidents and Senior Vice presidents participate regularly and other members of staff are called for when needed. The focus in Management Meetings is on monitoring of the operations and Key Performance Indicators (KPI), identifying opportunities according to current plans and initiatives, and to follow up HESS indicators and development of employment. The Business Reviews are conducted by individual divisions and are held regularly to verify development relative to budgets, planned targets and opportunities within each business area.



The Stadium arena, Helsinki, which has been described as the most beautiful in the world, is the product of an architectural competition. The architects Mr. Yrjö Lindegen and Mr. Toivo Jäntti won the competition with their clearly lined functionalistic style design.

The Stadium Building is 243 m long and up to 159m wide. The tower is 72m high. The Stadium covers 4.9 hectares. The most important event in the life of the Helsinki Olympic Stadium were the XVth Olympic Games in 1952. In the opening of the Olympic Games the spectator record of the stadium reached 70 435. During the whole year 1952 altogether 850 000 spectators visited the Stadium.

OWNERSHIP STRUCTURE

Nammo's ownership structure changed on February 3, 2006 following the sale of Saab AB's shares to Patria Oyj and the Norwegian State represented by the Ministry of Trade and Industry, who now own 50% of the shares each.

PATRIA GROUP

Patria is a defense and aerospace group with international operations delivering competitive solutions based on own specialist know-how and partnerships. Its key business areas are

- armoured wheeled vehicles
- mortar systems
- ammunition products
- maintenance, repair and modifications of military aircraft and helicopters as well as pilot training
- systems for command and control as well as situational awareness, including system integration
- life cycle support services

Patria is owned by the State of Finland (73.2%) and the European Aeronautic Defence and Space Company EADS N.V. (26.8%)

Patria's increased ownership in Nammo is intended to provide Patria with interesting opportunities for international growth.

Patria had in average 2.447 employees in 2006 and net sales totalled 447,8 MEUR.

THE NORWEGIAN MINISTRY OF TRADE AND INDUSTRY

The Department of Ownership was established as a separate department within the Ministry of Trade and Industry in January 2002. The Department has a number of permanent staff, but compensates for this to a large extent by outsourcing to external consultants.

The Coalition Government transferred the responsibility of managing government assets in a range of companies to the Ministry of Trade and Industry, with this Department in key position regarding ownership issues. The Department of Ownership manages the Government's ownership interests in 20 companies.

All company assets managed by the Department are closely monitored by a corporate task force consisting of economists and legal aids. Cross-disciplinary activities are systematized as individual rolling or time-limited projects.

The administration of State ownership is based on Norwegian corporate law with its division of roles between the owners, the Board of Directors and the company management, and general principles of good Corporate Governance.

The asset management of the State's holdings in these companies also involves appointing representatives to the compa-

nies' Boards of Directors and Corporate Assemblies, representing the State on the companies' General Meetings, monitoring and following up the companies' financial results, formulation of expectations for rate of return and dividends and consideration of potential owner-transactions within these companies.

The Department of Ownership also prepares the State's Ownership Report, which is an annual report on the administration of the ownership within all The Departments.

THE OBJECTIVE OF A STATE OWNERSHIP IN NAMMO

(ref. St.meld. nr. 13 2006-2007)

