

# THINKING...

THINKING  
CUSTOMER

THINKING  
SAFETY & SECURITY

THINKING  
COMPETENCE

THINKING  
SAFETY & SECURITY

THINKING  
ENVIRONMENT

THINKING  
GLOBAL

THINKING  
TECHNOLOGY

THINKING  
COMMUNICATION

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THINKING  
GLOBAL

ETHICS

THINKING  
GLOBAL

ENVIRONMENT

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COMPETENCE

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COMMUNICATION

ENVIRONMENT

SAFETY & SECURITY ETHICS

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THINKING

THINKING  
ENVIRONMENT

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THINKING  
CUSTOMER

THINKING  
GLOBAL

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THINKING  
TECHNOLOGY

ETHICS  
CUSTOMER

COMPETENCE

THINKING  
ENVIRONMENT

THINKING  
COMPETENCE

SAFETY & SECURITY

# CONTENTS

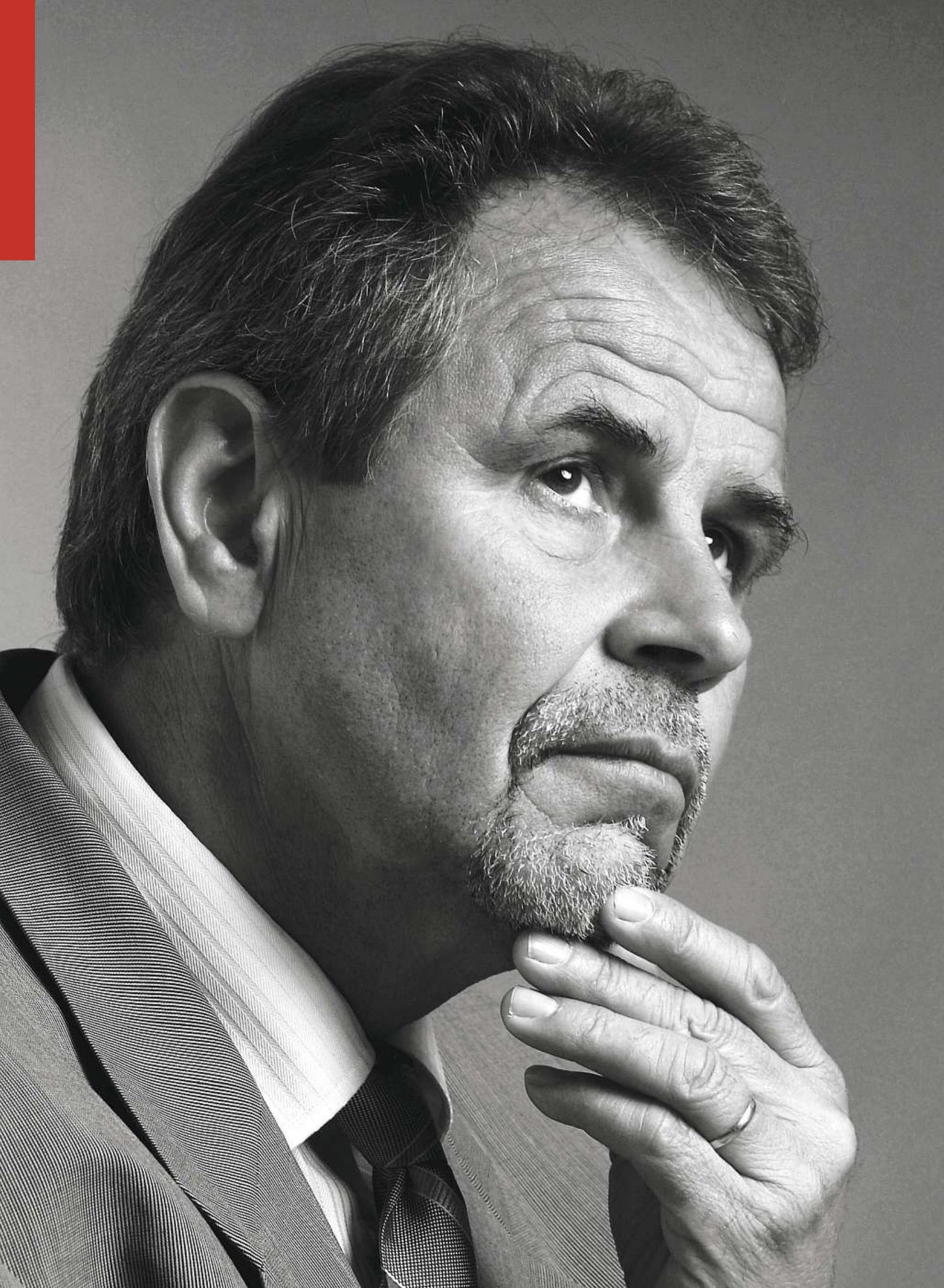
TIME FOR THINKING	5
THE CUSTOMER IN FOCUS	7
THINKING BACK AT 2007	8
NAMMO IN BRIEF	10
KEY FIGURES NAMMO GROUP	11
HUMAN RESOURCES	14
FINANCE	18
BOARD OF DIRECTORS' REPORT 2007	22
BOARD OF DIRECTORS PRESENTATION	28
NAMMO GROUP	31
INCOME STATEMENT	
BALANCE SHEET	
CASH FLOW	
GENERAL PRINCIPLES	
NOTES TO THE ACCOUNTS	
AUDITORS REPORT	
NAMMO AS	
INCOME STATEMENT	
BALANCE SHEET	
CASH FLOW	
GENERAL PRINCIPLES	
NOTES TO THE ACCOUNTS	
AUDITORS REPORT	
GROUP MANAGEMENT PRESENTATION	32
TECHNOLOGY	36
CORPORATE GOVERNANCE	38
SMALL CALIBER DIVISION	39
MEDIUM & LARGE CALIBER DIVISION	40
NAMMO TALLEY	41
MISSILE PRODUCTS DIVISION	42
DEMIL DIVISION	43
ACQUISITIONS IN 2007	46
OWNERSHIP STRUCTURE	47
GROUP STRUCTURE	50
ADDRESSES	54

*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 pre-vailing and legal version.*

## TIME FOR THINKING

*At Nammo we think* it is time for us all - both within and outside the company - to make it a habit to take a time-out now and then. This can be the most valuable time we all have at work, used the right way. We have a feeling that the right way to use these time-outs is to replace old habitual thinking by contemporary and futuristic thoughts, about what we do. How our actions influence both others and our environment. How we can be better in what we do and at the same time be in line with all our company policies.

*In this annual report* we have written down some thoughts about the Nammo Group and the way we interact with and relate to typical ideas and terms. These thoughts do not represent a resolution by the board, but are a result of input from the most important and valuable parts of the entire group: The Nammo People.



EDGAR FOSSHEIM  
PRESIDENT & CEO  
PHOTO: STEIN HENNINGSEN

## THE CUSTOMER IN FOCUS

Nammo has experienced another year of positive development with very good results. Our already existing business areas have developed in a positive way and the new acquisitions we have made the last two years have also contributed as expected. There are many reasons for our success, but I am convinced that our customer focus has been a key element behind this development.

*a* **FULL UNDERSTANDING** of our customers' needs and overall situation, the requirements they have for the soldiers and units and services they need in order to perform their mission, has increasingly become the key to Nammo being a successful supplier of ammunition, missile products and other related services.

We have been successful in utilizing our technological expertise into high-end niche products, providing us with an excellent position in many areas that meet the customer's new requirements. Our well established and recognized products are continuously improved and new state of the art products are developed and delivered to our customers.

In most cases our success has been the result of cooperation with our key customers often giving us the opportunity to participate in international programs at an early stage. This has required good timing

and a willingness to invest in the future, which in many cases has proven to create good industrial opportunities both in short and long terms.

Open communications and trust, as well as clear goals and responsibility, are important principles to motivate and develop dedicated and creative people to achieve good results. As we grow internationally, good communications and an understanding of other cultures become all the more important. This will be a challenge for us all as we grow and try to achieve the synergies from working together across borders.

Nammo made three acquisitions in 2007, Talley Defense Systems Inc, USA and the M72 part of Norris Industries USA and ND PressTec GmbH, Germany, and they have all three developed in a positive way. It is important for us to succeed with our acquisitions as they will be a very important part of our future growth and results.

Environmental awareness is always on the agenda, specifically with regards to testing, production and demilitarization. The Nammo Group has to adapt to the regulations in each of the countries where we have production facilities. We highly value having such broad knowledge of environmental awareness in house. We are proud to be a world leader of demilitarization and recycling of old ordnance, and do hope that more nations will join us in the

future in the efforts to get rid of their obsolete and excess ammunition stocks in an environmental-friendly way.

An increasingly important subject over the past years has been ethics with respect to products, marketing and sales, and the relationship between industry and customers in general. The nature of our business will always raise questions of ethics; therefore this is something we deal with in our daily work. Our policy is that open communications and transparency is the best way to ensure that we conduct our business consistently with our ethical guidelines and according to national and international laws and regulations.

I am sure that the employees of Nammo, throughout our organization, are cooperating with and serving our customers in a professional way. Based on more than 100 years of tradition and experience we are proud to work with and serve all our customers.

Edgar Fossheim  
President & CEO

# THINKING BACK AT 2007

BIATHLON SHOOTER USING LAPUA RIMFIRE AMMUNITION



M72 A7 FROM NAMMO TALLEY



IRIS-T ON EUROFIGHTER



40MM STRIKER AMMUNITION



LEOPARD II USING 120MM NAMMO AMMUNITION



70MM MPP ON APACHE HELICOPTER



HYBRID TEST ROCKET



## JANUARY

- Excellent results in World Cup Biathlon in Oberhof, most Gold medals won with Lapua Rimfire ammunition.
- First production contract of Exocet was signed.
- Contract from BWB Germany for demilitarisation of ICM's.

## FEBRUARY

- Acquisition of DN PressTec GmbH, the new daughter company is named ND PressTec GmbH.
- New success in World Cup in Biathlon in Antholz, 78,8% of the ammunition came from the Nammo brand «Lapua».

## MARCH

- Acquisition of Talley Defense Systems Inc. renamed to Nammo Talley Inc.

## APRIL

- Production contract for SMAW-NE started at the Nammo Talley factory in Mississippi.

## MAY

- Hyper Velocity Missile – successful static firings completed and prototypes have been delivered to SAAB for flight testing.
- Received of M72FFE development contract with US SOCOM.

## JUNE

- Successful anniversary of The 10th Multi-Purpose Symposium held at Raufoss 12-14 June with around 250 guests from 25 different countries.
- Development contract signed with DBD Germany for IRIS-T SL.
- Contract for Archer Warhead by Raytheon Tuscon.

## JULY

- NAMS contract received for a seven year period for demil of the MLRS M26 system

## AUGUST

- Agreement signed with the Polish company Dezamet for cooperation on 40mm GL ammunition.
- Raufoss Test Center was awarded Chairman's award from BAe Systems for the excellent work on the vibration testing of the Stingray torpedo.

## SEPTEMBER

- Successful participation during 5th European Infantry Seminar held at Livgardet in Stockholm; more than 180 delegates from 12 European countries.
- Lapua Cup 300m (former Europe Cup) Super Final in Winterthur (SUI) was a well organized competition and good success for LAPUA shooters: of a total of 16 medals, 11 were won by using Lapua cartridges.

## OCTOBER

- Nammo Demo Day in Finland was a success with participation of 40 ammunition professionals from Finnish Defense Forces different sections.
- 5-years contract from Norwegian Armed Forces for plastic training ammunition and smoke hand grenades.
- FCT contract for RA79/70mm warhead.

## NOVEMBER

- First Article approval of the SMAW-NE was approved.

## DECEMBER

- Two major demil contracts awarded by the Swedish Defense Materiel Administration.
- Acquisition of first M72 Launcher business from Norris Industries.

# NAMMO IN BRIEF

The Nammo Group is a world leader within the development and production of ammunition, shoulder-fired weapon systems, missile products and related life cycle services.

The quality level of our products reflects the high expertise of our dedicated employees. Our continuous focus on customer needs in parallel with strict safety requirements and environmental awareness constitute the driving force of our business.

## EXPERTISE

Nammo designs, develops and produces a wide range of high-quality ammunition products for hand weapons, medium caliber guns, tanks and artillery guns including for aircraft and naval platforms. A range of shoulder fired weapons systems has become increasingly important, and new versions are under development and qualification. Nammo possesses leading technology in propulsion and thrust vector control for tactical missiles and space applications. The Group's demilitarization 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 technologies and test facilities for new developments.

## OPERATIONAL STRUCTURE

Nammo operates through its five business units: Small Caliber Division, Medium & Large Caliber Division, Missile Products Division, Demil Division and Nammo Talley (new in 2007).

## BACKGROUND

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 Defense and Aerospace Group, Patria Oyj (50%).

## 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 Related Services in a customer driven culture through strong market presence.

## 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
- Organize for speed and cash flow

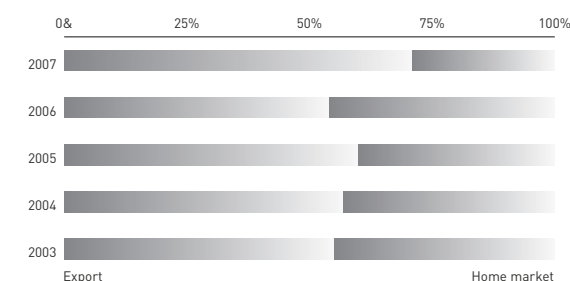
# KEY FIGURES NAMMO GROUP

MNOK	2003	2004	2005	2006	2007
Sales	1 529	1 521	1 641	1991	<b>2745</b>
Operating Result (EBIT)	125	131	206	270	<b>390</b>
EBITDA	178	180	256	332	<b>521</b>
Net Finance Result	-21	-2	10	0,6	<b>-29</b>
Net Income Before Tax (NIBT)	104	129	216	270	<b>361</b>
Net Income after tax	95	111	184	186	<b>261</b>
Dividend	20	30	92	74	<b>130</b>
<b>Key Performance Indicators</b>					
Return On Sales % (NIBT/Sales)	6,8	8,5	13,2	13,6	<b>13,1</b>
Economic Value Added (1)	27	38	83	109	<b>183</b>
Average Man Years	1 243	1 170	1 162	1260	<b>1515</b>
Sales per Man-Year	1,23	1,30	1,41	1,58	<b>1,85</b>
<b>Balance Sheet:</b>					
Fixed & Long Term Assets	347	329	410	444	<b>949</b>
Current Assets	793	876	1 099	1307	<b>1578</b>
<b>Total Assets</b>	<b>1 140</b>	<b>1 204</b>	<b>1 508</b>	<b>1750</b>	<b>2527</b>
Invested Equity	359	359	359	359	<b>359</b>
Earned Equity	171	283	322	460	<b>527</b>
<b>Total Equity</b>	<b>529</b>	<b>642</b>	<b>681</b>	<b>819</b>	<b>886</b>
Provisions	112	121	120	124	<b>114</b>
Long-Term Debt	62	0	0	1	<b>525</b>
Short-Term Debt	436	442	707	807	<b>1003</b>
<b>Total Debt</b>	<b>610</b>	<b>562</b>	<b>827</b>	<b>932</b>	<b>1642</b>
<b>Total Debt &amp; Equity</b>	<b>1 140</b>	<b>1 204</b>	<b>1 508</b>	<b>1 750</b>	<b>2527</b>

