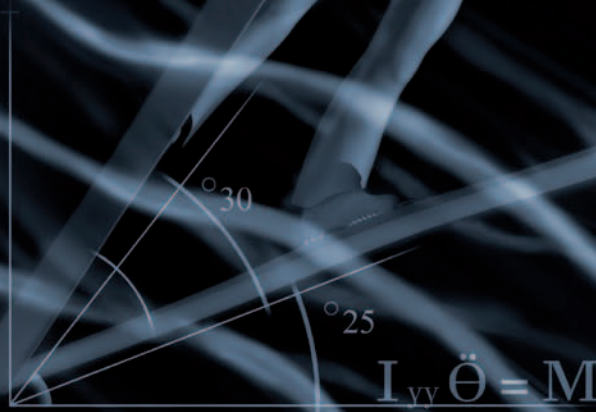


# Top Performance



$$m\ddot{z} = m\dot{\theta}u$$

$$q = \dot{\theta}$$

$$mg \sin \theta$$

$$u = \dot{x}$$

$$q = \dot{\theta}$$

$$m\ddot{z} = m$$

# Top Performance

We believe that the combination of team spirit, responsiveness and a constant drive to improve is what yields top performance. We don't lower our expectations to meet our performance – we raise our level of performance to meet our expectations. We always expect the best from ourselves and then do what is necessary to make our goals a reality. This is what top performance is all about. It is all about attitude.

## Nammo's vision: Securing the Future

- We will protect our national and allied forces with high-quality defense products
- We will secure the future development of eco-friendly products, processes and services
- We will secure our continued growth based on a strong financial performance
- We will develop and secure a long-term, sustainable business for our customers and employees
- Our future development depends on a secure and safe working environment

## Nammo's values:

### Dedication

We are enthusiastic and creative, always searching for the best solutions

### Precision

We are reliable and accurate in our technology, processes and business

### Care

We are inclusive and open-minded, always encouraging team spirit and cooperation

$$U = X$$

$$m\ddot{x} = -m\dot{\theta}w + X - mg \sin \theta$$

# Nammo in brief

The Nammo Group, headquartered in Raufoss, Norway, is a nordic defense and aerospace group specializing in high-end products.

The Nammo Group's shareholders are the Norwegian Ministry of Trade and Industry (50%) and the Finnish Defense Security and Aerospace Group, Patria Holding Oyj (50%).

The core business of the Nammo Group is the development, production and sales of military and sport ammunition, shoulder-fired weapons systems, rocket motors for military and space applications, and leading global services for environmentally friendly demilitarization.

Nammo operates through its five business units; Small Caliber, Medium & Large Caliber, Missile Products, Demil and Nammo Talley.

Nammo is present in seven countries with a total of 18 production sites and sales offices.

## Sales per region

USA/Canada

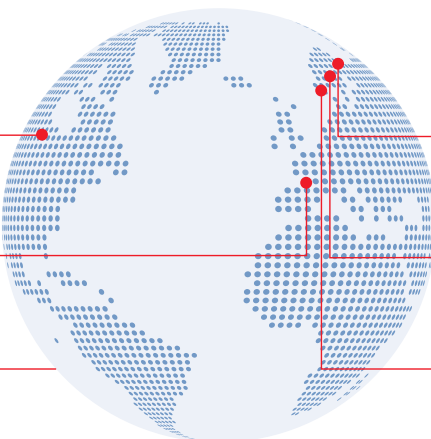
**44%**

Europe

**27%**

Other

**3%**



Finland

**6%**

Sweden

**11%**

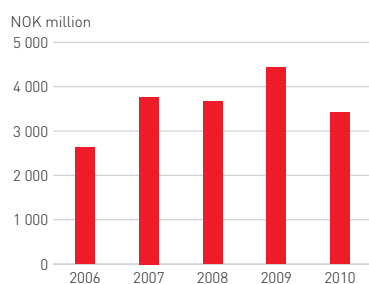
Norway

**9%**

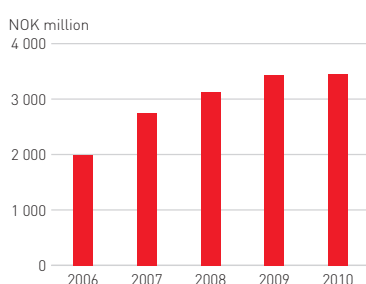
# Key figures

(NOK 1 000)	2006	2007	2008	2009	2010
Order stock	2 631	3 769	3 662	4 437	3 410
Sales	1 991	2 745	3 130	3 439	3 448
Earnings before interest and tax (EBIT)	270	390	390	407	435
Net income before tax (NIBT)	270	361	375	410	433
Net profit of the year	186	259	268	268	280
Total assets	1 750	2 527	3 087	2 906	2 906
Total equity	819	877	1 171	1 161	1 305
Total liabilities	932	1 641	1 901	1 726	1 575
Average man years	1 254	1 659	1 785	1 872	1 940
Economic value added (EVA)	145	198	181	178	212
Return on sales (ROS)	13.6%	13.1%	12.0%	11.9%	12.6%
Return on equity (ROE)	27.3%	31.7%	30.5%	22.9%	24.2%

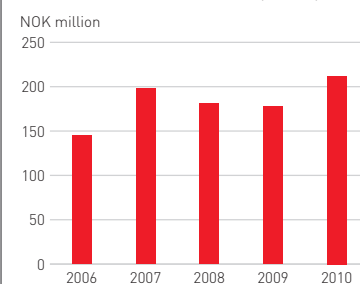
## Order stock



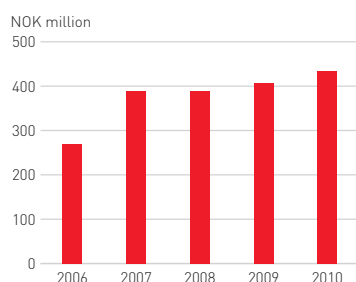
## Sales



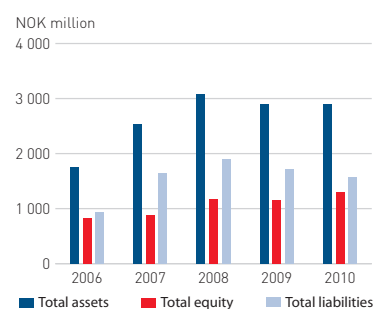
## Economic value added (EVA)



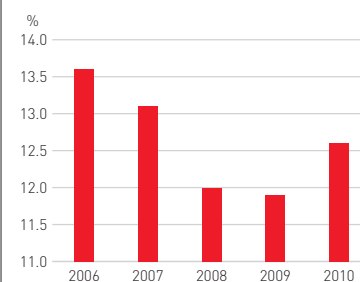
## Earnings before interest and tax (EBIT)