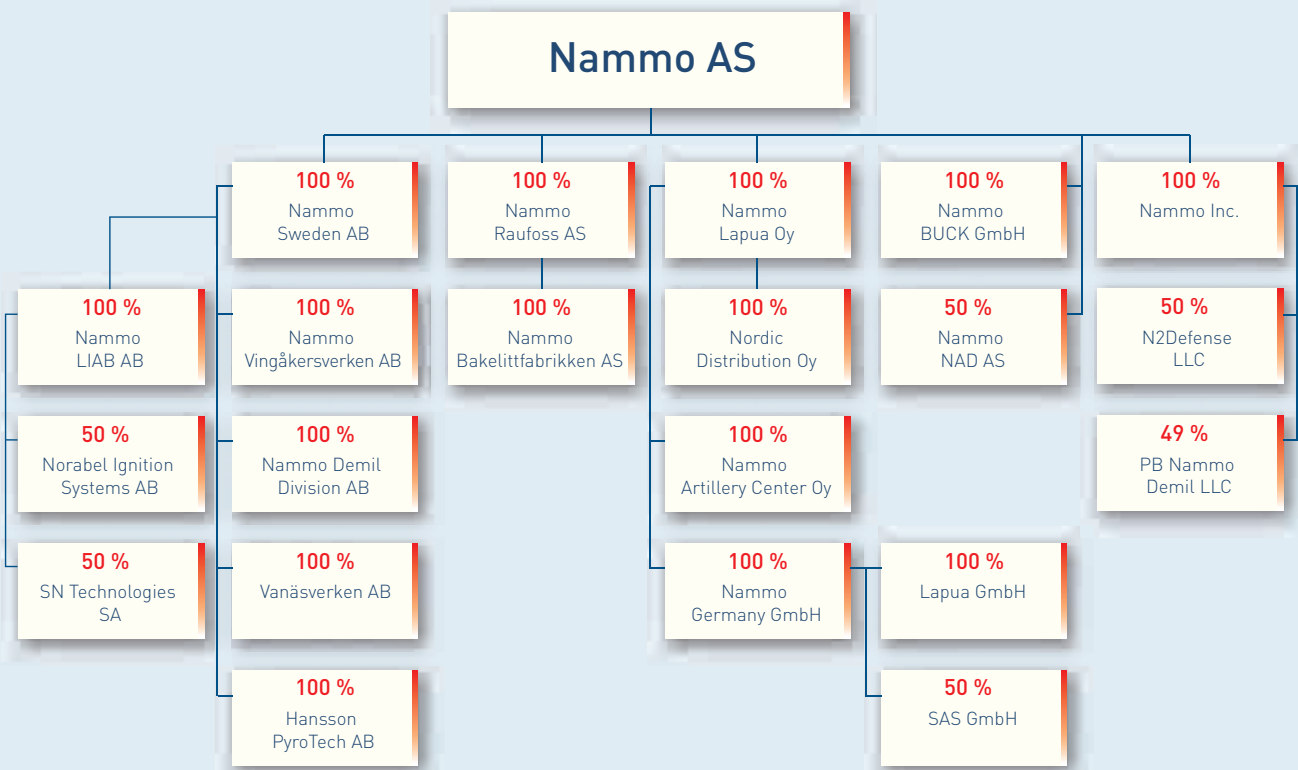
Nammo is one of Norway's key defense companies and an important participant in the technology and expertise environment at Raufoss. Increased mergers within the European defence industry will create important challenges for Nammo in the future. The Norwegian State underlines the importance of a long-term ownership, supportive to the industrial development of the Nammo Group as well as to the maintenance of the Headquarter and existing production lines within the Raufoss facilities.

Patria



NÆRINGS- OG HANDELSDEPARTEMENTET

GROUP STRUCTURE



Gardermoen, Oslo Airport. *The glued laminated timber construction in the Oslo Airport Terminal at Gardermoen is based on extreme strength and precision requirements. Details combine both the shape and function in a solution which maintains ease of construction*
The longest truss beams in glued laminated timber are 136m long!