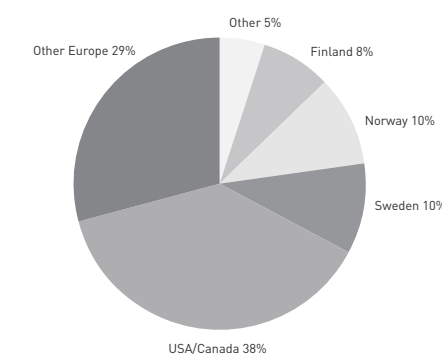
(1) 12 month rolling EVA with average cost of capital of 11% and 28% calculated tax

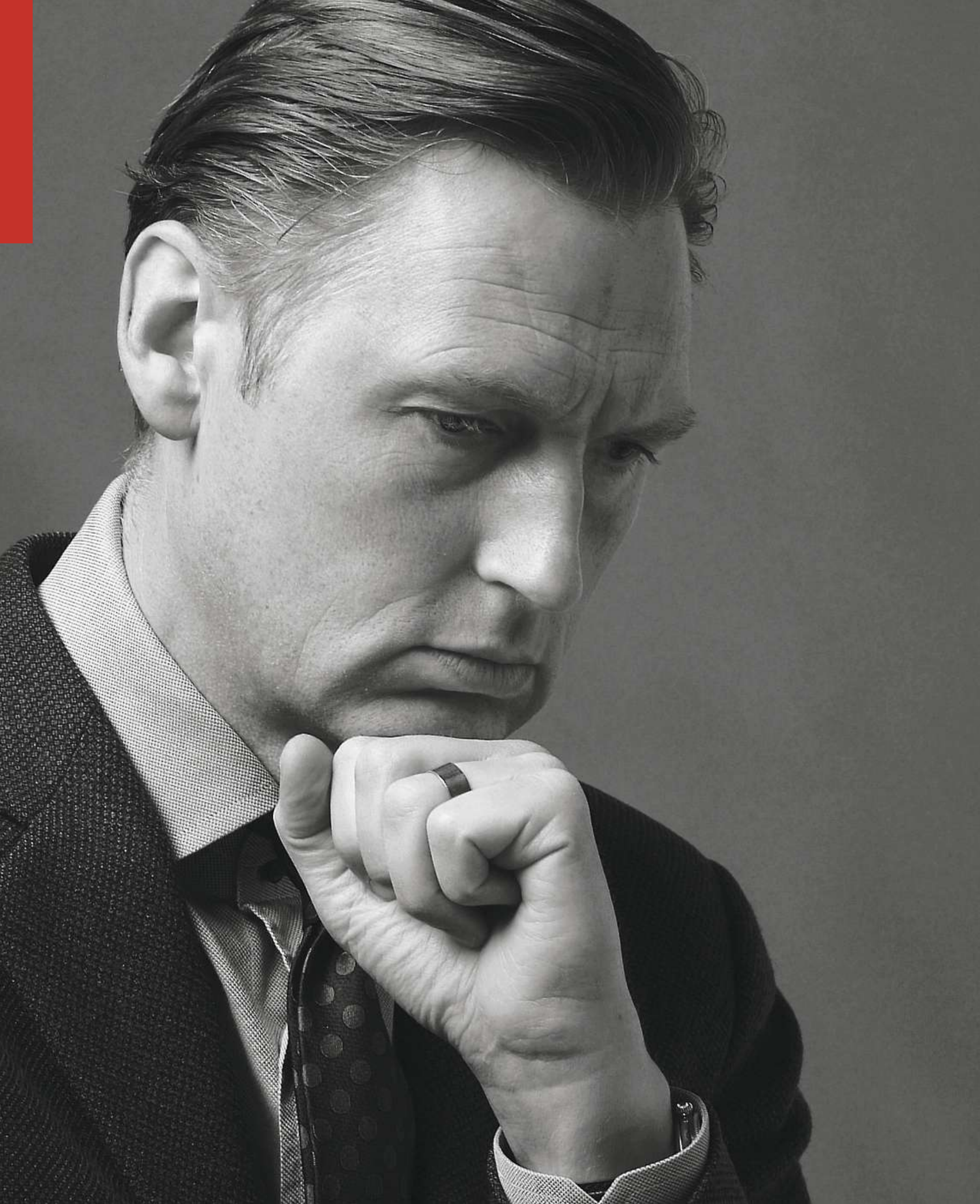
## NAMMO SALES

Home market vs Export market



## SALES BY GEOGRAPHICAL AREAS 2007





THINKING ETHICS  
PHOTO: STEIN HENNINGSEN

# THINKING ETHICS

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Ethically based thinking is the foundation of our business and may be more important to us than to most other producers and vendors. We are therefore very conscious of complying with national laws regulating production and sales.

AMMO'S ETHICAL CODE of Conduct has gone through a revision process and will be re-launched both internally and externally. For Nammo, the Ethical Code of Conduct is a guideline to a culture that shall be followed by all the employees within the Group. In order to achieve this we have to take into consideration that we are a Group with people from six different nations depending on six national laws and regulations. Most of our customers also have increased attention on ethics and it is equally important that Nammo's sales-personnel are aware of and respect our customer's ethical guidelines. With all these various obstacles as a background Nammo's Ethical Code of Conduct shall take the different aspects into consideration.

It is important for Nammo to continue to be a recognized and serious business partner within the defense business and a serious player and support for the local communities where our production units are located.

13

ANNUAL REPORT  
NAMMO 2007

# HUMAN RESOURCES

**A skilled and motivated staff with a good understanding of our customers' needs** is a key factor in our efforts to meet our objectives. We aim to motivate all employees to have the Customer in focus in their daily work.

Our ability to meet customer needs and requirements is hugely influenced by the way in which we educate our employees and in which we organize the different operations and processes. It is essential that our employees, managers, engineers and operators understand that our main focus is to serve the customer to a satisfactory level.

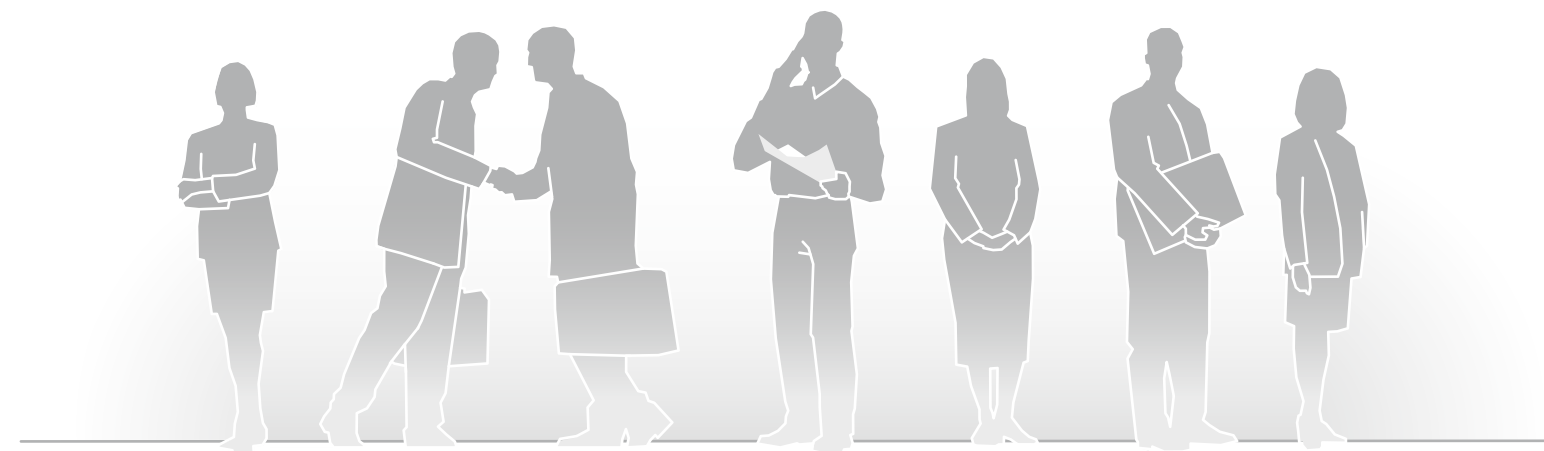
Performance Management is our main system for achieving our business results and for managing the organization and human resources. Our Performance Management system integrates goal setting, communication about performance levels and actions, performance reviews and individual appraisals into an annual system. Its purpose is also to support the continuous development of individuals and teams by providing direct and diverse feedback during the performance reviews and development discussions. Managers need performance management for goal setting, action planning, reviewing of results and giving feedback and recognition to their employees. All employees

should be committed to our business areas, our plans and strategies, and to find ways in which they can best contribute to our business goals and actions. Development planning and rewards should take place when the results and achievements are evaluated.

For Nammo, good management also implies strong teamwork within our different operations. We believe that strong teamwork and a Performance Management system will increase motivation among our employees, and will have a positive impact on the working environment. We believe our continuous efforts to create a positive working environment will have a positive long-term impact on our ability to meet our targets. Our focus on motivation factors, leadership practice and every single employee's environmental factor has shown positive result also in 2007. Our turnover rate in employment and development of sickness absence has sustained a positive trend in 2006, and shows even stronger results in 2007.

There has been a significant increase in the total number of employees in 2007 compared with 2006. Two factors have had an important impact on our workforce.

One factor is the high activity in many parts of our operations, especially at Nammo Raufoss in Norway and in Vanäsverken in Sweden. There were 222 employees in Vanäsverken by the end of 2007, and this is the highest number there for decades. Also Nammo Raufoss increased the total number of employees by 16% due to high activity.



The second factor is the acquisition of Nammo Talley with 225 employees and the acquisition of ND PressTec with 48 employees, and 15 employees from Norris Industries.

With such a significant increase in workforce, the education of the new employees at the different sites to ensure their levels of expertise are in line with Nammo Standard has been an important and prioritized factor.

The challenge for us in the near future is to secure our levels of expertise during a period when many experienced employees are due to retire. The introduction of an effective and good senior policy is an important step towards facing this challenge. We will also prioritize the marketing of Nammo as a good alternative for young engineer students in 2008 and the year after. We believe these actions will ensure even higher levels of expertise within our workforce in the future. We also believe that the recruitment of new employees with the correct personality and expertise is and will be a critical factor if we are to sustain the extreme level of advanced technology within our operations and meet our customers' needs also in the future.

Nammo's acquisition of the US Company, Talley Defense System (TDS), has brought new and inspiring elements into Nammo. We will strive to fully utilize the expertise and experience the 225 employees bring to Nammo in an effective and positive way. 2007 showed that the integration of Nammo Talley into Nammo's values and culture is well under way. This process will receive a strong focus also in 2008.

## 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 2007 Nammo participated in the Norwegian program, Female Future. The Confederation of Norwegian Enterprise (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 apply for positions in our business will be an important action in the future





THINKING CUSTOMER  
PHOTO: STEIN HENNINGSEN

# THINKING CUSTOMER

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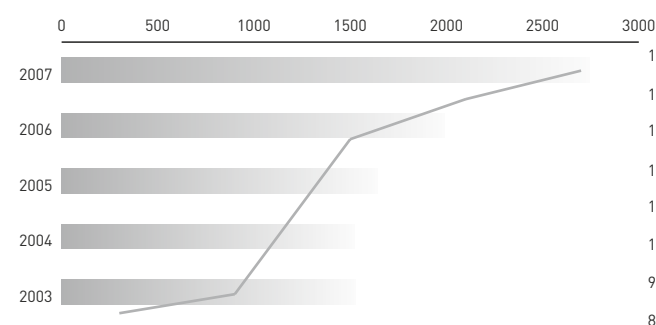
Not one of our customers is alike. Although they may be members of the same military union or political organisation, their geographical, strategic and technical conditions and levels vary. Therefore we must tailor make many of our products, specified for each customer's needs.

**E ALL FEEL** most at home with our own people, ranging from family and friends to people from our own country or region. The smaller the cultural differences, the easier it is to find a common understanding of values. Nammo's customer base contains members of Nato, members of EU and countries in South East Asia. This means that values, laws and restrictions vary from country to country. All of our people in the markets are fully aware of this. They also know that Nammo has to comply with national laws concerning both production and export. Within these limits we strive to create quality products in cooperation with our customers. The customer is the base for our existence and therefore our marketing people follow closely the developments in each country in order to always be fully updated. By knowing our customers, we know their specific needs. That is what we mean by «thinking customer».

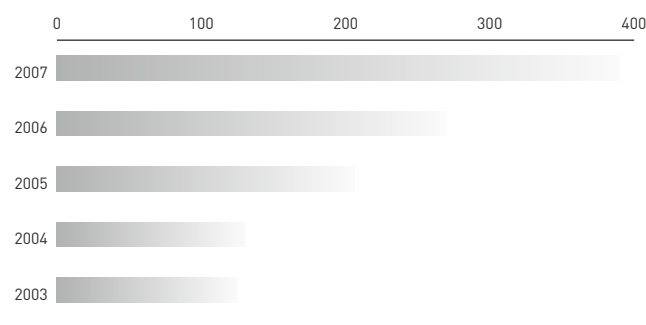
# FINANCE

The primary aim 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.

NAMMO GROUP SALES AND PROFITABILITY



OPERATING RESULT



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 historic development of the Return on Equity (ROE) has been as follows;

Year	2000	2001	2002	2003	2004	2005	2006	2007
ROE (%)	7,8	11,1	10,9	22,8	20,9	30,5	27,3	31,7

The ROE is Net Result after tax/total equity at the start of the year.

## ACQUISITIONS

Nammo acquired 60% of ND PressTec GmbH in Schwerte, Germany on February 15th 2007. The company is a key supplier of components for the cartridge production in Nammo. The turnover for 2007 was 400 MNOK.

Nammo acquired Talley Defense Systems Inc, located in Mesa, Arizona on the 30th March 2007. Talley is a components and shoulder-launch weapons system manufacturer. The turnover for 2007 was 360 MNOK with a strong EBITDA.

## CURRENCY RISK

10% of total sales in Nammo Group are in NOK, our group reporting currency. Nammo is reducing the currency risk by hedging the revenues and purchases by currency forward contracts. The calculated currency value at risk on the financial result due to currency fluctuations has been estimated to +/- 4,8 MNOK on an annual basis. For 2007, the net Other Financial Income less costs was -0,4 MNOK for Nammo Group, which is within the currency value at risk range.

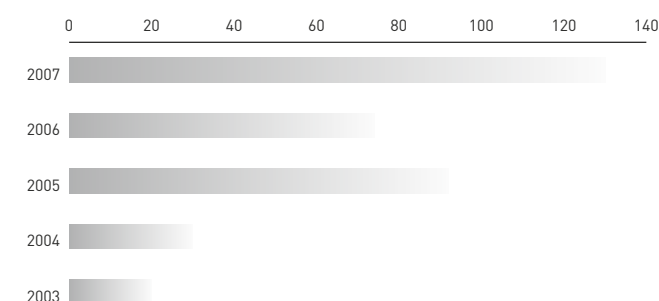
## LONG TERM DEBT

A revolving multi-currency credit facility of 600 MNOK was established in March 2007 related to the acquisitions. The mix of currencies in the credit facility has been in mostly USD and EUR. The debt measured in NOK fluctuates according to the exchange rates. These fluctuations are hedged against assets in USD and EUR. This eliminates effects from the credit facility in the Income Statement for Nammo Group.