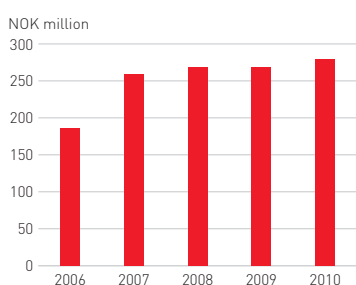
## Assets, equity and liabilities



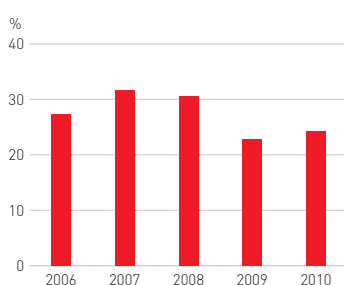
## Return on sales (ROS)



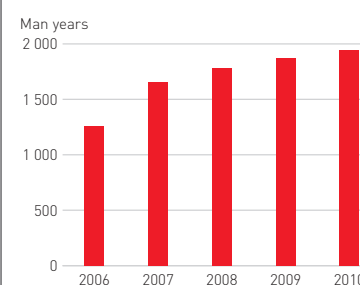
## Net profit of the year



## Return on equity (ROE)



## Average man years



$$q = \dot{\theta}$$

## Table of contents

Message from the President & CEO	2
Highlights 2010	3
How we are organized	4
Divisions	5
Corporate social responsibility	10
Corporate governance	22
Group Management	24
Company organizational structure	25
Board of Directors report	26
Board of Directors	31
Nammo Group – consolidated financial statements	32
Nammo AS – financial statements	46
Auditors report	58
UN Global Compact	60
Global Reporting Initiative	61
Contact details	66

*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.*

# It's all about attitude



## Top performance is all about attitude

is all about attitude, the sincere wish to do better all the time. Good enough is simply not in our vocabulary. Improving performance requires having very high professional standards and ambitions in all the different bodies of the company. Without the very professional and dedicated employees in Nammo, we could never have achieved the positive development of our company in the last decade.

Over the years, the Nammo Group has successfully developed into becoming the well-recognized company that it is today. We are now almost three times bigger than we were ten years ago, and the Group's profitability has improved continuously

over the years; we reached a record NOK 433 million net income before tax in 2010.

**The ongoing efforts** and investment in R&D are paramount to the long-term success of Nammo. We continue to develop new solutions and improvements on existing products. These activities produce great value for the company, both in the short-term and even more so in the long-term.

**Nammo** is a company whose roots are firmly planted in the Nordic countries – Finland, Sweden and Norway. However, it is obvious that sales outside this area are crucial to the success of an ammunition and rocket motor company like Nammo. In 2010, our sales outside the Nordic countries accounted for 74 per cent of the Group's total sales. Our continued growth outside our home market, particularly in North America, has been achieved by organic growth and suitable acquisitions.

**Nammo** strives to eliminate avoidable waste of time. Meeting this goal requires a strict focus on making sure a project is carried out and completed the right way from the start. The consequences of not doing so can be very costly and even seriously harmful to a program or project. We place quality and efficiency at the forefront of our processes and continue to streamline our methods wherever possible.

**We started** the year with a very strong order backlog and delivered according to schedule. During the year we experienced great interest for our products and services and achieved a

satisfactory order intake, which gave us a great outlook for 2011. In the long run, I think we have to acknowledge potential difficulties in the current market, where less is spent on defense than in recent years among our most important customers. However, I still think that we have a very strong position to further strengthen the company even under such conditions.

**Also in 2010**, we improved our corporate social responsibility (CSR) work, which is becoming increasingly important for all companies in order to be highly respected – not just by our customers and other stakeholders, but also by those who have a less favorable opinion of our business. We want to be visible, and recognized as a high-tech company that maintains the highest standards of CSR.

**Our customers** will always be our focus. Securing the future is not only our vision, but also an everyday reminder of our "raison d'être". The work we perform is solely a response to the operational needs of our customers and their soldiers, who do the most dangerous task of all – creating and protecting a better world for all of us. With this perspective in mind, only the highest level of performance from each and every one of us can lay the foundation for the steady development of Nammo, thus securing the future for all our employees, customers and shareholders.