www.nammo.com

EXTRA

HEADOFFICE	NORWAY	NORWAY	NORWAY	SWEDEN	SWEDEN	SWEDEN	SWEDEN
Nammo AS	Nammo Raufoss AS	Nammo NAD AS	Nammo	Nammo Sweden AB	Nammo	Nammo	Nammo Demil
P.O. Box 142	P.O. Box 162	Moshaugen 6	Bakelitfabrikken AS	Vingåkersverken AB	Vingåkersverken AB	Vingåkersverken AB	Division AB
NO-2831 Raufoss	NO-2831 Raufoss	NO-7332 Løkken Verk	NO-1930 Aurskog	SE-643 92 Vingåker	SE-643 92 Vingåker	SE-643 92 Vingåker	SE-643 92 Vingåker
Tel: +47 61 15 36 00	Tel: +47 61 15 36 50	Tel: +47 72 49 70 80	Tel: +47 63 86 59 50	Tel: +46 151 19500	Tel: +46 151 19500	Tel: +46 151 19500	Tel: +46 151 19500
Fax: +47 61 15 36 20	Fax: +47 61 15 36 60	Fax: +47 72 49 70 89	Fax: +47 63 86 59 51	Fax: +46 151 13475	Fax: +46 151 13475	Fax: +46 151 13475	Fax: +46 151 13475
SWEDEN	SWEDEN	SWEDEN	SWEDEN	SWEDEN	FINLAND	FINLAND	FINLAND
Nammo LIAB AB	Norabel Ignition Systems AB	Hansson PyroTech AB	Nammo LIAB AB	Vanåsverken AB	Nammo Lapua Oy	Nammo Lapua Oy	Nammo Lapua Oy
P.O. Box 154	P.O. Box 154	P.O. Box 51	Björkborn	P.O. Box 4	P.O. Box 5	P.O. Box 5	Lapua Site
SE-711 23 Lindesberg	SE-711 23 Lindesberg	SE-711 22 Lindesberg	SE-691 80 Karlskoga	SE-546 23 Karlsborg	FI-62101 Lapua	FI-62101 Lapua	FI-62101 Lapua
Tel: +46 581 87100	Tel: +46 581 87100	Tel: +46 581 87250	Tel: +46 586 83523	Tel: +46 505 18100	Tel: +358 6 431 0111	Tel: +358 6 431 0111	Tel: +358 6 431 0111
Fax: +46 581 87200	Fax: +46 581 87200	Fax: +46 581 87251	Fax: +46 586 83761	Fax: +46 505 18155	Fax: +358 6 431 0244	Fax: +358 6 431 0244	Fax: +358 6 431 0244
FINLAND	FINLAND	FINLAND	FINLAND	GERMANY	GERMANY	GERMANY	GERMANY
Nordis	Nammo Lapua Oy	Nammo Artillery Center Oy	Nammo Lapua Oy	Nammo Germany GmbH	Lapua GmbH	Lapua GmbH	Special Ammunition Services GmbH
Nordic Distribution Oy	Tampere Office	Hatanpään valtatie 26	FI-41330 Vihtavuori	Postfach 1462	Postfach 1462	Butterstr. 1	Butterstr. 1
P.O. Box 5	FI-33100 Tampere	FI-33100 Tampere	FI-41330 Vihtavuori	DE-39204 Schönebeck	DE-39204 Schönebeck	DE-04880 Vogelgesang	DE-04880 Vogelgesang
FI-62101 Lapua	Tel: +358 6 4310 111	Tel: +358 6 4310 111	Tel: +358 14 377 921	Tel: +49 39 28 729 102	Tel: +49 39 28 729 102	Tel: +49 34223 60170	Tel: +49 34223 60170
Tel.: +358 6 431 03011	Fax: +358 3 3767 891	Fax: +358 3 3767 891	Fax: +358 14 377 9263	Fax: +49 39 28 729 111	Fax: +49 39 28 729 111	Fax: +49 34223 6017100	Fax: +49 34223 6017100
Fax: +358 6 431 0295							
GERMANY	USA	SWITZERLAND	USA				
Nammo Buck GmbH	Nammo Inc.	SN Technologies SA	Nammo Inc.				
Industrie- und Gewerbegebiet 1	2000 N 14th St. # 250	Pré de la Fontaine, 19	2000 N 14th St. # 250				
DE-16278 Pinnow	Arlington VA 22201	CH-1217 Meyrin	Arlington VA 22201				
Tel: +49 33335 46 481	Tel: +1 (703) 524 6100	Tel: +41 22 989 1290	Tel: +1 (703) 524 6100				
Fax: +49 33335 46 482	Fax: +1 (703) 522 6847	Fax: +41 22 989 1299	Fax: +1 (703) 522 6847				