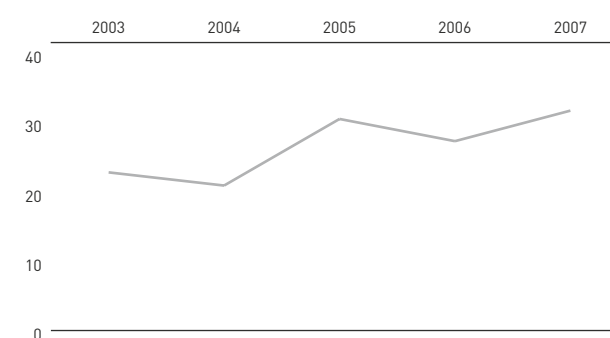
## INTEREST RISK

Nammo has an interest risk due to the established credit facility. The risk is mainly on the USD and EUR. The interest fixing periods in the Loan Agreement can be determined by Nammo and has been from 1-3 months since March 2007. The gradually reduced interest levels on the USD have been favourable to Nammo in 2007.

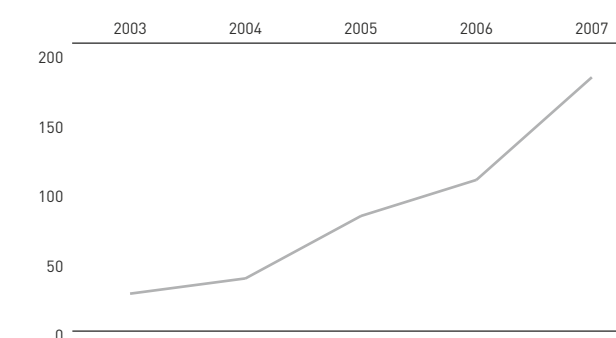
DIVIDEND TO SHAREHOLDERS



RETURN ON OWNERS EQUITY - ROE  
(After tax and measured on book values)



ECONOMICS VALUE ADDED  
(WACC 11% and Tax 28%)



## LIQUIDITY

Nammo is mainly generating cash from operational activities. The EBITDA for 2007 on Group level is 521 MNOK. Continued focus on working capital has freed up cash and it is used to reduce the revolving multi-currency credit facility. Free liquidity is in form of bank deposits in order to maintain low financial risk.

## TAXATION

Nammo has a very limited amount of tax loss carry forwards in 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 2007, 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 2007.

## 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 in all levels of the organisation. Our philosophy is also to familiarize personnel

outside the financial organization in Nammo with the subject of healthy financial understanding.

## INFORMATION TECHNOLOGY

Nammo is in the process of reducing the total number of applications in the Group and supporting standardisation in all subsidiaries. Daily IT operation and application support has been outsourced for the last five years. A new outsourcing partner was selected in 2005. A data warehouse project has been initiated to strengthen the reporting process for the business units and Corporate. This project will be fully implemented in 2009.

The IT strategy is to actively utilize the technology to achieve competitive advantages in the marketplace and contribute to high internal productivity.



THINKING COMMUNICATION  
PHOTO: STEIN HENNINGSEN

# THINKING COMMUNICATION

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Communication is one of the most important tools for the Nammo Group, as new subsidiaries are added. The challenges of good communication has increased accordingly. Thanks to the relative new intranet solution we can publish important information more efficiently and new solutions and work tools have been adopted.

**S THE NAMMO** Group is growing, the need for functional communication and clear channels of command has grown to an absolute. The daily work, coordination of different products and manufacturing lines, reports from sales force to testing crews, media contact and Public Relation – it all has to have one language, one tone of voice to unite all participants, not divide and alienate them. Media contacts are to be channelled through the info department at HQ. Our common message is symbolised by our slogan: Precision. People. Technology. Our core products and services are ammunition, rocket motors and demilitarization.

The most important task for those responsible for communication is to make all our employees understand that we are one company. That this fact stands regardless of country, nationality and division. Thinking communication across lines and borders opens for synergy among all business units and Sites.

21

ANNUAL REPORT  
NAMMO 2007

# BOARD OF DIRECTORS' REPORT 2007

The Board is pleased to report a continued positive development for the Nammo Group in 2007.



**GENERAL COMMENTS** Overall sales increased by 38% from last year, of which 8% was the result of organic growth and the remaining 30% came from acquisitions. The corresponding overall operational result increased by 45%. As a result of acquisitions, the percentage of total turnover for the Nordic market saw a reduction from 46% to 29%, the North American market increased from 22% to 37%, the rest of Europe remained at 29% and the rest of the world at about 5%. This shows that Nammo has developed into a company with balanced activities in the Nordic, European and the US markets.

Consistent with our strategy, the acquisition of Talley Defense Systems Inc. (TDS) will secure and enhance Nammo's already well-established position in the US market. Moreover, the acquisition of the M72 Launcher activities from NIFMS in the USA at the end of the year and of the small and medium caliber cartridge case brass cup supplier, ND PressTec in Germany, has further strengthened

Nammo's supply chain in core business areas. As a result, Nammo has become an even stronger, more dedicated and focused supplier of ammunition, missile products 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 in close cooperation with our customers will continue to be key factors for Nammo's success also in the future. A long-term strategy of developing Nammo's position and presence in the international market has gradually generated positive results. We aim to continue this strategy via partnering with national companies in several countries and via acquisitions.

The continuous improvement of operations has gradually strengthened Nammo's financial position, thus giving the company flexibility to further develop the company both organically and through acquisitions according to strategy. 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 in relation 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 that we are operating consistently within our own ethical standards with respect to products and marketing efforts.

#### THE NORDIC PLATFORM

The defense industry operates on a regulated market, and is generally dependent upon 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 although the relative part of the Nordic market is declining for Nammo, it is vital to be part of the development and the future structure and to feature in the plans of their Armed Forces. The restructuring of the Armed Forces in the Nordic countries are progressing according to separate plans and objectives for each country. Nammo has developed a constructive dialog in relation to our role and interests in this complicated and difficult process. However, we have also experienced an in-creased focus on the Nordic perspective and cooperation between the Armed Forces in Finland, Norway and Sweden. We see this as a potentially positive development, where Nammo could have a central role in terms of future programs and requirements

within ammunition and missile products. Nammo believes that the Armed Forces' focus on core activities will gradually require partnering arrangements and new opportunities for the industry. We are in dialog with the Armed Forces in each of the Nordic countries with the objective to develop a mutually acceptable model for partnering in order to establish «Ammunition Life Cycle Management Services». This process has been implemented separately in each country and is well under way. The Finnish Defense Forces continued to contract their long-term program of particularly large caliber artillery ammunition to the Finnish industry. Nammo co-operates with Patria and Eurenco to fulfill these requirements. The next long-term large caliber contract between FDF and the Finnish industry is under evaluation. In Sweden and Norway, the transition process for the Armed Forces is under way, with significant impact for the industry. However, as this process has moved forward and a new structure for the Armed Forces has emerged, the dialog and contracting with the industry has become more focused and has entered into a more constructive phase. As a result, new areas of cooperation such as a joint artillery program, are under evaluation, in which Nammo plays a central role for the development and production of next generation artillery ammunition. Nammo's position in 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 has been and remains the key to Nammo's development. However, since Nammo was established in 1998, the domestic Nordic market has decreased from 60% to 29% in 2007 where as the international market has become increasingly important. In order to be politically accepted as a supplier, there is an increased requirement for close co-operation and local presence on international markets. This applies for both small countries supporting their local industry as well as for the major countries protecting their domestic industrial base. The need for Nammo to be operationally present in key markets has therefore increased. The US has increasingly become 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 the 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 build a stronger operational presence in the future. The acquisition of TDS is consistent with this strategy, and work is in progress to develop TDS as a platform for further development of Nammo as a domestic supplier to US customers. On the European defense market, leading national defense 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

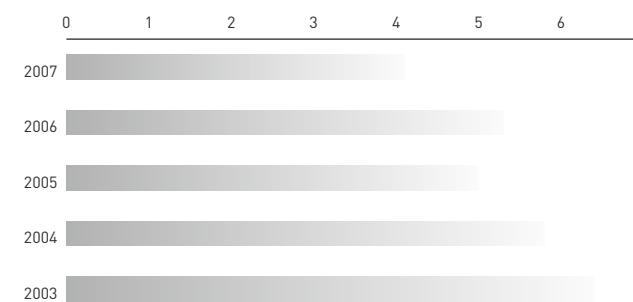
Nammo. Nammo has established a wide network of co-operation both with the Armed Forces and with the local industry in the new NATO countries. Key ammunition projects for new platforms acquired by the Polish Armed Forces are being successfully developed in co-operation with our Polish partners Mesko, Dezamet 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 programs. South East Asian countries have become important markets for Nammo with key contracts awarded and additional potential being developed. The positive results from our efforts so far provide the basis for further follow-up and a concentration of our presence in this area. For Nammo to be successful in these markets, a focus on leading technology and niche products are key issues. Nammo's position in the majority of international markets has had 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 by 38% from 1991 MNOK in 2006 to 2745 MNOK and operating profits increased by 44% from 269.5 MNOK to 389,9 MNOK. This result is partly the result of accumulated long-term improvement processes and adjustments of the organization to meet 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 by 43% from 2631 MNOK in 2006 to 3764 MNOK, establishing a long-term basis for a stable and efficient production. The number of man-years increased from 1277 in 2006 to 1683 in 2007, reflecting an organization adjusted to the increased turnover from organic growth and from acquisitions. The company sustained its focus on continuous improvements in all aspects of the organization, from the operational to the administrative areas, keeping in mind the importance of having a structured and organized process including and 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 program. A strong commitment to our HESS program 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

SICKNESS ABSENCE IN NAMMO 2003-2007  
Sickness absence in %



that Nammo has continued 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 2007 results have further strengthened Nammo's financial position. 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 partly hedged through hedge accounting of the assets related to the long term financing. The interest rate volatility is a potential risk area for Nammo. The focus area for 2007 has been to achieve a high yield on cash deposits, with a low risk,

through precise monitoring procedures. Nammo's long-term assets are mostly in buildings, machinery and property. These assets are depreciated according to Norwegian GAAP. It is the Board's opinion that the financial risk has remained low in 2007. 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 2008. 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 2007 of 129,6 MNOK. The profit in the parent company Nammo AS is distributed as follows:

Dividend	129,600 MNOK
Other equity	[38,428] MNOK
<b>Total</b>	<b>91,172 MNOK</b>

### HEALTH, ENVIRONMENT, SAFETY AND SECURITY (HESS)

#### HESS Policy

Nammo operates in the explosive industry, handling high energetic materials. Our HESS-policy states therefore that HESS has priority over all other business objectives and goals. That means 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

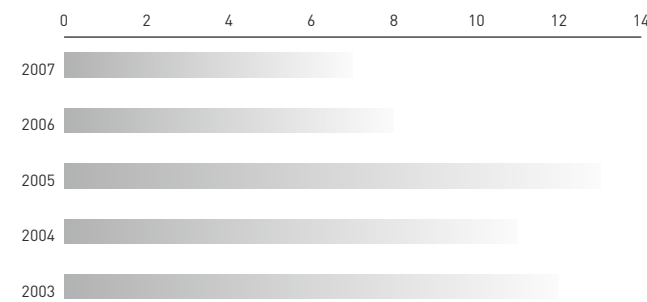
to all sites for information and actions. HESS audits of all sites were performed by Corporate Management in 2007.

#### Safety and security

During our annual HESS-seminar in Finland, we discussed common experience gathered from accidents and incidents. An action plan for 2007-2008 was worked out as a guideline for continuous HESS improvements. Main topics are reduced sickness absence, environmental issues, safety and security, improvement of common HESS system, explosive education/training and transfer of know-how. One of the seminar topics was the new regulation regarding import and handling of chemicals in the EU, known as Reach. This new regulation will be followed-up in 2008 by the HESS working group. In some of the countries, the regulations for handling and storage of explosives have been changed to prevent burglary. Security systems for all production and storage areas for explosives in Nammo will be evaluated in 2008.

**H-VALUE IN NAMMO 2003-2007**

H-value: Number of accidents with absence per million working hours



**Education and training**

In 2007, the focus has been on proactive work, training and education. Nammo AS' work as a partner in EuExcert – for training and education of operators in the explosive industry – continues. This project runs as a co-operation between a number of EU countries. The project started in 2004 and was terminated in 2006. 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. This program includes a number of new partners from Europe. The aim for Nammo is to build new training and education programs based on the EuExcert standard and to increase the know-how needed to ensure accident reduction.

**HESS results**

Sickness absence in Nammo at the end of 2007 was 4.1% compared to 5.3% in 2006 (see figures). Some of the sites experienced a decrease in sickness absence in 2007 and this is the best result for Nammo to date. This development shows that the management and unions need to increase focus and follow-up in order to achieve even better results next year. Different activities, such as workplace improvement, environmental attention, protection equipment, physical training etc. have been on the agenda. There were 21 accidents resulting in absence in 2007, representing an H-value of 7 (number of accidents leading to absence per million working hours), compared to 8 in 2006 (see figures). Despite of one serious accident in 2007, this is the best result since the formation of the company. That gives us

an F-value of 54 which indicates that the most frequent types of accidents are minor. Most of the injuries are on fingers, hands etc. as a result of handling of materials and machinery. Another type of frequent accident is falling on icy ground or other kinds of injuries related to falling. We need to continue our preventive work in all areas and to maintain a special focus on the attitudes of our employees.

**THE ENVIRONMENT**

Nammo HESS-policy requires that all sites shall be certified according to ISO 14001 environmental certification, or similar environmental standards. 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 dangerous 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 Center and for ammunition previously disposed 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. 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. No new pollution has been detected. A common effort in the area of energy efficiency, special waste, and water consumption will receive special focus in 2008, with plans and goals for continuous improvement.

**HUMAN RESOURCES MANAGEMENT**

**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. Nammo has in 2007 participated in the Norwegian program, Female Future. The Confederation of Norwegian Enterprise (NHO) has taken the initiative to this program and the aim is to give female employees improved opportunities to take on leading positions in the Company. Activities to motivate females graduated from universities to go into our business will be an important action in the future.

**Key numbers**

- Nammo AS is a Group with 1715 employees (1515 Man year) by year end. On average in 2007 it was 1546 employees (1523 Man year). The employees in Nammo Talley were included in the headcount in May and the employees in ND PressTec were included in June. A split of the numbers of employees by year end in the different countries gives 674 in Norway, 423 in Sweden, 228 in USA, 202 in Finland and 188 in Germany.
- Women account for 31% of the total employment in the Group. Nammo has two female Board Members on the Board of Directors. The Corporate Management team has one female participant as of this date.
- Nammo has equal pay for work of equal value. Women and men holding the same position shall have the same salary.