Edgar Fosshem  
President & CEO

$$\mathbf{u} = \dot{\mathbf{x}}$$

$$m\ddot{\mathbf{x}} = -m\dot{\theta}\omega + \mathbf{X} - mg \sin \theta$$

# Highlights 2010

## Business

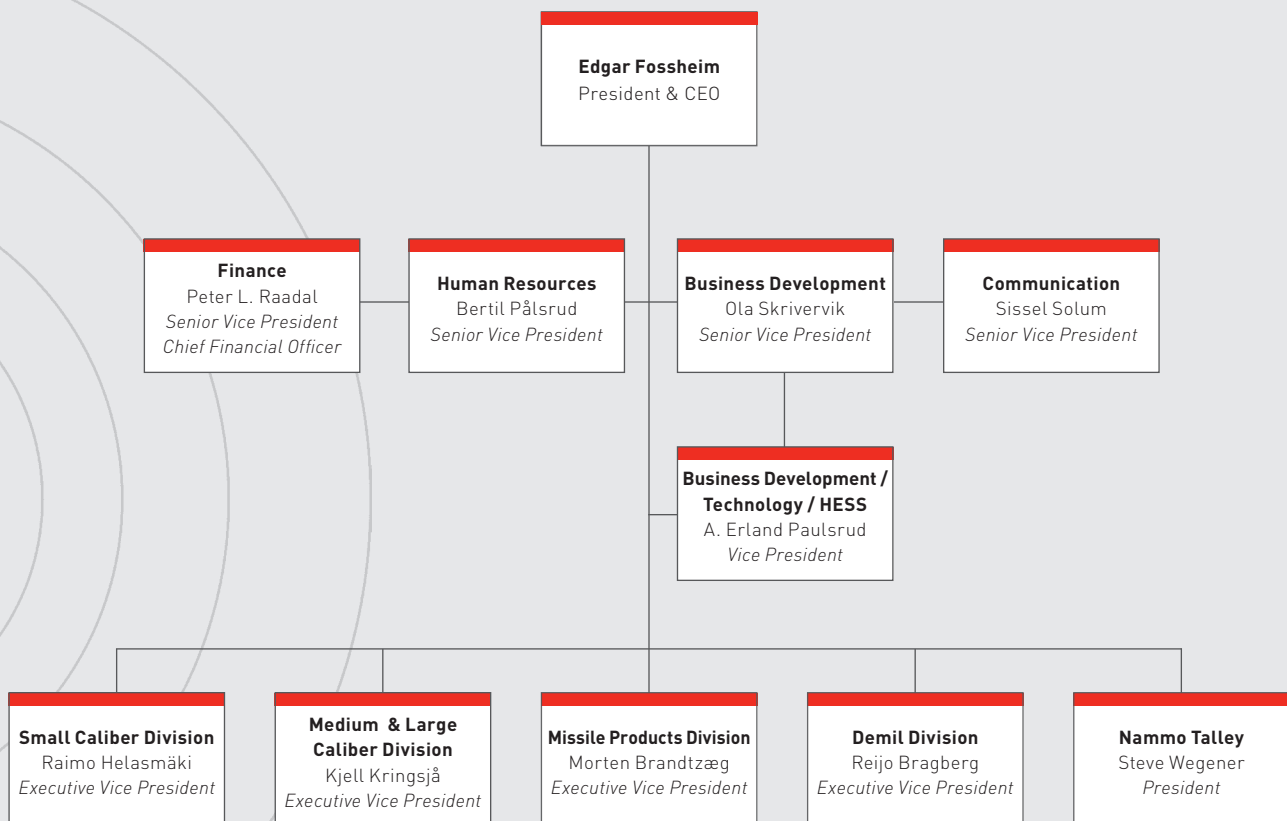
- Nammo becomes the second source to produce the AMRAAM rocket motors (Advanced Medium Range Air to Air Missile)
- Received an important contract from the UK MoD to demilitarize cluster munitions
- Development and qualification contract is created with the Norwegian Armed Forces for the APEX ammunition (Armor Piercing EXplosives) for F-35 Lightning II
- Nammo enters an agreement with the Swedish Armed Forces to evaluate the premises of a strategic partnership within the area of ammunition logistics
- The Canadian Army chooses 40mm programmable ammunition for the CASW program (Close Area Suppression Weapon)
- First delivery contract obtained for the newly developed 120mm IM-HE-T round for the Leopard 2 market
- Multi-year contract obtained for blank- and short-range training ammunition
- U.S. AP (Armor Piercing) ammunition passes the 100 million mark in delivered items since the first qualifications started in 1996
- First M72 deliveries to the US Marine Corps
- All-time high sales for civilian Sea Safety products

## Organization

- Nammo receives the Supplier Excellence Award for Teaming and Collaboration from Raytheon Missile Systems
- Our U.S. facility completes its 5th year without a lost-time accident; almost 3 000 000 man-hours
- Nammo opens a trainee school at the production facilities in Norway. Trainees and employees improve their learning and usage skills of the modern CNC (computer numerical control) machine tools
- National sponsorship:
  - Nammo enters an agreement with the Norwegian Biathlon Association to promote the Lapua brand and ammunition
  - Nammo enters an agreement with the Norwegian Ski Federation to promote Nammo and to create a technology program based on knowledge about aerodynamics
- Acquisition of remaining 51 per cent shares in Nammo Demil LLC
- Increase of shares in Nammo NAD from 50 to 90 per cent
- Acquisition of the remaining 50 per cent shares in Norabel Ignition Systems AB and integrated the company into Nammo LIAB AB
- Sales of Nammo Primex Security Ltd



# How we are organized



The Nammo Group is the result of a three-way merger between the national defense companies in Sweden, Finland and Norway in 1998.

The Nammo Group has an impressive combined history totaling 182 years, and has always been among the preferred suppliers for the Swedish, Finnish and Norwegian defense forces.

Sales within the home market have been and will always be of great importance to Nammo, but by the same token, the group is also a global player. This is demonstrated by its large amount of business outside the Nordic region.

Nammo's international scope is also reflected in its operational organization. The business units' head offices are located in four separate countries. Three of these units have production facilities situated among several of the seven Nammo countries. The CEO is supported by his corporate staff, which is responsible for implementing and following up on directives, while also working closely with the five leaders of the business units.



## A question of social responsibility

### Top performance

Nammo's Demil Division is one of the market leaders in terms of market position and environmental technologies for the disposal and demilitarization of conventional ammunition and explosive products, and it is our intention to further develop and elevate that position. Challenges remain, however, in increasing the demilitarization market through attracting new customers to spend money on demilitarization and thereby increasing our sales.

Following the signing and ratification of the CMC (see facts below), there is a high focus on the disposal of cluster munitions. This is a challenge due to large quantities, complexity of the products, limited capable industry and lack of budgets, but Nammo's Demil Division has continued to invest heavily in fully automated processes and equipment for this activity. We are consequently very hopeful about the future, and aim to be the natural choice for several governments that have signed the convention.

### Facts

The Cluster Munitions Convention (CMC) prohibits the use, production, stockpiling and transfer of cluster munitions, and requires countries to clear affected areas, assist victims and destroy stockpiles. As of March 2011 the Convention have 108 signatories and 55 ratifications. The convention is a result of the Oslo Process, an open and time-bound diplomatic process that includes, in addition to the signing nations, the Cluster Munitions Coalition, the International Committee of the Red Cross, and the United Nations.

### Key events in 2010

The Division continued to win important contracts from the NATO Maintenance and Supply Agency (NAMSA), United Kingdom, US, Germany and Sweden.

Among the contracts won in 2010, there was a new multi-year contract for the disposal of cluster munitions (155 mm ICMs) from the UK Ministry of Defence. This contract, won in full and in open competition, underlines the Division's worldwide leading position in the disposal of cluster munitions.

On 16 July 2010, the Norwegian State Secretary of Defense, together with the Norwegian Armed Forces, visited Nammo's demilitarization facility in Løkken Verk, Norway to witness the final disposal of the Norwegian cluster munitions.

### Securing the future

Nammo's customers have a need to take care of their obsolete and excess ammunitions, and within Demil we want to secure Nammo's future by

#### Core business

Disposal and demilitarization of conventional ammunition and explosive products.

#### Locations

- Nammo Vingåkersverken (Vingåker, Sweden)
- Nammo Demil Division (Vingåker, Sweden)
- Nammo Buck (Pinnow, Germany)
- Nammo NAD (Løkken Verk, Norway)
- Nammo Demil (Arlington in Virginia, USA)

#### Employees

Around 130 at year's end.

being the best option for supplying this service to customers.

Nammo also has the ambition to be a full life-cycle service provider to our main customers, within the area of ammunitions, of which disposal and demilitarization is an important part.

Nammo works actively to build its corporate social responsibility, which Demil is also an important part of, and this demonstrates that we as a producer take responsibility for the material that we and other industries have produced.



# Small Caliber Division

## With passion for precision



### Core business

A leading supplier of niche technology and products. The extensive product range includes combat and premium projectiles, cartridge technology, and commercial brands ranging from 4.6mm to 9.3mm ammunition.