- When recruiting, there are equal opportunities for both women and men.
- Women and men have the same working conditions.
- The Group has because of high workload had a significant number of recruitments in 2007.
- The numbers of employees has had a significant increase because of acquisitions and recruitments.
- 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 applications.

**OUTLOOK FOR THE NAMMO GROUP**

Since its creation in 1998, Nammo has developed into a financially healthy company with a strong Nordic foundation. During 2007, Nammo has completed acquisitions which have led to the company

having a balanced business and presence in the Nordic countries, the European community and USA. A further strengthening of our 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 2007.

The order books were strengthened during 2007 and are already well covered in most areas, and the outlook is good for the coming year also. Nammo will continue to focus on profitable growth in selected niche markets and the Board foresees a positive development for the Nammo Group in 2008.

The Board expresses its appreciation to all employees for their commitment and strong individual efforts which have made Nammo a successful and even stronger company in 2007.

Lindesberg, April 8th 2008

*Jorma Wiitakorpi*  
Jorma Wiitakorpi  
Vice Chairman

*Karl Glad*  
Karl Glad  
Chairman

*Kai Nurmi*  
Kai Nurmi  
Board Member

*Jan T. Jørgensen*  
Jan T. Jørgensen  
Board Member

*Tone M. Lindberg*  
Tone M. Lindberg  
Board Member

*Jarmo Puputti*  
Jarmo Puputti  
Board Member

*Astrid Berg-Ardesjö*  
Astrid Berg-Ardesjö  
Board Member

*Einar Linnerud*  
Einar Linnerud  
Board Member

*Edgar Fossheim*  
Edgar Fossheim  
President & CEO

# BOARD OF DIRECTORS PRESENTATION

The Board of Directors in Nammo AS consist of 8 Directors, three from each owner and two Directors representing the employees. The employees also nominate one additional observer so that in total Norway, Sweden and Finland are represented.



FROM LEFT:  
JORMA WIITAKORPI, VICE CHAIRMAN  
KARL GLAD, CHAIRMAN  
TONE M. LINDBERG, BOARD MEMBER



FROM LEFT:  
KAI NURMIO, BOARD MEMBER  
JARMO PUPUTTI, BOARD MEMBER  
PETRI MIKAEL KONTOLA, OBSERVER



FROM LEFT:  
EINAR LINNERUD, BOARD MEMBER  
JAN T. JØRGENSEN, BOARD MEMBER  
ASTRID BERG-ARDESJØ, BOARD MEMBER



NAMMO GROUP / NAMMO AS

# ANNUAL REPORT

2007





02:	NAMMO GROUP
03:	Income Statement
04:	Balance Sheet
06:	Cash Flow
07:	General Principles
08:	Notes to the Accounts

16:	NAMMO AS
17:	Income Statement
18:	Balance Sheet
20:	Cash Flow
21:	General Principles
22:	Notes to the Accounts
27:	Auditors Report

# NAMMO GROUP



## INCOME STATEMENT NAMMO GROUP

(Figures in 1000 NOK)

	Notes	2007	2006
<b>OPERATING INCOME</b>	1	2 745 365	1 990 652
<b>OPERATING EXPENSES</b>			
Changes in stock of manufactured goods		(374 990)	48 047
Changes in stock of manufactured fixed assets		(1 059)	(187)
Cost of raw materials, purchased components and finished goods		1 436 478	675 936
Salaries, wages, vacation pay and professional fees	3, 11	776 405	552 926
Depreciations of fixed assets	6	131 002	62 833
Other operating expenses		387 647	381 529
<b>Total operating expenses</b>		<b>2 355 483</b>	<b>1 721 084</b>
<b>OPERATING PROFIT</b>		<b>389 882</b>	<b>269 568</b>
<b>FINANCIAL INCOME AND EXPENSES</b>			
Share of profit (Loss) - Equity method	5	602	(296)
Interest received		17 091	11 640
Other financial income	4	12 910	12 521
Interest paid		(46 187)	(6 017)
Other financial expenses	4	(13 350)	(17 238)
<b>Net financial income expenses</b>		<b>(28 934)</b>	<b>610</b>
<b>PROFIT BEFORE TAX AND EXTRAORDINARY ITEMS</b>		<b>360 948</b>	<b>270 178</b>
Taxes on ordinary result	12	(100 434)	(84 286)
<b>PROFIT BEFORE EXTRAORDINARY ITEMS</b>		<b>260 514</b>	<b>185 892</b>
<b>EXTRAORDINARY INCOME AND EXPENSES</b>			
Net extraordinary items		0	0
Minority share		(1307)	0
<b>Profit (Loss) for the year</b>		<b>259 207</b>	<b>185 892</b>

# BALANCE SHEET

## NAMMO GROUP

(Figures in 1000 NOK)

ASSETS	Notes	As of 31.12.07	As of 31.12.06	As of 31.12.05
<b>FIXED ASSETS</b>				
<b>Intangible assets</b>				
Deferred tax advantage	12	65 836	63 047	53 424
Other intangible assets	6	342 462	3 800	9 300
Goodwill	6	81 300	12 599	16 214
<b>Total intangible assets</b>		<b>489 598</b>	<b>79 446</b>	<b>78 938</b>
<b>Tangible assets</b>				
Buildings	6	146 009	110 108	116 233
Property	6	15 440	16 212	11 100
Machinery and equipment	6	173 539	136 052	132 711
Fittings, office machines etc.	6	31 727	18 475	14 403
Plant under construction	6	62 057	54 815	35 427
<b>Total tangible assets</b>		<b>428 772</b>	<b>335 662</b>	<b>309 874</b>
<b>Financial assets</b>				
Shares in joint-controlled companies	5	10 130	9 594	9 742
Other shares and participations	5	9 043	9 040	1 508
Other long-term assets	7	11 251	9 942	9 485
<b>Total financial assets</b>		<b>30 424</b>	<b>28 576</b>	<b>20 735</b>
<b>Total fixed assets</b>		<b>948 794</b>	<b>443 684</b>	<b>20 735</b>
<b>CURRENT ASSETS</b>				
<b>Inventories</b>				
Raw materials		327 527	155 969	164 257
Work in progress		282 653	106 853	140 835
Finished goods		125 861	98 230	104 007
<b>Total inventory</b>		<b>736 041</b>	<b>361 052</b>	<b>409 099</b>
<b>Receivables</b>				
Prepayments to suppliers		41 626	29 273	4 857
Accounts receivables	8	584 731	498 613	245 651
Other receivables	7	40 321	29 865	49 714
Other financial assets		0	10 489	10 166
<b>Total receivables</b>		<b>666 678</b>	<b>568 240</b>	<b>310 388</b>
<b>Cash and bank balances</b>	9	<b>175 808</b>	<b>377 223</b>	<b>379 419</b>
<b>Total current assets</b>		<b>1 578 527</b>	<b>1 306 515</b>	<b>1 098 906</b>
<b>TOTAL ASSETS</b>		<b>2 527 321</b>	<b>1 750 199</b>	<b>1 508 453</b>


(Figures in 1000 NOK)

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	As of 31.12.07	As of 31.12.06	As of 31.12.05
<b>EQUITY</b>				
Share Capital	10	100 000	100 000	100 000
Premium Funds		258 670	258 670	258 670
Other Equity	10	518 285	459 954	322 298
<b>Total equity</b>		<b>876 955</b>	<b>818 624</b>	<b>680 968</b>
<b>Minority share</b>		<b>9 099</b>		
<b>LIABILITIES</b>				
<b>Provisions</b>				
Pension engagement	11	113 583	103 774	93 723
Deferred taxes	12	0	0	0
Allocation for restructuring		0	20 237	26 275
<b>Total provisions</b>		<b>113 583</b>	<b>124 011</b>	<b>119 998</b>
<b>Other long-term liabilities</b>				
Other long-term liabilities	13	524 986	824	0
<b>Total other long-term liabilities</b>		<b>524 986</b>	<b>824</b>	<b>0</b>
<b>Short-term liabilities</b>				
Allocation for guarantee liability		82 106	82 476	73 094
Advance payments from customers		234 510	183 488	174 532
Accounts payable		207 771	143 585	159 331
Taxes payable	12	70 048	84 573	42 449
Withheld taxes and VAT		75 727	67 681	45 229
Dividend payable to shareholders		129 600	74 300	92 000
Other short-term liabilities		202 936	170 637	120 852
<b>Total short-term liabilities</b>		<b>1 002 698</b>	<b>806 740</b>	<b>707 487</b>
<b>Total liabilities</b>		<b>1 641 267</b>	<b>931 575</b>	<b>827 485</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>2 527 321</b>	<b>1 750 199</b>	<b>1 508 453</b>

Lindesberg, April 8, 2008

  
Jorma Wiitakorpi  
Vice Chairman

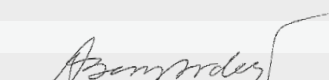
  
Karl Glad  
Chairman

  
Kai Nurmi  
Board Member


  
Jan T. Jørgensen  
Board Member

  
Tone M. Lindberg  
Board Member

  
Jarmo Puputti  
Board Member

  
Astrid Berg-Ardesjö  
Board Member

  
Einar Linnerud  
Board Member

  
Edgar Fosshim  
President & CEO

# CASH FLOW NAMMO GROUP

(Figures in 1000 NOK)

	2007	2006	2005
<b>CASH FLOW FROM OPERATIONAL ACTIVITIES</b>			
Result before tax	360 948	270 178	216 535
Tax payments	(99 134)	(29 190)	(24 226)
Profit and loss on sale of fixed assets	8 474	0	(4)
Ordinary depreciations	131 002	62 833	49 986
Changes in stock	(374 989)	48 047	(163 480)
Changes regarding debtors	(86 118)	(252 962)	90 601
Changes regarding creditors	71 743	(12 290)	44 672
Changes in other depositions	97 805	82 761	34 323
<b>Net cash flow from operational activities (a)</b>	<b>109 731</b>	<b>169 377</b>	<b>248 407</b>
<b>CASH FLOW FROM INVESTMENTS ACTIVITIES</b>			
Payments from sales of long-term assets	72	107	132
Purchase of long-term assets	(88 582)	(86 468)	(93 118)
Purchase of other assets	(643 513)		
<b>Net cash flow from investment activities (b)</b>	<b>(732 023)</b>	<b>(86 361)</b>	<b>(92 986)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Payments received re new long term loans	660 828	0	0
Payments received re new short term debt	0	1 648	0
Repayment of short term debt	0	(824)	0
Instalments on long-term loans	(147 827)	0	0
Net payment of interest	(17 824)	5 964	1 888
Paid dividend	(74 300)	(92 000)	(30 000)
<b>Net Cash flow from financing activities (c)</b>	<b>420 877</b>	<b>(85 212)</b>	<b>(28 112)</b>
Net changes in cash and bank accounts (a+b+c)	(201 415)	(2 196)	127 309
Cash and bank accounts as of 01.01	377 223	379 419	252 110
<b>Cash and bank accounts as of 31.12.</b>	<b>175 808</b>	<b>377 223</b>	<b>379 419</b>

# 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 includes 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 depreciation 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. Buildings 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 acquisitions 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 and 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. 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)	2007
Norway	969 990
Sweden	706 031
Finland	317 144
Germany	383 929
USA	368 270
<b>Total</b>	<b>2 745 365</b>

### Turnover pr. geographical location of customers

(Figures in 1000 NOK)	2007
Norway	268 954
Sweden	284 691
Finland	233 338
Germany	204 108
Denmark	48 482
Great Britain	180 025
France	25 279
Netherlands	9 957
Belgium	39 899
Other european countries	279 381
USA	895 973
Canada	132 098
Australia	6 449
Asia	43 330
Other countries	93 400
<b>Total</b>	<b>2 745 365</b>

## 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)	2007	2006
Salaries	559 679	403 338
Employment taxes	95 672	74 111
Pension costs	68 723	41 858
Other social costs	52 332	33 619
<b>Total</b>	<b>776 405</b>	<b>552 926</b>

<b>Average number of employees</b>	<b>1 546</b>	<b>1 293</b>
------------------------------------	--------------	--------------

### Remuneration to Management and Board of Directors

	Function	Salary and other remuneration	Pension in excess of collective	Prepaid pension	Bonus	Total
<b>Management</b>						
	Edgar Fosshheim	2 387 335	-	1 045 955	672 001	4 105 291
	Johs Norheim	1 340 995	36 000	-	135 000	1 511 995
	Morten Brandtzæg	1 159 128	-	-	107 500	1 266 628
	Ola Skrivervik	1 152 877	-	-	106 459	1 259 336
	Kjell Ivar Kringsjå	1 280 450	-	-	249 688	1 530 138
	Reijo Bragberg	967 237	-	-	223 934	1 191 171
	Raimo Helasmäki	1 258 830	-	-	111 409	1 370 239
	<b>Total</b>	<b>9 546 852</b>	<b>36 000</b>	<b>1 045 955</b>	<b>1 605 991</b>	<b>12 234 798</b>

Loan to the CEO has a balance of 433 TNOK as of 31.12.07. The loan is due in 6 years and the interest rate is 0,75% p.a. in 2007.

The CEO is included in Nammo AS collective pension scheme, limited to 12G. The prepaid pension is the calculated difference between collective pension and 60% of salary at retirement by the age of 63.

Bonus payments are based on a stimulation plan for the CEO and Management.

### Board of Directors

Karl Glad	Chairman	174 582	Chairman from 30.05.07
Jorma Wiitakorpi	Vice Chairman	170 416	Chairman until 30.05.07
Juha Eväsoja	Board Member	43 750	Board Member until 30.05.07
Seppo Seppälä	Board Member	43 750	Board Member until 30.05.07
Kai Nurmio	Board Member	61 250	Board Member from 30.05.07
Jarmo Puputti	Board Member	105 000	
Jan T. Jørgensen	Board Member	105 000	
Tone Lindberg	Board Member	105 000	
Einar Linnerud	Board Member	105 000	
Astrid Berg Ardesjö	Board Member	65 250	Board Member from 30.05.07
Petri Kontola	Observer	12 000	Observer from 30.05.07
<b>Total</b>		<b>990 998</b>	

Auditors	2007
Auditors fee for 2007	2 467
Fees for other confirmation tasks, IFRS and meetings	382
Tax advisory services	40
Services related to internal accounting manual	260
Other fees	252
<b>Total</b>	<b>3 401</b>

#### 4. FINANCIAL ITEMS

(Figures in 1000 NOK)	2007	2006
Gain on exchange	11 243	11 316
Other financial income	1 667	1 205
<b>Total other financial income</b>	<b>12 910</b>	<b>12 521</b>
Exchange costs	(9 663)	(15 421)
Other financial expenses	(3 687)	(1 818)
<b>Total other financial expenses</b>	<b>(13 350)</b>	<b>(17 238)</b>

#### 5. SHARES IN OTHER COMPANIES

Company's	Number	Nominal	Booked		
share	of shares	value	value	NOK	Ownership
capital	owned				
<b>Joint controlled companies:</b>					
(Figures in 1000 NOK)					
PB Nammo Demil, Virginia, USA					49%
Norwegian Ammunition Disposal Company AS, Løkken verk, Norway	NOK 4782	23910	NOK 2391	5 132	50%
Norabel Ignition Systems AB, Lindsberg, Sweden	SEK 400	2000	SEK 200	4 078	50%
SN Technologies SA, Meyrin, Switzerland	CHF 200	100	CHF 100	618	50%
DrawTech Oy, Finland				103	25%
Special Ammunition Services GmbH, Germany	EUR 25		EUR 13	199	50%
PressTec GmbH, Germany	EUR 1060				60%
<b>Total</b>				<b>10 130</b>	
<b>Other shares and participations</b>					
Raufoss Technology & Industrial Management, Raufoss, Norway				1 302	14%
Raufoss Næringspark AS, Raufoss, Norway				7 536	7%
Others				205	
<b>Total</b>				<b>9 043</b>	

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.