### Locations

The head office of the Small Caliber Division is in Vantaa, Finland. This Division has production facilities in:

- Nammo Lapua (Lapua, Finland)
- Nammo Vanäsverken (Karlsborg, Sweden)
- Lapua (Schönebeck, Germany)
- ND PressTec (Schwerte, Germany)

### Employees

Approximately 500 at year's end.

### Top performance

During 2010, the Small Caliber Division showed top performance in production; both in accuracy of delivery and the highest efficiency ever at every production level. External sales were 11 per cent higher than in 2009, and at the same time the operating result was the highest ever. 2010 had all-time high sales of AP rounds and extremely good results from the Division's multiple areas of business, especially the beneficial sales of Lapua Centerfire ammunition.

Sales to military home markets (Sweden, Norway and Finland) remained at the same high level as in 2009.

### Key events in 2010

In the 2010 Winter Olympics in Vancouver, more than 80 % of the Biathlon medals were won by the athletes using the Lapua Rimfire ammunition.

Another success was the World Championship in Munich 2010, with several gold, silver and bronze medals, and in parallel a world record of 600/600 at 300m Prone was achieved, all with etc. Lapua Rimfire and Centerfire ammunition.

The Division had all-time high deliveries of the U.S. Armor Piercing ammunition and passed 100 million delivered items since the first qualification started in 1996.

A new request is under evaluation for the next fiscal year period from 2011-15.

New and interesting possibilities have emerged regarding future business opportunities in various ammunition technologies for the US armed forces.

### Research and development

The Division has strengthened the resources in the R&D department in order to better meet future demands in the front-end ammunition product portfolio.

In the new product launch, we have successfully launched military tactical ammunition, and the new 6mm Scenar L as the most accurate bullet. A new .260 Remington case has also been developed, mainly for the US market.

### Securing the future

We will maintain our focus on R&D to meet future demands for the next generation of ammunition, both in military and civilian niche product portfolios. The Division must work hard to be at the front line for every national long-term contract, especially in the military home market.

Furthermore, the Division will continue the work on improving production and logistics flow for the benefit of all our customers. We will work steadily to promote our technology and competence to civilian and military customers, along with looking into possible strategic acquisitions that are suitable for growing the company's profit.

# Medium & Large Caliber Division

## State of the Art products

### Top performance

Over the years, the Medium & Large Caliber Division has refined its top-performance strategy. The basic idea is to develop and deliver top performing products to our most demanding customers. The Division's main products and services are always unique in one or more aspects. Our main customers are known to require performance and quality over quantity.

To be able to bring new, state-of-the-art products and services to the market on an ongoing basis, we encourage our talented employees to always search for better and more effective solutions. We also encourage them to further develop their skills and talents, as well as take on broader responsibilities. We emphasize the fact that it is the people who create the technology, and it is the people who create the business.

### Key events in 2010

- The Division received a contract from the Norwegian Armed Forces to develop and qualify the next generation state-of-the art aircraft ammunition, APEX. At the same time we were also contracted to develop a matching Reduced Ricochet Risk Target Practice ammunition (TP-R3)
- We were awarded our first delivery contract for our newly developed 120mm IM-HE-T round for the Leopard 2 market
- Our 40mm HEDP and 40mm AB-RF was chosen by the Canadian Army
- We were awarded a multiyear contract for blank- and short-range training ammunition for the Norwegian Army
- We reached sales of an all-time high for our Sea Safety products

### Research & Development

The Medium & Large Caliber Division has a broad range of ongoing R&D, technology and product improvement programs. The most significant of these are:

- 25mm APEX & TP-R3
- 40mm AGL HE-AB/RF & 40mm AGL HEDP-SD

We also have significant, ongoing product development regarding new 12.7mm products: variants of our hand grenades for export markets, new plastic training ammunition in several calibers, and a new 57mm HE round.

### Securing the future

The Medium & Large Caliber Division will use all efforts to continue to deliver

#### Core business

High performance medium and large caliber combat and training ammunition for ARMY, NAVY and Air Force applications.

#### Locations

- Nammo Raufoss (Raufoss, Norway)
- Nammo Bakelittfabrikken (Aurskog, Norway)
- Nammo LIAB (Lindesberg and Karlskoga, Sweden)
- Nammo Lapua, (Vihtavuori, Finland)
- Nammo MTH (Hérémence, Switzerland)

#### Employees

Approximately 650, at year's end

strong financial results. Only by doing this we can ensure the necessary freedom of action in developing the Division as well as Nammo as a whole.





# Nammo Talley

## Next generation products for tomorrow's needs

### Core business

High-performance combat and training ammunition and propulsion products for ARMY, NAVY, Marine Corps and Air Force applications.

### Locations

The company's headquarters and primary operating location is in Mesa, Arizona. The additional production units are:

- Nammo Composite Solutions, LLC (Murray in Utah, USA)
- Nammo Talley (Columbus in Mississippi, USA)
- Nammo Talley (Davidsville in Pennsylvania, USA)

### Employees

Around 370 at year's end.

### Top performance

Nammo Talley is a niche defense contractor that has achieved success by applying its 50 years of experience to creatively meeting its customers' requirements. Nammo Talley employs the use of state-of-the-art design solutions using solid propellant, warhead and composite material technologies. Our product mix includes shoulder-launched weapon systems, missile warheads, artillery ammunition and range extension components, cartridge and propellant-actuated devices for aircraft ejection seats, missile propulsion products, and components fabricated from

composite materials. We aim to be our customer's first-choice supplier of energetics products and services, in the defense and related aerospace and commercial markets.

### Key events in 2010

- Obtained record sales for the Company
- Made the first M72 deliveries to the U.S. Marine Corps under a multi-year supply agreement
- Completed a 5th year without a lost-time accident, totalling almost 3 000 000 man-hours
- Celebrated our 50th anniversary as a corporation operating in Arizona

### Research and development

The key to healthy growth and long-term financial success is an active R&D program. Nammo Talley is currently under contract to develop the next-generation shoulder-launched weapons system for the U.S. Special Forces and the U.S. Marine Corps. In addition, major American contractors and Government agencies have selected Nammo Talley to develop, qualify and produce propulsion and warhead components, to be used for numerous new missile and ammunition applications.

### Securing the future

Nammo Talley will contribute to the future success and stability of Nammo by satisfying our customers' current specifications through focused product manufacturing. These efforts will grow our profits, while also allowing us to develop the next-generation products that our customers require in order to respond to today's and tomorrow's needs.



# Missile Products Division

## A highly competitive player

### Improved performance

In 2010, Missile Products Division had an all-time high turnover and profit. Sales increased by 16.7 per cent and operational profit increased by 33.8 per cent. The increase in profitability has been achieved by focusing on internal improvements on the existing contract portfolio and on risk management. High focus on customer satisfaction together with an ever-present drive for perfection is paying off, and it has become an integral part of Missile Product Division's long-term strategy.