#### 6. FIXED AND INTANGIBLE ASSETS

(Figures in 1000 NOK)	Other intangible assets	Goodwill	Buildings	Other fixed assets	Machinery	Fittings and office equipment	Plant under construction	Total
Acquisition cost as of 01.01.07	12 933	21 041	208 018	15 440	733 932	92 761	54 490	1 138 615
Additions during the year	378 265	90 040	54 727	-	83 720	24 601	7 567	638 920
Disposal's during the year	407	-	-	-	8 454	5 009	-	13 870
Acquisition cost as of 31.12.07	390 791	111 081	262 745	15 440	809 198	112 353	62 057	1 763 665
Accumulated depreciations	48 329	29 781	116 736	-	635 659	80 626	-	911 131
Balance value as of 31.12.07	342 462	81 300	146 009	15 440	173 539	31 727	62 057	852 534
Ordinary depreciations for the year	42045	22660	14765	174	42207	9151	0	131 002
Annual leasing cost on assets not in the balance sheet	0	0	34108	0	0	0	0	34 108
Economic life time (years)	1 - 20	5	10 - 30	7 →	5 - 10	3 - 10		
Depreciation plan	linear	linear	linear	linear	linear	linear		

Goodwill is related to Purchase of Talley Defense Systems Inc, 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)	2007	2006
Accounts receivable	584 968	498 883
Provision for bad debt	237	270
<b>Book value of accounts receivables</b>	<b>584 731</b>	<b>498 613</b>

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 31.12.2007

## 9. CASH RESERVE

(Figures in 1000 NOK)	2007	2006
Cash, Bank accounts	175 808	377 223
Unused credit facility	75 014	50 000
<b>Net Cash reserve</b>	<b>250 822</b>	<b>427 223</b>

Nammo AS has established an international cash pool along with Nammo Raufoss AS, Nammo Bakelittfabrikken 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.

## 10. EQUITY - ALTERATIONS TO EQUITY

(Figures in 1000 NOK)	Share capital	Fund	Net result	Dividend *)	Total
Equity as of 01.01.2007	100 000	718 624			818 624
Net result			259 207		259 207
Application of net result		129 607	(259 207)	129 600	(129 600)
Transferred direct to equity 1)		(71 276)			(71 276)
<b>Equity as of 31.12.2007</b>	<b>100 000</b>	<b>776 955</b>	<b>0</b>		<b>876 955</b>

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 determined future pension payments defined benefit plan are included in the pension commitment calculations.

Net pension cost is included in salaries, wages, vacation pay and professional fees.

Net pension commitments at the end of the year amounted to MNOK 113,6.

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	2007	2006
(Figures in 1000 NOK)		
Accrued pension	26 400	19 578
The share of estimated changes and alterations for the year	19 112	5 230
Interest cost, pension commitments	10 887	10 137
Anticipated yield from pension funds	(7 926)	(7 113)
Pension cost related to defined contribution plans	20 250	14 026
<b>Net pension costs</b>	<b>68 723</b>	<b>41 858</b>

## Pension commitments

(Figures in 1000 NOK)	2007	2006
Gross pension commitments incl. Employment tax	347 413	296 788
- Pension funds	144 957	129 670
<b>Net pension commitments</b>	<b>202 456</b>	<b>167 118</b>
Estimated alteration	(88 873)	(63 344)
<b>Pension commitments noted in the balance sheet</b>	<b>113 583</b>	<b>103 774</b>

## 12. TAX CALCULATIONS

### 12.1 This years tax cost

(Figures in 1000 NOK)	
Tax payable	97 813
Changes in temporary differences	2 621
<b>This years tax cost</b>	<b>100 434</b>

Payable tax refers to European 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

	2007	2006
Differences in:		
Stock-in-trade	30 740	17 292
Guarantee allocations	(73 794)	(82 476)
Allocations pursuant to generally accepted accounting principles	(236)	(23 053)
<b>Total short-term items</b>	<b>(43 290)</b>	<b>(88 238)</b>
Plant and equipment funds	(15 983)	6 163
<b>Total long-term items</b>	<b>(15 983)</b>	<b>6 163</b>
Tax losses carried forward	(81 168)	(58 257)
Corrections during consolidation and internal profits	930	(4 876)
Basis for calculation of deferred tax liabilities	(139 512)	(145 208)
<b>Deferred tax liabilities</b>	<b>(53 749)</b>	<b>(46 659)</b>
Correction on deferred tax	53 749	46 659
<b>Deferred tax liabilities in the balance sheet</b>	<b>0</b>	<b>0</b>

#### 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)	2007	2006
Allocation according to international accounting standards	-	18 406
Pension commitments	43 166	40 122
<b>Basis for calculation of deferred tax liabilities</b>	<b>43 166</b>	<b>58 528</b>
Deferred tax advantage	12 086	16 388
Correction to deferred tax	53 749	46 659
<b>Deferred tax advantage in the balance sheet</b>	<b>65 836</b>	<b>63 047</b>

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

#### 13. INTEREST BEARING LOANS AND GUARANTEES

	2 007	2 006
Mortgage loan	30 530	
Loan from banks	485 513	
<b>Total interest bearing loans</b>	<b>516 043</b>	

Loan from bank consist of a credit facility of 600 MNOK. The facility is reduced by 75 MNOK annually after the first 2 years and terminate at the end of March 2013.

Guarantees not in the balance sheet as of 31.12.2007 are NOK 174,8 million.

#### 14. ACQUISITIONS

Nammo Group acquired Talley Defense Systems Inc, in US in March 2007 with financial effect from January 1, 2007.

(Figures in 1000 NOK)	Sellers book		Adjusted value
	values before acquisitions	Adjustment	
Deferred tax advantage	284		284
Other intangible assets	0	392 007	392 007
Goodwill	34 779	60 898	95 677
Tangible assets	55 396	20 094	75 490
Inventory	74 751	-	74 751
Accounts receivable	68 792	-	68 792
Other receivables	4 242	-	4 242
Cash and bank balances	48 156	-	48 156
Taxes payable	-21 893	-	-21 893
Accounts payable	-42 088	-	-42 088
Other short-term liabilities	-61 853	-1 324	-63 177
<b>Purchase price paid</b>	<b>160 565</b>	<b>471 675</b>	<b>632 240</b>
Cash and bank balances at day of purchase			[48 156]
<b>Net purchase price</b>			<b>584 084</b>

Nammo Group acquired the operation in DN PressTec GmbH, in February 2007 with financial effect from January 1, 2007.

(Figures in 1000 NOK)	Sellers book		Adjusted value
	values before aquisition	Adjustment	
Other intangible assets	7 757	13 759	21 517
Tangible assets	11 628	0	11 628
Inventory	61 674	0	61 674
Prepayments to suppliers	108	0	108
Accounts receivable	2 092	0	2 092
Other receivables	9 671	0	9 671
Cash and bank balances	2 243	0	2 243
Pension liabilities	(877)	0	(877)
Bank loans	(14 666)	0	(14 666)
Debt to Group companies	(12 152)	0	(12 152)
Accounts payable	(28 163)	0	(28 163)
Taxes payable	(62)	0	(62)
Other short-term liabilities	(2 594)	0	(2 594)
<b>Purchase price paid</b>	<b>36 657</b>	<b>13 759</b>	<b>50 417</b>
Cash and bank balances at day of purchase			[2 243]
<b>Net purchase price</b>			<b>48 174</b>

16:	NAMMO AS
17:	Income Statement
18:	Balance Sheet
20:	Cash Flow
21:	General Principles
22:	Notes to the Accounts
27:	Auditors Report

# INCOME STATEMENT NAMMO AS

(Figures in 1000 NOK)

	Notes	2007	2006
<b>OPERATING INCOME</b>		<b>53 659</b>	<b>33 689</b>
<b>OPERATING EXPENSES</b>			
Salaries, wages, vacation pay and professional fees	1	14 880	15 695
Ordinary depreciation		260	
Other operating expenses		26 783	40 120
<b>Total operating expenses</b>		<b>41 923</b>	<b>55 815</b>
<b>OPERATING PROFIT</b>		<b>11 736</b>	<b>(22 126)</b>
<b>FINANCIAL INCOME AND EXPENSES</b>			
Received concern contribution		90 000	19 613
Interest received	2	29 239	8 004
Other financial income	2	33 522	117 800
Interest paid	2	(26 466)	(4 180)
Other financial expenses	2	(23 847)	(6 036)
<b>Net financial income (expenses)</b>		<b>102 448</b>	<b>135 201</b>
<b>PROFIT BEFORE TAX AND EXTRAORDINARY ITEMS</b>		<b>114 184</b>	<b>113 075</b>
Taxes on ordinary result	10	(23 012)	440
<b>Profit (Loss) for the year</b>		<b>91 172</b>	<b>113 515</b>
<b>The Board's proposal for allocation of the profit for the year</b>			
Dividend		129 600	74 300
Other equity		(38 428)	39 215
<b>Total</b>		<b>91 172</b>	<b>113 515</b>

# NAMMMO AS





# BALANCE SHEET

## NAMMO AS

(Figures in 1000 NOK)

ASSETS	Notes	As of 31.12.07	As of 31.12.06	As of 31.12.05
<b>FIXED ASSETS</b>				
<b>Intangible assets</b>				
Deferred tax advantage	10	1 627	1 565	1 125
<b>Total intangible assets</b>		<b>1 627</b>	<b>1 565</b>	<b>1 125</b>
<b>Tangible assets</b>				
Fittings, office machines etc.	3	979	0	0
<b>Total tangible assets</b>		<b>979</b>	<b>0</b>	<b>0</b>
<b>Financial assets</b>				
Shares in group companies	4	587 191	347 249	347 249
Other shares and participations	4	4 033	4 033	4 033
Loans to group companies		369 167	69 438	86 416
Other long-term assets	4	3 525	3 245	2 248
<b>Total financial assets</b>		<b>963 916</b>	<b>423 965</b>	<b>439 946</b>
<b>Total fixed assets</b>		<b>966 522</b>	<b>425 530</b>	<b>441 071</b>
<b>CURRENT ASSETS</b>				
<b>Receivables</b>				
Accounts receivable	5	14 824	48	0
Receivables from group companies		95 676	86 520	48 426
Receivables related to concern contributions		90 000	19 613	90 000
Other receivables		3 270	2 869	4 816
Other financial instruments		0	10 489	10 166
<b>Total receivables</b>		<b>203 770</b>	<b>119 539</b>	<b>153 408</b>
<b>Cash and bank balances</b>	6	<b>98 202</b>	<b>303 609</b>	<b>179 094</b>
<b>Total current assets</b>		<b>301 972</b>	<b>423 148</b>	<b>332 502</b>
<b>TOTAL ASSETS</b>		<b>1 268 494</b>	<b>848 678</b>	<b>773 573</b>

(Figures in 1000 NOK)

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	As of 31.12.07	As of 31.12.06	As of 31.12.05
<b>EQUITY</b>				
Share Capital	7, 8	100 000	100 000	100 000
Premium Funds	8	258 670	258 670	258 670
<b>Total invested equity</b>		<b>358 670</b>	<b>358 670</b>	<b>358 670</b>
Other equity	8	7 802	46 230	7 015
<b>Total earned equity</b>		<b>7 802</b>	<b>46 230</b>	<b>7 015</b>
<b>Total equity</b>		<b>366 472</b>	<b>404 900</b>	<b>365 685</b>
<b>LIABILITIES</b>				
<b>Provisions</b>				
Pension liability	9	5 811	5 591	4 018
Deferred taxes	10	3		
<b>Total provisions</b>		<b>5 814</b>	<b>5 591</b>	<b>4 018</b>
<b>Other long-term liabilities</b>				
Other long-term liabilities	11	485 513	0	0
<b>Total other long-term liabilities</b>		<b>485 513</b>	<b>0</b>	<b>0</b>
<b>Short-term liabilities</b>				
Prepayments from customers		22 104	14 230	73 260
Accounts payable		6 383	7 525	359
Payables to Group companies		222 389	336 075	218 683
Taxes payable	10	23 070	0	15 486
Withheld taxes, VAT and salaries		2 326	1 997	0
Dividend payable to shareholders		129 600	74 300	92 000
Other short-term liabilities		4 823	4 060	4 082
<b>Total short-term liabilities</b>		<b>410 695</b>	<b>438 187</b>	<b>403 870</b>
<b>Total liabilities</b>		<b>902 022</b>	<b>443 778</b>	<b>407 888</b>
<b>TOTAL SHAREHOLDERS EQUITY AND LIABILITIES</b>		<b>1 268 494</b>	<b>848 678</b>	<b>773 573</b>

Lindesberg, April 8, 2008

  
Jorma Wiitakorpi  
Vice Chairman

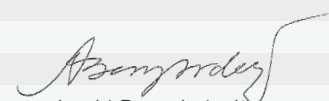
  
Karl Glad  
Chairman

  
Kai Nurmi  
Board Member

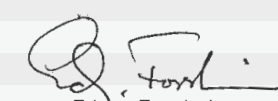
  
Jan T. Jørgensen  
Board Member

  
Tone M. Lindberg  
Board Member

  
Jarmo Puputti  
Board Member

  
Astrid Berg-Ardesjö  
Board Member

  
Einar Linnerud  
Board Member

  
Edgar Fosshim  
President & CEO

# CASH FLOW NAMMO AS

(Figures in 1000 NOK)

	2007	2006	2005
<b>CASH FLOW FROM OPERATIONAL ACTIVITIES</b>			
Result before tax and group contribution	24 184	93 462	2 419
Tax payments		(15 485)	(1 781)
Ordinary depreciation	260		
Changes in accounts receivable	(23 932)	(38 094)	(39 494)
Changes regarding creditors	(1 142)	7 166	359
Pension cost less paid pension premium	223	1 722	(103)
Changes in loans to group and joint control companies	(299 749)	20 182	49 185
Changes in other depositions	(112 241)	53 608	62 022
<b>Net cash flow from operational activities (a)</b>	<b>(412 397)</b>	<b>122 561</b>	<b>72 607</b>
<b>CASH FLOW FROM INVESTMENTS ACTIVITIES</b>			
Investments in tangible assets	(1 239)		
Investments in other assets	(239 942)		
<b>Net cash flow from investment activities (b)</b>	<b>(241 181)</b>	<b>0</b>	<b>0</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Payments from new bank loans	660 828		
Installments on long-term loans	(144 754)		
Net payment of interest	(13 216)	3 954	3 519
Received concern contribution	19 613	90 000	15 000
Paid dividend	(74 300)	(92 000)	(30 000)
<b>Net Cash flow from financing activities (c)</b>	<b>448 171</b>	<b>1 954</b>	<b>(11 481)</b>
Net changes in cash and bank accounts (a+b+c)	(205 407)	124 515	61 126
Cash and bank accounts as of 01.01	303 609	179 094	117 968
<b>Cash and bank accounts as of 31.12.</b>	<b>98 202</b>	<b>303 609</b>	<b>179 094</b>