### Key events in 2010

In 2010, the Division signed a development contract on the AMRAAM rocket motor. The development will be completed in 2012, and production is estimated to have a future value of NOK 2 500 million for the next 20 years. The development effort is financed by the customer, Innovation Norway, Norwegian MoD and Nammo. The contract confirms the Division's competitiveness in the global marketplace.

The Division received a Supplier Excellence Award for Teaming and Collaboration from Raytheon Missile Systems.

A major risk to one of our production programs related to certain components has been solved in a positive manner, and also to our customer's full satisfaction.

The production programs on components for space launchers performed well, and the segment activity was strengthened during the year by achieving major success in

live firings of hybrid rocket motors. This technology may be used on future space launch vehicles and also for lunar landing modules.

The Division has developed and produced advanced rocket motors, primarily for the NATO market since the early 1960's. Today, the advanced rocket motors for missile applications represents around 90 per cent of the Division's activities.

### Tactical motor ambitions

The Division's ambition is to be a highly profitable, tactical motor provider, capable of meeting the most demanding requirements through a culture of responsiveness and close cooperation with the customer. During 2010, the focus on production improvement activities has grown stronger and, combined with continuous stable production in core programs, the operational profitability has improved.

The organization has been adjusted to optimize project resources and core development activities.

### Research and development

The Division is focused on high technological content in its development and production activities. By mastering Trust Vectoring Control (TVC) technology, and advanced production methods for applying composite materials into the rocket motor plume, the Division enables and maintains close cooperation with its long-term customers.

Existing and future rocket motor programs focus more and more on TVC and advanced composite materials in

#### Core business

The Division is a leading supplier of advanced rocket motors for missile and space applications. The product portfolio also includes high performance warheads.

#### Locations

Nammo Raufoss (Raufoss, Norway)

#### Employees

Around 200 at year's end

order to maneuver the missile outside the aerodynamic flight envelope. By focusing on these technologies, the Division is bringing added value to its customers and actively contributing to a modern missile capability for many nations.

IM (Insensitive Munition) is imperative for all modern weapons systems, and Nammo has been actively working on the development of new IM solutions for rocket motors and warheads.

### Securing the future

The market situation has developed positively in 2010. We have increased our focus on applying our new technologies to missile systems. The outlook for 2011 is positive. Our ambition is to sign major development contracts and continue to develop advanced technologies in close cooperation with our customers.



# Corporate social responsibility

“We should all be concerned about the future because we have to spend the rest of our lives there.”

*Francis Kettering*



*Nammo Raufoss has for many years supported local sport activities, such as the Raufoss soccer team.*

## This report

In this annual report for 2010, Nammo's corporate social responsibility (CSR) is organized into three chapters: environment, people and society.

The 50 per cent national ownership of Nammo is based on an active and long-term ownership policy. The national owner, the Norwegian Ministry of Trade and Industry, expects that all of the partly state owned companies, including Nammo, will be at the forefront in their work with ethics and corporate social responsibility.

Nammo's goal for 2010 was to streamline reporting for the entire organization. There are varying national rules, regulations and different reporting requirements that exist in the countries and locations where Nammo has facilities. Therefore, future CSR data collection will be more consistent for each site.

The Norwegian Ministry of Trade and Industry has underlined nine focus areas for the CSR work within the Norwegian industry. These are health, work environment and safety, ethics, anti-corruption, gender equality,

adaptation, research and development, integration and career opportunities, and security. These nine areas are part of Nammo's evaluation scheme.

Nammo is an industrial group that will do its utmost to be a trusted and respected employer in the local community. The overall goal with Nammo's social responsibility is to visualize the responsibility taken by the the company on a daily basis.

During 2010, Global Reporting Initiative (GRI) reporting included improvements in several areas.



$$\vec{u} = \dot{\vec{x}}$$

$$m\ddot{\vec{x}} = -m\dot{\theta}\vec{w} + \vec{X} - mg \sin \theta$$

# Environment

Nammo has a direct impact on the external environment through our production and testing of ordnance products and services, consumption of paper and energy, waste management, procurement and transport methods.

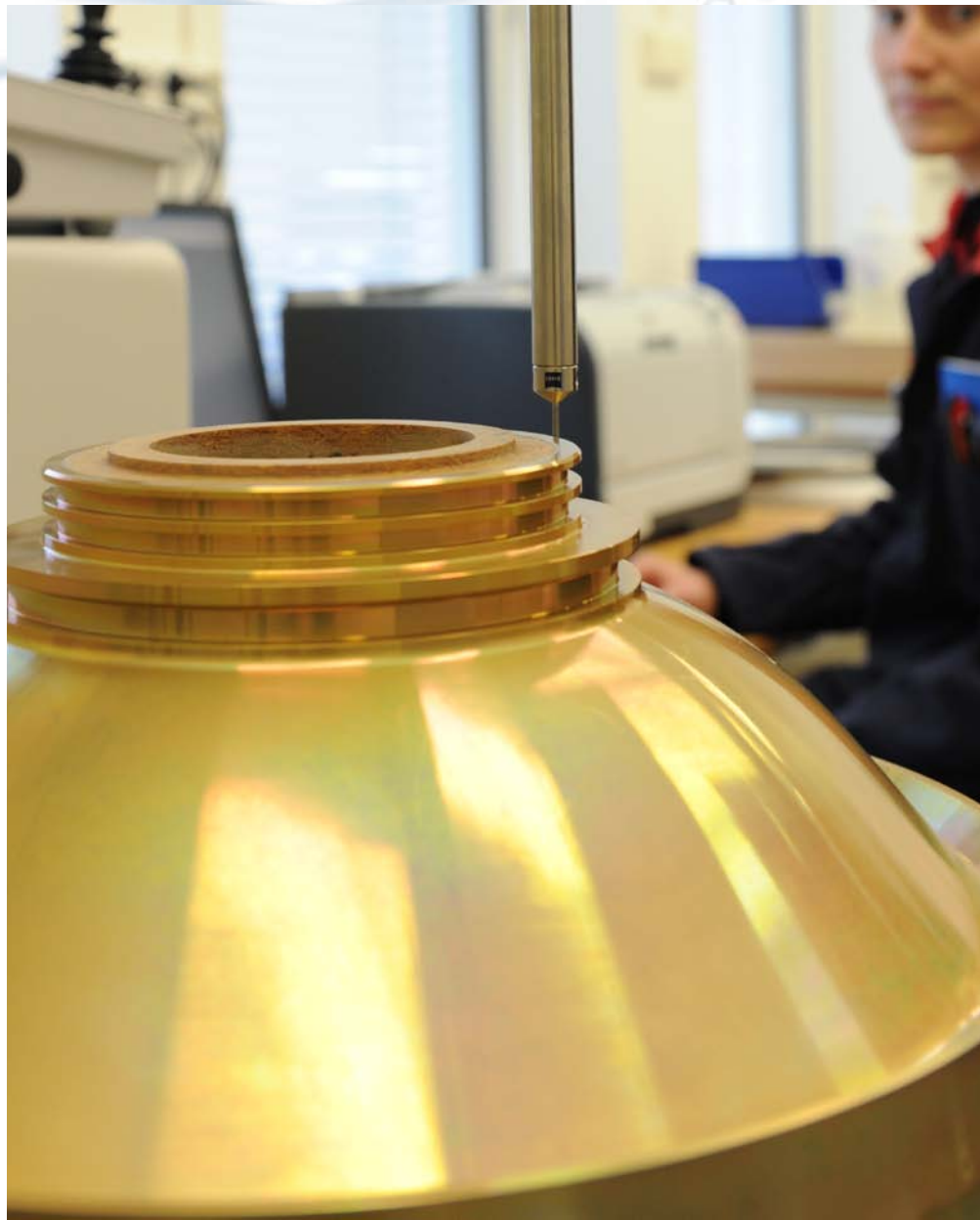
Our environmental policy states that the company will be recognized as a good neighbor, and that everyone must take a firm and unequivocal position regarding the external environment. Employees are continuously educated and trained in the company's environmental standards. In 2010, the Group's management issued a new directive regarding annual health, environment, safety and security audits, which resulted in a stronger compliance in the entire organization.