Unused part of credit facility is 114,5 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 includes 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 depreciation 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. Buildings 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 acquisitions 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 and 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)	2007	2006
Salaries	9 328	10 916
Employment taxes	1 724	1 419
Pension costs	1 364	2 735
Other social costs	2 464	625
<b>Total</b>	<b>14 880</b>	<b>15 695</b>

<b>Average number of employees</b>	<b>10</b>	<b>9</b>
------------------------------------	-----------	----------

<b>Auditor</b>	<b>2007</b>	
Auditors fee for 2007		188
Fees for other confirmation tasks, IFRS, meetings		382
Tax advisory services		40
Services related to internal accounting manual		260
<b>Total</b>		<b>870</b>

## 2. FINANCIAL ITEMS

(Figures in 1000 NOK)	2007	2006
Interest income from Group companies	26 115	5 148
Other interest income	3 124	2 856
<b>Total interest income</b>	<b>29 239</b>	<b>8 004</b>
Gain on exchange		2 957
Dividend from Group companies	33 156	114 520
Other financial income	366	323
<b>Total other financial income</b>	<b>33 522</b>	<b>117 800</b>
Interest cost from Group companies		(448)
Other interest cost	(26 466)	(3 732)
<b>Total interest cost</b>	<b>(26 466)</b>	<b>(4 180)</b>
Exchange costs	(23 213)	(5 736)
Other financial expenses	(634)	(300)
<b>Total other financial expenses</b>	<b>(23 847)</b>	<b>(6 036)</b>

## 3. FIXED AND INTANGIBLE ASSETS

(Figures in 1000 NOK)	Fittings and office equipment
Acquisition cost as of 01.01.07	
Additions during the year	1 239
Disposal's during the year	
Acquisition cost as of 31.12.07	1 239
Accumulated depreciations	260
Balance value as of 31.12.07	979
Ordinary depreciations for the year	260
Annual leasing cost on assets not in the balance sheet (buildings)	341
Economic life time (years)	3 - 10
Depreciation plan	linear

## 4. NAMMO AS SHARES IN OTHER COMPANIES

(Figures in 1000 NOK)	Company's share capital	Number of shares owned	Nominal value	Booked Value NOK	Ownership
<b>Name of the company</b>					
<b>Group companies:</b>					
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 38380			239 982	100%
<b>Total</b>				<b>587 192</b>	
<b>Other shares and participations:</b>					
Norwegian Ammunition Disposal					
Company AS, Løkken Verk	NOK 4782	23 910	2 391	3 938	50 %
Toten Golf AS, Reinsvoll				95	
<b>Total</b>				<b>4 033</b>	

	2007	2006
Loans to associated companies	600	600

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

## 5. ACCOUNTS RECEIVABLE

(Figures in 1000 NOK)

**Accounts Receivable** **14 824**

Accounts receivable are booked at face value. There have been no loss on accounts receivable in 2007.

## 6. CASH RESERVE

This amount includes bank balances of Group companies that participate in the international cash pool by MNOK 213,7 . See note 12.

## 7. SHARE CAPITAL

As of 31.12.07 Nammo AS' share capital is 100 MNOK, split on 1.000.000 shares of NOK 100 each.

### 7.1 Nammo AS' shareholders as of 31.12.2007:

	Number of shareholders	Number of shares	
The Norwegian state, by Ministry of Trade and Industry		500 000	50 %
Patria Oyj		500 000	50 %
<b>Total</b>	<b>2</b>	<b>1 000 000</b>	<b>100,0 %</b>

## 8. EQUITY - ALTERATIONS TO EQUITY

	Share capital	Other paid in capital	Other equity	Net result	Total	Dividend *)
	100 000	258 670	46 230		404 900	
				91 172	91 172	
			91 172	(91 172)	(129 600)	129 600
	<b>100 000</b>	<b>258 670</b>	<b>137 402</b>	<b>0</b>	<b>366 472</b>	<b>129 600</b>

## 9. 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 10 active members. In the calculation of the liability the company's membership in the LO/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 December 2007. The following parameters are the basis for the calculation for 2007:

Yield from pension funds	5,75 %
Interest rate used to discount future cash flow	4,70 %
Annual salary increase/increase in G	4,25 %
Annual change in pension	2,50 %
Deferred tax advantage is MNOK 1,6.	

### Pension cost

(Figures in 1000 NOK)	2007	2006
Accrued pension	1 093	1 839
The share of estimated changes and alterations for the year	142	840
Interest cost, pension commitments	359	405
Anticipated yield from pension funds	(230)	(349)
<b>Net pension costs</b>	<b>1 364</b>	<b>2 735</b>

### Pension commitments

(Figures in 1000 NOK)	2007	2006
Gross pension commitments incl. employment tax	10 051	11 907
- Pension funds	4 249	6 316
Net pension commitments	5 802	5 591
Items not recorded under the result		
Estimated alteration	9	0
<b>Pension commitments noted in the balance sheet</b>	<b>5 811</b>	<b>5 591</b>

## 10. TAX

### 10.1 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)	2007	2006
Net income before tax	114 184	113 075
Permanent differences	(31 998)	(114 647)
Changes in temporary differences	207	1 572
<b>Basis for the tax calculation</b>	<b>82 393</b>	<b>0</b>
Tax payable	23 070	
Changes in temporary differences	(58)	(440)
<b>This years tax cost</b>	<b>23 012</b>	<b>(440)</b>

# AUDITORS REPORT FOR 2007

## 10.2 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.

### Deferred tax calculation

(Figures in 1000 NOK)	31.12.07	31.12.06
Fixed assets	12	
<b>Deferred tax in the Balance Sheet at 28%</b>	<b>3</b>	<b>0</b>

## 10.3 Deferred tax advantage

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

	31.12.07	31.12.06
Pension liability	5 811	5 591
<b>Deferred tax advantage in the Balance Sheet 28%</b>	<b>1 627</b>	<b>1 565</b>

## 11. INTEREST BEARING LOANS AND GUARANTEES

	2007	2006
Loans from banks	485 513	0

Loan from bank consist of a credit facility of MNOK 600. The facility is reduced by MNOK 75 annually after the first 2 years and terminate at the end of March 2013. Guarantees not in the balance sheet as of 31.12.2007 are MNOK 111,9

## 12. CREDIT FACILITY

Nammo AS has established an international cash pool along with Nammo Raufoss AS, Nammo Bakelittfabrikken 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.

Nammo as subsidiaries' balance on the overdraft facility is included in payables to Group companies. This amounts to MNOK 213,7. See note 6



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Enterprise 935 174 627MVA

To the Annual Shareholders' Meeting of Nammo AS

## AUDITOR'S REPORT FOR 2007

### Respective Responsibilities of Directors and Auditors

We have audited the annual financial statements of Nammo AS as of 31 December 2007, showing a profit of NOK 91.172.000 for the parent company and a profit of NOK 259.207.000 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 2007, 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, April 8, 2008  
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:

Dalø	Haugaland	Sandnessjøen
Bløde	Kristiansund	Sandnessjøen
Åta	Larvik	Stavanger
Arendal	Lillehammer	Stord
Bergen	Mo i Rana	Tromsø
Elverum	Moide	Tromsø
Farsnes	Narvik	Tromsø
Hamar	Ræres	Ålesund

KPMG AS is a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. Statsautoriserte revisorer - medlemmer av Den norske Revisorforening

# THINKING COMPETENCE

[www.nammo.com](http://www.nammo.com)



To obtain real competence you need to be educated within a special field and then get the practical experience needed. We are working on a long term basis with educational institutions to assure that there will always be a fresh supply of people educated in our fields.

**COMPETENT PEOPLE** are to us what software is to PC users. Without them, we are stuck with the hardware - without any possibility to put it to use. Software can be more or less advanced and the same applies to people. To ensure that the national educational system satisfies our demand for highly competent students, we cooperate closely and on a long term basis with educational institutions like colleges, high schools, engineering schools and universities. Our field of work is a highly specialized one, demanding special skills and special talents, special interests and special devotion. All are not made to meet our needs and naturally we want to have as many competent potential candidates as possible. Thus our lobbying is in line with and contributes to the public efforts to heighten the respect for science and mathematics.

# GROUP MANAGEMENT PRESENTATION

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



FROM LEFT:  
BERTIL PÅLSRUD, SENIOR VICE PRESIDENT  
HUMAN RESOURCES  
STEVE WEGENER, PRESIDENT NAMMO TALLEY INC.



FROM LEFT:  
MORTEN BRANDTZÆG, SENIOR VICE PRESIDENT  
FINANCE & CFO  
EDGAR FØSSHEIM, PRESIDENT & CEO

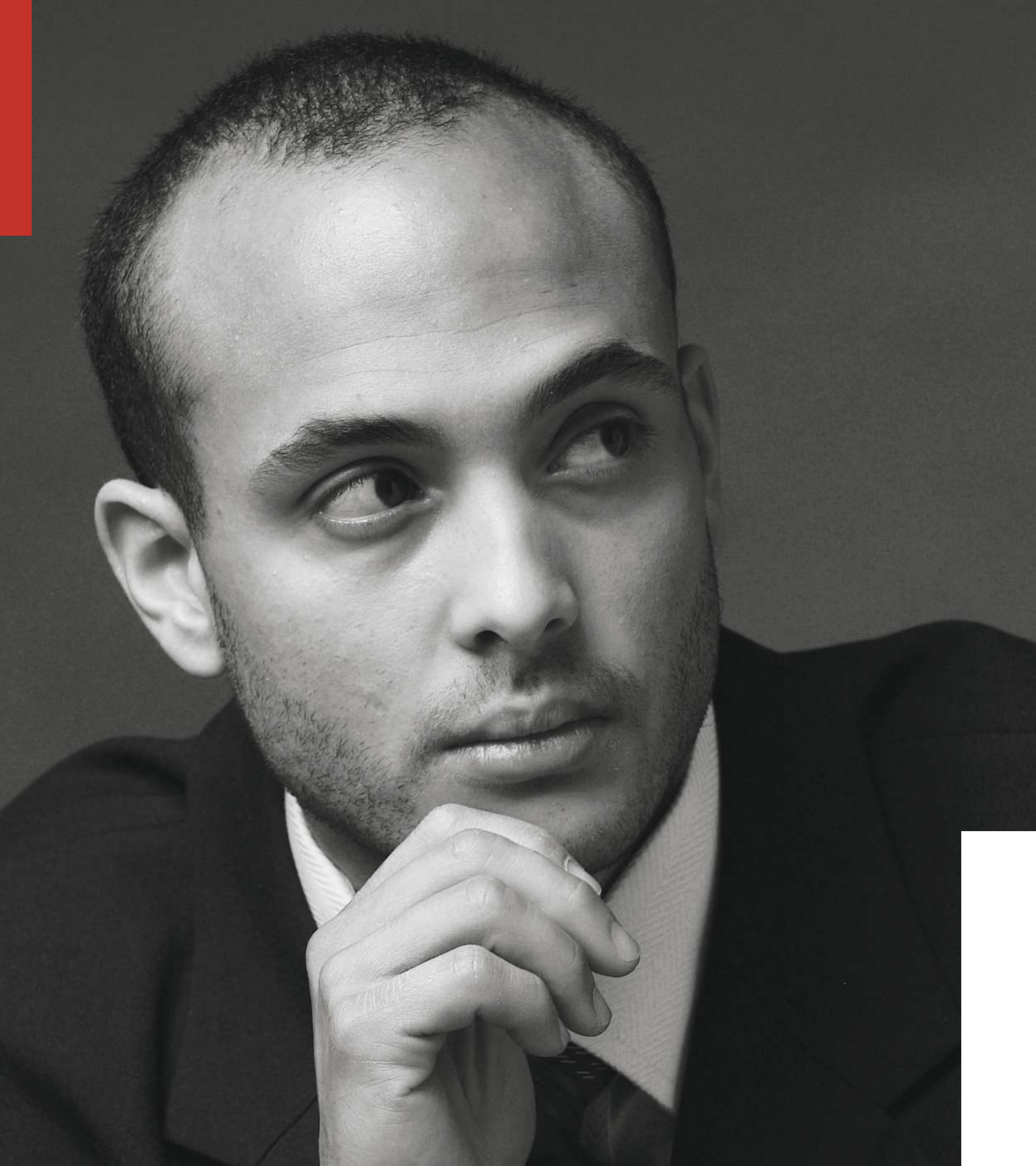
FROM LEFT:  
RAIMO HELASMÄKI, EXEC. VICE PRESIDENT  
SMALL CALIBER DIVISION  
KJELL I. KRINGSJÅ, EXEC. VICE PRESIDENT  
MEDIUM & LARGE CALIBER DIVISION  
OLA SKRIVERVIK, EXEC. VICE PRESIDENT  
MISSILE PRODUCTS DIVISION



FROM LEFT:  
SISSEL SOLUM, VICE PRESIDENT  
COMMUNICATION  
JOHS NORHEIM, SENIOR VICE PRESIDENT  
BUSINESS DEVELOPMENT

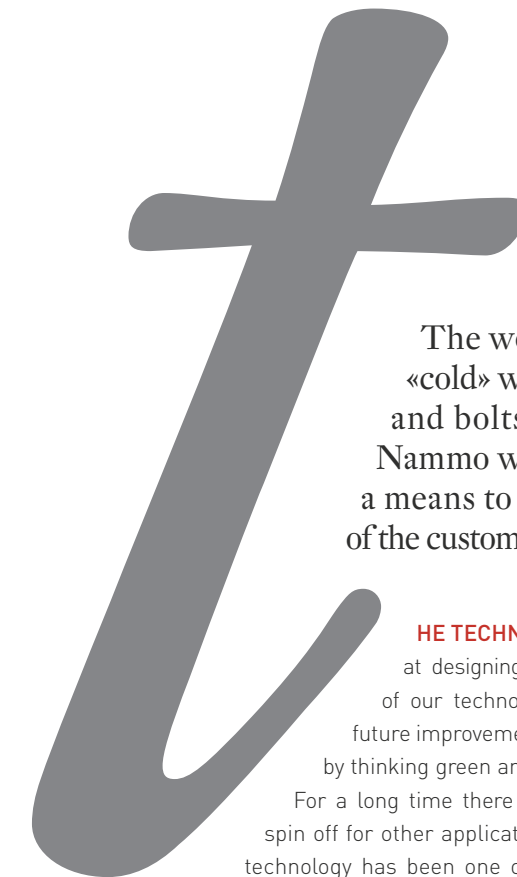


FROM LEFT:  
A. ERLAND PAULSRUD, VICE PRESIDENT  
BUSINESS DEVELOPMENT & PRESIDENT  
NAMMO RAUFOSS AS  
REIJO BRAGBERG, EXEC. VICE PRESIDENT  
DEMIL DIVISION



THINKING TECHNOLOGY  
PHOTO: STEIN HENNINGSEN

# THINKING TECHNOLOGY



The word technology is often considered a quite «cold» word. It has a metallic shine, consists of nuts and bolts and comprises no humanity at all. The Nammo way is using technology not as a goal, but as a means to achieve given tasks to meet requirements of the customer and redefine the life cycle for each product.

**THE TECHNOLOGY** development within our field has always been aimed at designing more cost effective products and solutions. Today the goal of our technology is not only to create better products, adapted to the future improvements but also for today's and the future environmental concern by thinking green and recycling, when they become too old and obsolete.

For a long time there has been focus on developing technology with potential of spin off for other applications within defense or for commercial application. Material technology has been one of the core technologies of Nammo with spinoff in various commercial applications like automotive. For instance has the Raufoss Industrial cluster been given the status as Norwegian Composite Research Center for future national composite technology research as a result of Nammo's early investment into composite. By «thinking technology» we say that the technology must not be a goal, but the means to implement full life cycle planning for all our production, thus holding on to the competitive edge we need to be in front in all fields.



# TECHNOLOGY

**NAMMO technology reaches new heights.** Successful launch of Hybrid Test Rocket from Andøya Rocket Range. Thursday May 3rd 2007 at 12:50:56 hr Nammo successfully launched a 10 meter long hybrid test rocket from Andøya Rocket Range in Norway. The propulsion system of the hybrid rocket was based on solid fuel and liquid oxygen.

The launch of a complete rocket build by Nammo demonstrates Nammo's potential to achieve technological progress. It is the direct result of the successful combination of dedicated people and a solid technological basis. The sight of the rocket soaring into the skies is undoubtedly the most visible way to demonstrate Nammo's ability to take on new challenges and succeed.

## MULTI PURPOSE PROJECTILES

Also the ammunition products include more and more innovative technologies. The new Multi Purpose Projectile of the 70mm Warhead family demonstrated extremely benign behavior during all safety tests (IM Testing) in the USA as part of its qualification process for the Special Forces. The implementation of radio frequency programmable fuzes demonstrated by Nammo has triggered our customers to come up with new concepts not possible earlier without this technology.

## SHOULDER FIRED WEAPON SYSTEMS

The shoulder fired weapons from Nammo's production lines in Norway and the US have been engineered up to the next level of what is technologically possible from these small and light soldier

carried weapon systems. They have been equipped with completely new warheads now also defeating bunkers and they can be fired from enclosures. Composite materials, new explosives and innovating new propulsion concepts have made this possible.

## SMALL CALIBER AMMUNITION

Small arms ammunition with a virtually invisible tracer, sounds like a contradiction in terms, but is a qualified product from Nammo. These products based on the latest IR technology exhibit properties very important for the safety of the modern soldiers involved in night time warfare all around the globe.

## DEMILITARISATION

The disposal of surplus ammunition is turned into a resource of materials through the recycling of all of the ingoing materials, including the energetics, and the use of them for other purposes in the civilian market. We have reached a recycling level of up to 96%. Nammo also assists other nations in their need for safe disposal by installing and operating locally build factories based on a whole set of unique Nammo-based technologies enabling safe and environmentally sound disposal of ammunition.

The Hybrid Test Rocket (HTR) was developed, manufactured and assembled by Nammo Raufoss in Norway. The rocket motor, tank and valve system and the mobile Ground Support Equipment (GSE) were designed by Nammo with support from Lockheed Martin (LM) Michoud Operations, New Orleans, USA. Production, testing and launch were the sole responsibility of Nammo. Andøya Rocket Range (ARR) was responsible for developing and building the HTR telemetry payload and for providing launch services.

A small, but dedicated team from Nammo Raufoss was assigned to this task. The final go-ahead for bringing this technology from the successful static firing in Aug. 2005 to a launch in May 2007 was given in Dec. 2006. During a 3 months period of intense design work and manufacturing of the final parts, the already tested motor was converted into a complete rocket.

Before entering the launch campaign, the propulsion system was extensively tested on the ground at Nammo's test range at Raufoss, Norway. This launch was the first full scale launch of the HTR and the first rocket fired from ARR using liquid oxygen.

With the successful launch of HTR, Nammo Raufoss has demonstrated the ability to build rockets based on hybrid propulsion. In hybrid propulsion the fuel is stored separately in one solid component and one liquid component. Hybrid propulsion offers solutions which are both safe and environmentally friendly. The successful launch from HTR has attracted considerable attention also outside of Norway.

The HTR is to be considered a test vehicle. The aim was to learn hybrid technology know-how by not only designing, but also building and launching the rocket. An important part of the knowledge build up has been the team work between Nammo, Lockheed Martin and Andøya Rocket Range. The actual launch of the HTR marked the culmination of the project.

Nammo Raufoss is one of the leading suppliers in Europe for the development and production of rocket motors for tactical missiles and space applications. With the successful launch of a test rocket based on hybrid propulsion, Nammo has strengthened its position even further.

LAUNCH OF HYBRID TEST ROCKET  
PHOTO: NAMMO ARCHIVE



LAUNCH OF HYBRID TEST ROCKET  
PHOTO: NAMMO ARCHIVE

# 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. 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.



AP AMMUNITION  
PHOTO: NAMMO ARCHIVE

The Division is a leading supplier of niche technology and products within small caliber ammunition. The extensive product range includes premium combat and commercial products for defense forces' base needs, Special Forces, law enforcement, premium target shooters and Olympic winners.

## MAIN ACTIVITIES

2007 was a successful year. The highest growth was in sales to Norwegian, Swedish and Finnish Defense Forces and to some extent the military export markets. Sales to civilian markets also showed an increase.

# SMALL CALIBER DIVISION

## FUTURE CHALLENGES – PROFITABLE GROWTH

The market forecast indicates a more stable situation after substantial growth in sales from 2005 to 2007. With a focus on costs in all areas and on operational efficiency, 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.

## CUSTOMER IN FOCUS

Customer satisfaction and feedback are our prime motivators, without forgetting our innovative resources. The most important issue is to listen to your customers. The valuable feedback and customer requirements help us in developing new products for special purposes. The goal is to improve our relationship together at several levels.

## THE ENVIRONMENT

Lead-free ammunition has been a focus in SCD for many years. And the demand has come from customers. Non-Toxic ammunition in 5.56, 7.62 and 9 mm calibers has shown accuracy and reliability in deliveries since the year 2000. The ISO 14001 system is naturally guaranteed in every SCD factory. Environmental awareness at all levels within production.

## OUTLOOK FOR 2008

With a solid platform on our home markets and in EU countries, and growth expectations in the US market, we have sound and healthy foundations on which to continue our small caliber business and to meet the future expectations of our customers.



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 shoulder fired 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.



M72 ROCKET  
PHOTO: NAMMO ARCHIVE



MULTI GAS GENERATORS  
PHOTO: NAMMO ARCHIVE



SEAT EJECTION BY ROCKET AND CATAPULTS FROM NAMMO  
PHOTO: NAMMO ARCHIVE

# MEDIUM & LARGE CALIBER DIVISION

## MARKETS AND COOPERATION

Alliances and cooperation 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 2007, the division continued to expand by winning contracts in several new markets. The Division has focused efforts to further strengthen its position in the Nordic home market during 2007, and new opportunities are being explored.

## 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. We are continuing down this path by developing 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 and 27mm APEX aircraft ammunition, 30mm TPDS-T, M72-ASM (Anti Structure Munitions), 120mm IM-HE ammunition and 155mm artillery charge system. Potential impact on the environment is always considered during development of new technology and products, and we are truly proud of fulfilling the standards expected from being ISO-14001 certified.

## GOALS AND CHALLENGES

In 2007, the division also experienced a substantial increase in operating results compared to previous years. An increase in sales is expected in 2008. This improved profitability and sales increase places extensive pressure on available resources in the Division. It is of the highest importance that we continue to meet agreed delivery times and performance levels within cost budgets. 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 2008

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 has solid foundations, and performance in 2008 is expected to be in line with achievements in 2007.

# NAMMO TALLEY

Nammo Talley was acquired by Nammo AS early in 2007. This new unit has been a pioneer, since 1960, in developing aircrew escape systems, automobile airbag components, shoulder-launched weapons, and other key propellant-loaded devices. Located in Mesa, Arizona, the Unit operates a complete industrial complex designed for the development, manufacturing and testing of a wide range of propellant-based products and systems. The Nammo Talley unit is organized as one out of Nammo's five operational units.

## TECHNOLOGY

Nammo Talley is committed to satisfying our customer's needs through the creative application of existing technology and developing new solutions by constantly pushing forward new propellant and energetics concepts. Our engineers and chemists have implemented solutions for increasing system reliability, adding performance features and shortening order lead times. Our ambition is to continually offer value improvements to our customers and to be agile in the marketplace in order to respond to future customer demands.

## GOALS AND CHALLENGES

Nammo Talley is the U.S. industrial base for direct fire shoulder-launched weapons. We are not only supplying these products to our customers, but we are also developing the next generation systems, which will begin to be fielded in the next 5-10 years. We are also working on new products to address the unique challenges of the evolving battlefields of tomorrow, such as autonomous soldier self-protection systems. All of this work is being accomplished with particular attention to responsible operation of our facilities, especially concerning environmental stewardship. We continue to focus on minimizing waste streams and developing reclamation processes for older products.

## MARKETS AND COOPERATION

Nammo Talley's primary market is the U.S. defense industry, although 11% of sales in 2007 were for export. 75% of U.S. sales were directed to the U.S. Department of Defense, with the balance to other U.S. corporations. The Unit maintain a healthy R&D activity to create products for future production. In 2007, 14% of total sales were development programs funded through customer contracts. Additionally, Nammo Talley discretionary investments were made into key technologies. Many of these development activities are achieved through partnerships with Government and commercial customers. Partnering with key customers to combine technological expertise and establish long-term market commitments is a basic business principle at Nammo Talley.

## OUTLOOK FOR 2008

Growth is projected for 2008 with contributions from both production and R&D activities. Moreover, product development sales and activities will be strong, creating a family of new products to ensure continued growth in the future.





IRIS-T MISSILE ON EUROFIGHTER WITH ROCKET MOTOR FROM NAMMO  
PHOTO: NAMMO ARCHIVE

## A YEAR OF GROWTH

2007 became another year of growth for MPD, both in revenue and profitability. Production activities have, with few exceptions, been carried out as planned. Development activities have been very successfully and spectacular new technology/concept demonstrations have been performed.

Over the years, Nammo's Missile Products Division has established a platform of a significant program portfolio. These programs are not only very important for today's business, but will also carry the division well into the future.

The Missile Products Division mainly comprises production of propulsion systems and warheads for missiles as well as small rocket motors for space applications. The propulsion capabilities include advanced Thrust Vector Control systems.

# MISSILE PRODUCTS DIVISION

## MARKET AND CO-OPERATION

The ESSM rocket motor is still the biggest production activity, and in 2007 MPD received a «4 star supplier excellence award» from the prime contractor, Raytheon Missile Systems. The IRIS-T rocket motor is another program of significant importance and both these programs are facing a new future through evolution and alternative use, such as the IRIS-T SL (Surface Launched). The Exocet Block 3 Booster motor has entered production and a significant contract has been awarded by the prime contractor MBDA France. The 70 mm rocket products have been very successful, both the RA79 warhead and development of the insensitive munitions MPP warhead.

Other important activities and milestones have included Sidewinder motor production, Ariane 5 booster separation and acceleration motor, completion of IDAS predevelopment phase, NSM booster contract award, demonstration of the HVM hypervelocity motor for SBD and flight demonstration of a hybrid rocket motor solution from Andøya Rocket Range.

## OUTLOOK FOR 2008

The future for the division looks bright, but the challenges are many. In development of new business, both patience and persistence are needed. Demanding customers will set the stage for future technology requirements. As rocket scientists, we will continue «to live on the edge» in pursuit of ultimate performance. Only through pushing the boundaries of technology will we retain our competitive edge.



ESSM ROCKET MOTOR  
PHOTO: NAMMO ARCHIVE



LAUNCH OF HYBRID TEST ROCKET  
PHOTO: NAMMO ARCHIVE

DEMILITARIZATION OF OLD OBSOLETE AMMUNITION  
PHOTO: NAMMO ARCHIVE

Nammo's Demil Division has been performing industrial demilitarization (demil) services for almost 40 years. Specialized in environmentally correct methods and processes, we can assist our customers with disposal and recycling of all their obsolete and excess conventional ammunitions and explosive products.

## CUSTOMER IN FOCUS

We have maintained our focus on the customers, their needs and their requirements. Accordingly we have adopted our organization to improve both responsiveness and quality of services. During 2007, we have organized the division management into 3 main functions; Operations, Marketing and Finance.

# DEMIL DIVISION

## THE ENVIRONMENT

Nammo's Demil Division has been pioneers within recycling since the demil services were first requested. Not only have we developed state of the art processes and equipment, we also aim towards minimizing environmental impact and maximizing economic return through recycling.

## MARKET AND CO-OPERATION

2007 was a year of repeated, new and very important contracts from our main customers, NATO/NAMSA, FMV/Sweden, BwB/Germany, MoD/UK and the US.

The Division received a very important long-term contract from NAMSA for demil of the MLRS (Multiple Launch Rocket System) M26 Rockets and Pods. This potential 7-year contract is also the start of a future 10-20 year effort to demil several hundred thousand MLRS rockets across the world.

An international initiative has been launched towards demil of cluster bomb units (CBU's) and other cargo ammunitions (ICM's etc) containing different types of sub-munitions/bomblets. These types of ammunition have a rather complicated build structure, and are consequently relatively costly to demil. Nammo has considerable past performance experience and available technology and equipment to perform this important future demil task.



## TECHNOLOGY

Nammo has made significant company investments in fully automated and new high-speed equipment and processes for the demilitarization of the MLRS.

Another area of significant company investment is in corresponding automated and high-speed equipment and processes for demil of CBU/ICM ammunition.

## TARGETS AND CHALLENGES REACHED IN 2007

We managed to secure a number of important and long-term contracts, in a very competitive environment, of which the above-mentioned MLRS contract was the single largest and most important.

During the year, we built and established a demil facility and capability in Poland, together with our partner and customer Mesko.

## OUTLOOK FOR 2008

We have a solid order backlog, state of the art technologies and processes, a very experienced and professional workforce, a strong customer driven culture and a very high environmental focus. These aspects combined provide us with confidence that we will not only maintain but continue to strengthen our position as a world leader in industrial demil services.





THINKING SAFETY & SECURITY  
PHOTO: STEIN HENNINGSEN

# THINKING SAFETY & SECURITY

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Prevention is better than cure. At Nammo this way of thinking has been brought to a higher level. Safety and security are to us two sides of the same matter because the safety measures involve security issues. Safety and security also covers how we deal with our environmental influence.

**T NAMMO SAFETY** is priority number one. And as security is a premise for carrying out safety, so is security. These two ideas go hand in hand and influence everything we do. All our production sites carry out an internal audit every year. In addition ISO certificates are delivered and reviewed on a continuous base. Reports and controls are an everyday issue, both in designing, pre-production, during production, when handling products within the production process and lastly when transporting the products within and outside the production area. All these measures are taken to ensure that our products will work as expected when used. An important part of the safety work is the training of our employees. In case of incidents or accidents all personnel know their chores, where to be and what to do. As a part of the accident prevention programme, the working environment both for employees and surroundings is continuously followed up and tested for pollution and other possible environmental damages.