## Detailed action plans

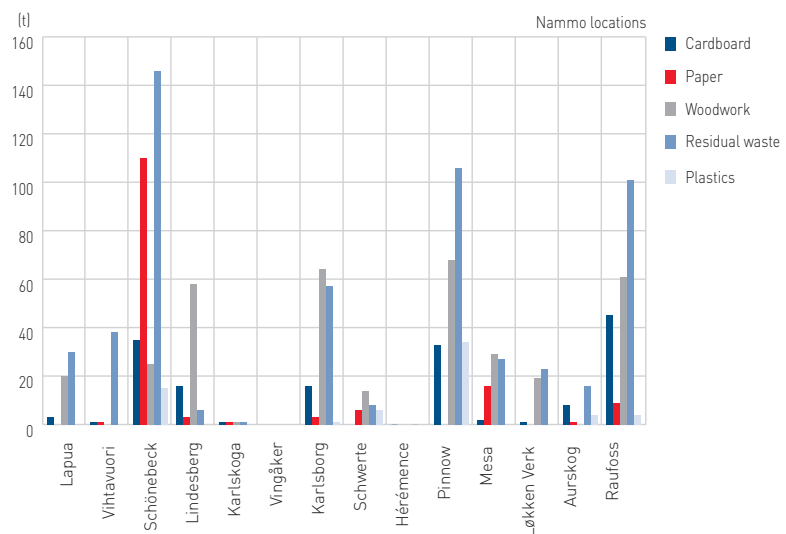
Nammo sets environmental goals annually and systematically follows up on the results. Detailed action plans with defined goals for further improvement are decided on every year. Laws and regulations are adhered to and considered as the minimum requirements. The ambition for all sites is for all industrial operations to be environmentally friendly. One measure is to satisfy the requirements in the ISO 14001 certification, or meeting similar standards.

Every site focuses on the local environmental challenges. A common effort is made to focus on the areas of energy efficiency, special waste and water consumption, and there are plans and goals for continuous improvement.

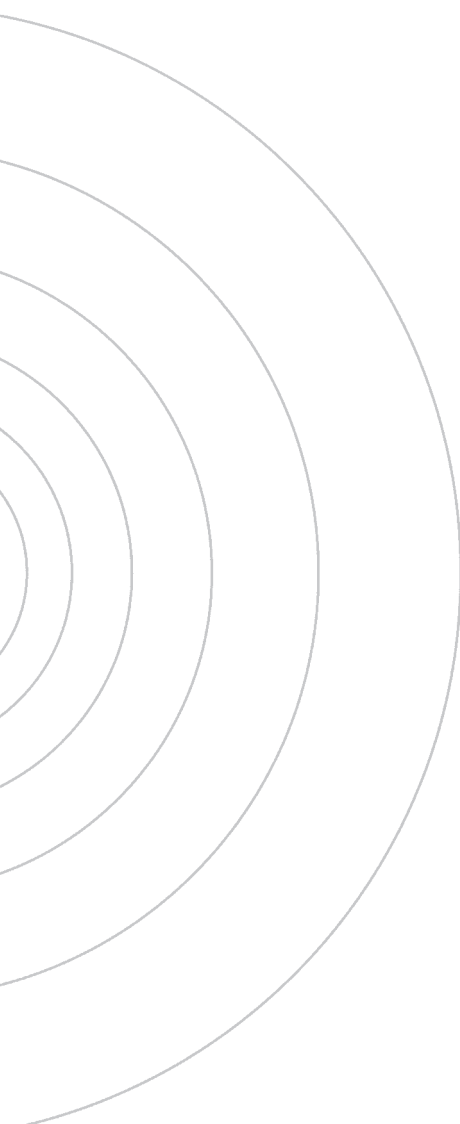
Personnel handling hazardous materials as part of their daily work are continuously registered and followed up by preventive medical examinations.



## Waste







## Site cleanup

Many of Nammo's units are located in areas that are old industrial properties. Previous industrial activities unrelated to Nammo have left behind polluted areas which need to be cleaned up. During 2010, Nammo performed several site cleanup activities.

Nammo's commitment to environmental responsibility is made clear by the following routine actions:

- The company measures and follows up on wastes and emissions into the air and surrounding water, and also reduces the noise levels at each site.
- Each site reports to the local and state authorities, and no new pollution is detected in 2010.
- Nammo's production does not create any greenhouse gas emissions.
- The company works continuously to reduce energy consumption at each site.
- Nammo is dedicated to the use of renewable energy wherever possible.
- Every year, Nammo's Manager of health, environment, safety and security affairs visits each and every site to ensure that the environmental protection targets have been established and updated.
- Key suppliers for Nammo's range of products receive routine visits, and their adherence to environmental standards is reviewed per Nammo's certification requirements.

## Improved lead-free ammunition

Nammo's lead-free ammunition was qualified in 2000, and was the first of its kind on the market. The ammunition was developed and adopted by the Swedish Armed Forces and has been in use since then. At the time, there were no international emission requirements. Health problems related to emissions had never been reported.

In the innovation and development process, there has been a constant focus on developing sustainable products. The lead-free ammunition eliminates emissions to nature and ensures that the users do not get exposed to leaded gasses.

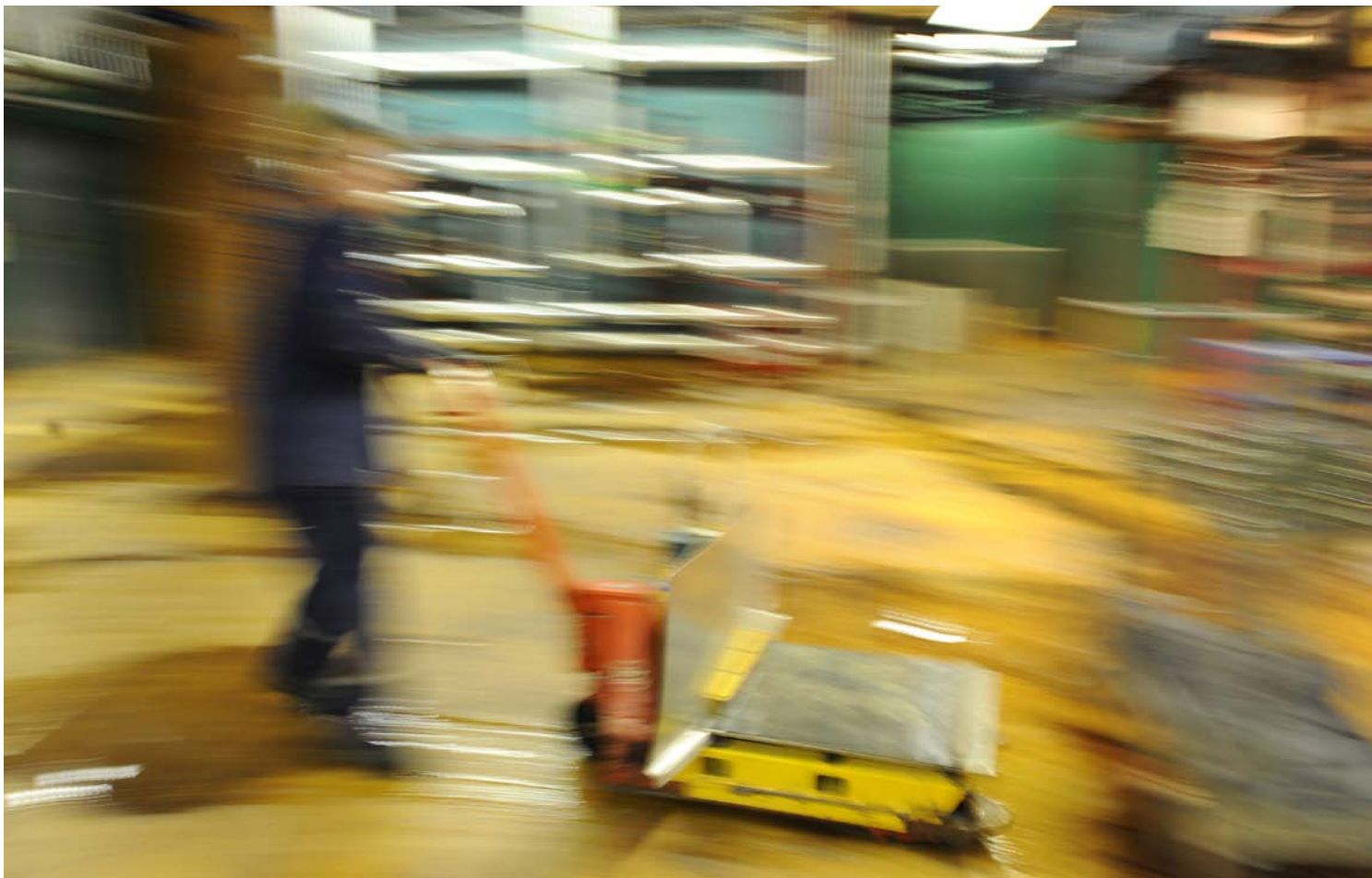
However, in Norway health problems related to the use of lead-free ammunition has been reported when the armed forces started the use of the ammunition in combination with the handgun HK 416. Nammo takes the reported problems very seriously and took immediate action and established a close collaboration with the Norwegian Defense Research Establishment (FFI) and the Armed Forces in order to address the situation. An improved version of the lead-free ammunition is now undergoing testing to be qualified by the Norwegian Armed Forces.

So far, testing has given good results. Nammo will continue to do the best the company can to solve these challenges in close cooperation with the customer.

## Innovation

The overall changes in the global threat scenario demands the development of more specialized products, with focus on performance, safety and environmental issues.

To remain at the forefront, Nammo focuses on constant product development and applying critical technology. We will strengthen and increase internal focus to develop new concepts and products. We will standardize internal process in order to be even more efficient. It is critical for us to integrate environmental solutions in the entire value chain, from the purchase of raw materials, throughout the production process to the end user.



## Environmental reporting 2010

	Energy consumption (kWh)						Special waste (kg)			Water consumption (l)		
	2009		2010		Goal 2011 (reduce)		2009	2010	Goal 2011	2009	2010	Goal 2011
	Fossile	Renewable	Fossile	Renewable	Fossile	Renewable						
Lapua	5 670 000	4 160 000	5 480 000	4 780 000	5 450 000	4 780 000				23 441	23 442	23 441
Vihtavuori	1 630 090	2 557 555	4 693 124	821 947	4 650 000	830 000	4 640	1 830	3 000	300 000	399 000	400 000
Schönebeck	1 354 396		1 358 894		1 350 000		5 000	12 000	8 000	2 394 000	2 459 000	2 400 000
Lindesberg	281 296	5 344 632	288 719	5 485 661	265 000	5 300 000	24 056	19 542	18 000	7 342 000	6 670 000	6 000 000
Karlskoga	1 125 200	4 500 800		5 562 000	1 000 000	5 500 000	6 000	4 000	3 500	23 594 000	18 013 000	20 000 000
Vingåker	7 933 400	1 386 450					51 983					
Karlsborg	4 385 000	5 000 000	4 713 000	5 403 000	4 200 000	5 000 000	59 850	80 380	30 000	28 222 000	32 014 000	30 000 000
Schwerte	817 405	632 830	2 760 902			2 800 000	41 050	44 350	45 000	8 009 000	9 959 000	10 000 000
Hérémeence	37 508	43 806						215	203			
Pinnow	1 992 177		1 933 290		1 988 000		1 118	360	360	12 998	10 845	9 500
Mesa	242 346		4 076 191		3 872 381		4 038	6 837	6 495	10 787 250	6 435 420	6 113 649
Løkken Verk	-	1 679 379	-	2 300 600		1 900 000	863	570	550	1 255 000	1 291 000	1 250 000
Aurskog	334 000	575 545	495 540	604 612	495 450	604 612	4 484	827	827	333 000	306 000	306 000
Raufoss	573 000	23 450 000	6 181 000	22 000 000	6 161 000	21 000 000	262 711	242 211	230 000	315 464	229 872	229 000
<b>Total</b>	<b>26 338 310</b>	<b>49 287 191</b>	<b>32 018 168</b>	<b>47 001 626</b>	<b>31 231 831</b>	<b>44 914 612</b>	<b>465 792</b>	<b>413 122</b>	<b>345 935</b>	<b>82 588 153</b>	<b>77 810 579</b>	<b>76 731 590</b>