45

ANNUAL REPORT  
NAMMO 2007

# ACQUISITIONS IN 2007

**Nammo made three acquisitions in 2007;** ND PressTec GmbH, Talley Defense Systems Inc. and finally the M72 launcher part of Norris Industries and they have all three developed in a positive way.

## **DN PRESSTEC GMBH – HIGH QUALITY AMMUNITION COMPONENTS**

Nammo acquired a 60% share in DN PressTec GmbH on the 15th February 2007.

Deutsche Nickel AG was founded back in 1888 and their first production of cups and cases was for the World War I. After World War II the company was reconstructed and started producing coin blanks, cups and wires. In 1973 cold clad technology was introduced. The core production of unit cups started in 1999 and consists of semi finished cups in brass and clad alloys, which is the basis for determining quality components to be used in the hunting, sport, military and police ammunition. Europe is the key market with approx. 2/3 of the sales. Through the acquisition Nammo has secured high quality supply of critical components for small caliber ammunition production. PressTec is located in Schwerte outside Dusseldorf in Germany and has 48 employees. DN PressTec GmbH has been renamed ND PressTec GmbH.

## **TALLEY DEFENSE SYSTEMS INC (TDS) – SHOULDER FIRED WEAPON SYSTEMS**

TDS was acquired 100% by Nammo 30th March 2007.

Since 1960, Nammo Talley has been a pioneer in developing aircrew escape systems, automobile airbag components, shoulder-launched weapons, and other key propellant-loaded devices. The company is located in Mesa, Arizona with its main production facility. Additional facilities are located in Mississippi and Pennsylvania. Nammo has been in a consortium with TDS for more than 25 years on production of the shoulder launched weapon system M72. Today TDS core business are mainly shoulder fired

weapon systems as well as actuators for ejection seats and range extension components for artillery rounds. TDS has 225 employees and its main sales market is the US. TDS has been renamed Nammo Talley Inc.

## **NORRIS INDUSTRIES – M72 LAUNCHER PRODUCTION**

Nammo acquired 100% of the of the M72 launcher production from Norris Industries (NI) in the US on the 20th December 2007. In addition to Nammo and Nammo Talley, NI was the third party in the in the M72 Consortium. The assets were consolidated into Nammo Talley at the end of 2007. A total of 15 employees were transferred to Nammo Talley.

# OWNERSHIP STRUCTURE

**Nammo's ownership structure is 50/50** equally divided between the Norwegian State represented by the Ministry of Trade and Industry and the Finnish Defense & Aerospace Group, Patria Oyj.

## **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

- armored wheeled vehicles, mortar systems and ammunition products as well as their life cycle support
- life cycle support and training services for military/governmental aircraft and helicopters
- development and integration of systems for command and control, and situational awareness

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

The Patria Group had 2757 employees at the end of 2007 and net sales totaled 541, 2 million Euro

## **THE NORWEGIAN MINISTRY OF TRADE AND INDUSTRY**

In December 2006, the Government presented Report no. 13 (2006–2007) to the Storting, entitled «An active and long-term ownership», which provides a broad presentation of the Government's ownership policy. The Storting debated this report in April 2007 and agreed to its main points.

Companies that are to be competitive over time must take into account considerations that go beyond short-term profit maximization. These companies must not at least invest sufficiently in research and development work and in developing competence of their employees. It will over time be difficult for a company to carry out reorganization measures with the necessary speed and scope if it does not handle such processes well. Companies in which the State owns a stake must also handle environmental considerations as well as high ethical standards in all matters will be necessary to maintain the company's values and legitimacy.

An active ownership policy means that the State formulates clear expectations as to the development in these areas, and that this is openly communicated to the companies.

The State's ownership policy is reported annually in a separate document «The Government's Ownership Policy».

Good corporate governance is very important in terms of the country's overall economic efficiency and competitiveness. The state's principles for good ownership apply to all state companies, whether they are wholly or only part state-owned.



THINKING ENVIRONMENT  
PHOTO: STEIN HENNINGSEN

# THINKING ENVIRONMENT



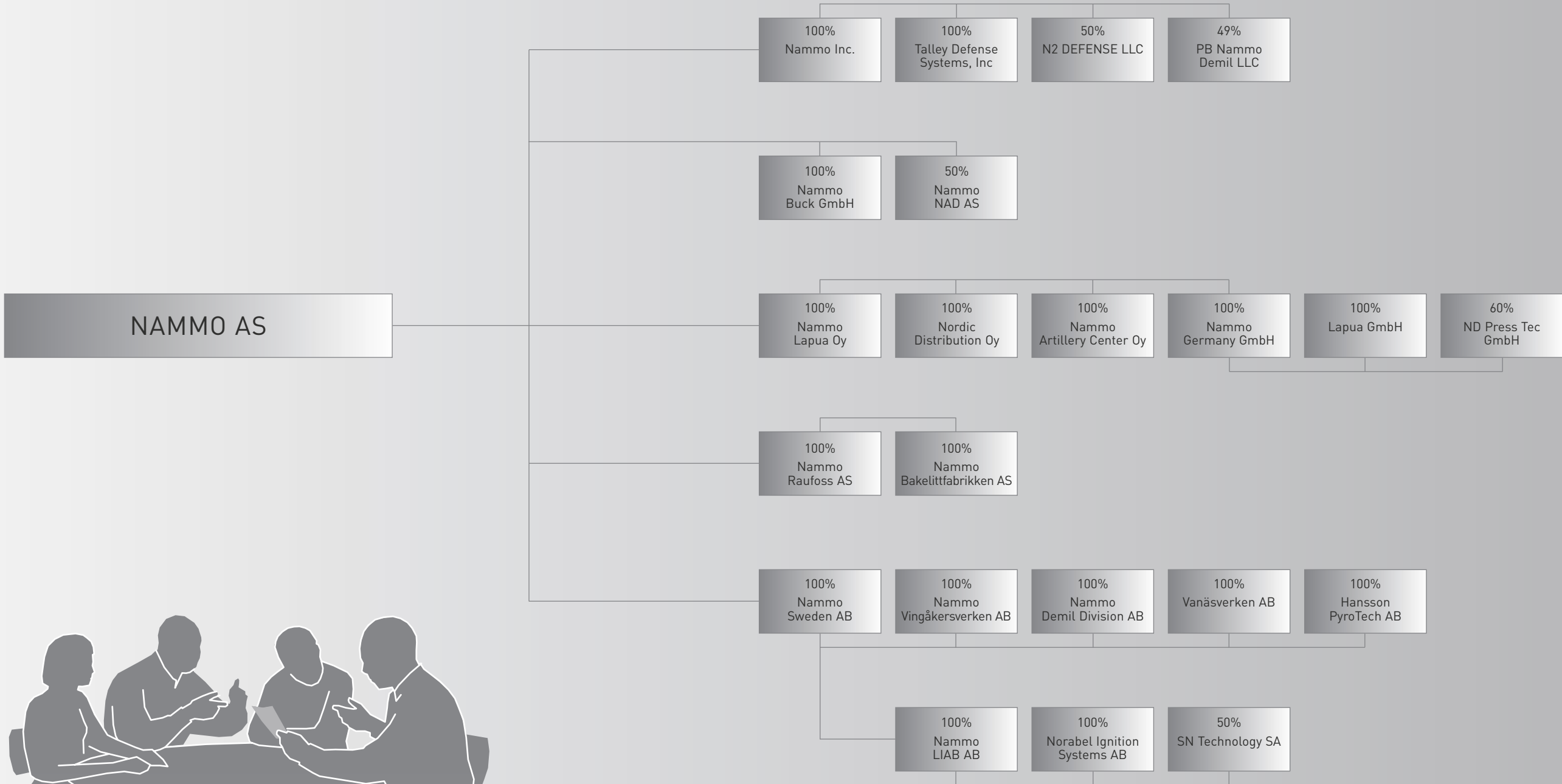
We have three main areas where the environmental issues are of specific importance. The products we make. The production processes. And the demilitarization and recycling of obsolete ammunition. These aspects requires a special way of thinking environment.

**WE COULD SAY** that the products and the production process much are two of the same kind. We do not agree. Because of the focus on environmental issues in society as a whole, we are also influenced by this – directly when it comes to our product assortment. The possibility of lead pollution in nature has for instance led to production of lead free/non toxic ammunition for hunting, sports shooting and military purposes.

In the production process we have targeted the areas and processes where there is a risk for leaks and emissions, and taken the measures needed both to prevent such incidents and to monitor the processes closely.

When it comes to demilitarization and recycling Nammo is the world leader. In our operations we have reached up to 96% recycling of materials in 2007! As a manufacturer in this field we understand both ammunition products and defense material better than many others. This enables us to take the necessary actions based on the strictest European regulations for handling of waste, burning and recycling. We know we can combine our ammunition technology with environmental friendly recycling processes for demilitarisation of old an obsolete ammunition and other defense materials to the benefit of people and the environment in general,

# GROUP STRUCTURE







THINKING GLOBAL  
PHOTO: STEIN HENNINGSEN

# THINKING GLOBAL

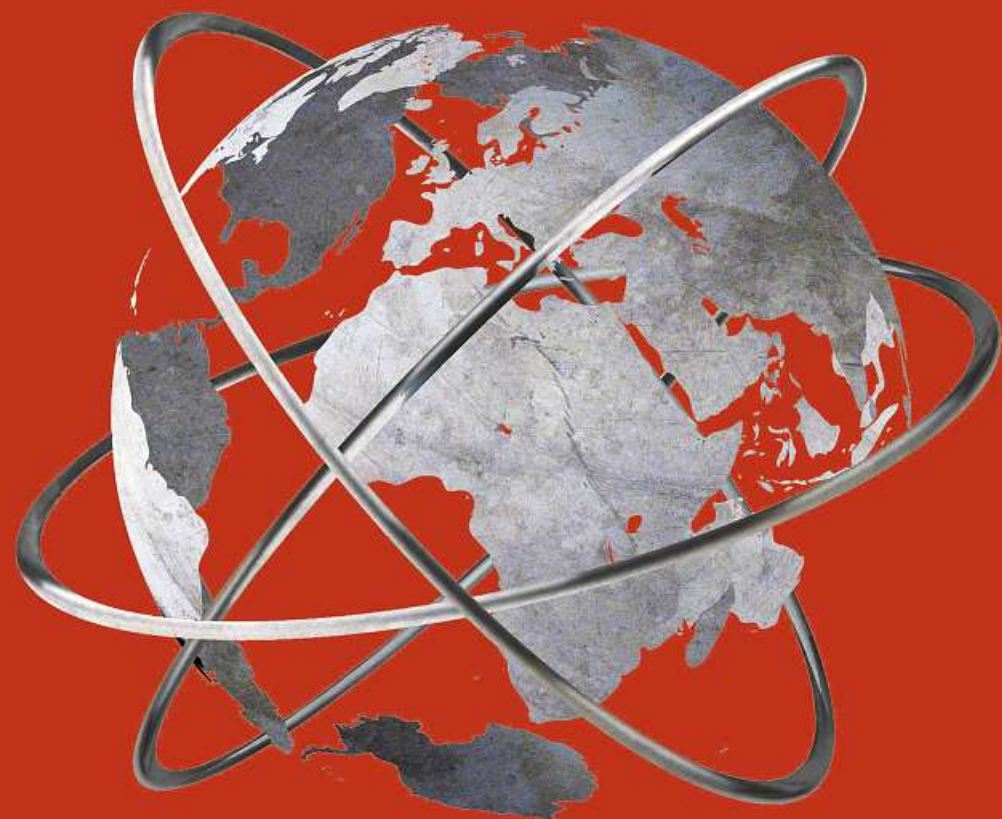
**t** Why should Nammo expand and think globally? Because being close to customers and markets is more essential now than ever. To Nammo the establishing of subsidiaries would be too costly and time consuming – the solution was to form new alliances with existing manufacturers.

**THE WORLD** is getting smaller, given the possibilities that we have today to travel and communicate over borders. This creates a greater demand for presence, for actually being closer to customers and markets with larger parts of the organisation than a sales agent can offer. This is why Nammo have chosen a global expansion through acquisitions and as a buyer it is all about choosing the right moment.

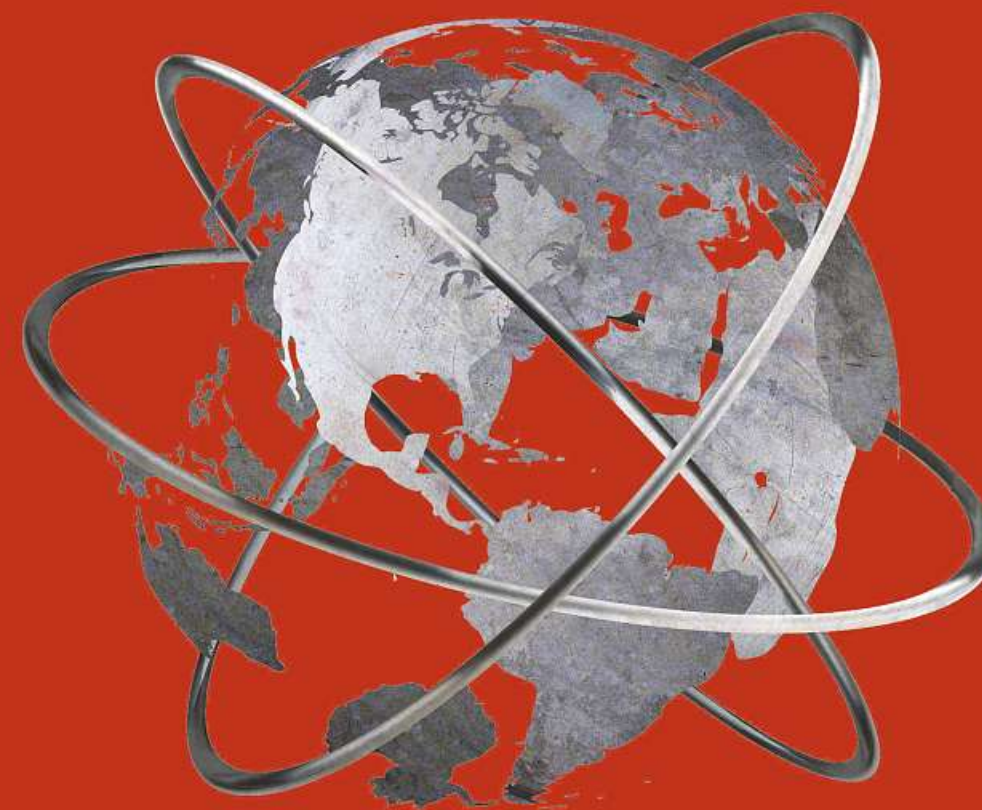
The Nammo Group has today subsidiaries in Finland, Germany, Norway, Sweden, Switzerland and the USA. Future expansion may continue if it is worthwhile and needed.

53

ANNUAL REPORT  
NAMMO 2007



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