# People

**“Health, environment, safety and security must have top priority above all business objectives and goals.”**

In our industry we experience intense competition and changes in customer requirements, which create the need for innovation, precision and new technology. In order to remain at the forefront of the industry, it is important to fully appreciate the value of the people that make up our organization.

The Nammo HR policy makes sure that we have motivated, competent and committed employees. The right person with the right skills in the right position is one of our most valuable assets; this is why we want to highlight the work and potential of every employee. Nammo is committed to ensuring diversity in the Group, and equal opportunities for all employees are a key element of the human resources policy. Top performance is our tool and our goal.

Our focus on people has grown over recent years. We continuously strive to find the right way to motivate our employees, as well as give them

the opportunity to fully utilize their knowledge and capacity.

One of the reasons behind supporting elite sport is that enhancing the internal culture at Nammo leads to defining clear goals for working together as a top performance team. We sponsor the Norwegian women’s national team in ski jumping as they compete to participate in their first Olympic competition in Sochi 2014. This sponsorship supports our desire to invest in women with ambition, and strengthens the Nammo profile as a progressive and serious employer for women.

Nammo’s dedication to equal opportunity fuels our ambition to recruit more women into the company. The company, and the industry in general, is traditionally male-dominated. We want to promote the company as an attractive workplace to women. An important target group is women with relevant education, such as engineers who could demonstrate

the potential for middle and senior management positions. Women currently account for 29.3 per cent of Nammo’s employees.

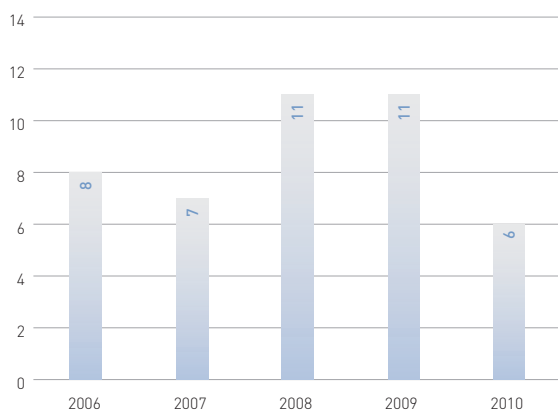
## Health and safety

During recent years, Nammo has focused on proactive work, risk analysis, accident prevention plans, training and education. Each year, we conduct an internal seminar to gather the top leaders with our health, environment, safety and security personnel in order to develop best practices at Nammo. Security issues concerning terror threats are also evaluated.

During 2010 the H-value is nearly halved, as with the F-value, an increase in the number of reported near misses indicating that the preventive system works better and better. The low and steady rate of long-term sick-leave is an indication that employees enjoy their work. The sick leave for Nammo’s employees was an average of 4 per cent for 2010.

### H-value in Nammo 2006-2010

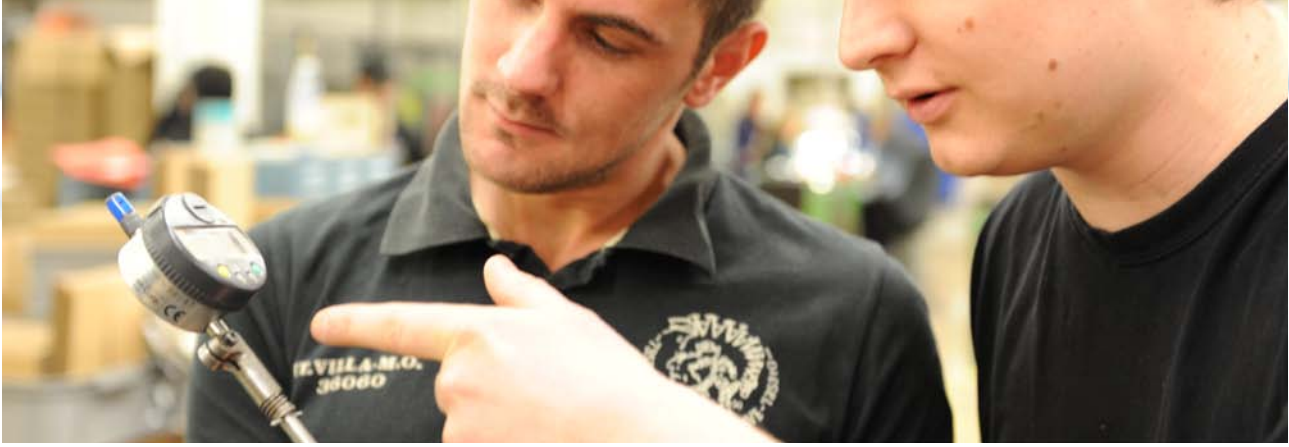
H-value: Number of accidents with absence pr. million working hours



### Sickness absence in Nammo 2006-2010

Sickness in %





All sites review plans for crises and evacuation, and undergo routine realistic training exercises that are later reported on. Health, environment, safety and security audits were last conducted at all Nammo sites in 2010. Results of the strategic work show many positive achievements, as well as some areas where there is still room for improvement. All sites at Nammo have their own yearly education and training schedules related to health, environment, safety and security.

There were 22 accidents resulting in employee absence from work in 2010, representing an H-value of 6 (number of accidents resulting in absence per-million working hours). This gives an F-value of 72, which indicates that the most frequent types of accidents are minor. Most of the injuries concern fingers or hands due to mishandling materials or machinery. Another type of frequent injury is caused by falls due to icy or slippery ground. The Group will continue its preventive work in all areas and maintain a particular focus on conditions for employees. One

outstanding result was reported from our U.S. facility, which completed its fifth year without a lost-time accident; almost 3 000 000 man-hours.

Our goals for 2011 regarding health, safety and security are to:

- Reduce the number of accidents with and without days off
- Improve the reporting quality of incidents and accidents
- Meet the requirements of internal audits
- Increase the frequency of incident reporting by 10 per cent
- Improve the number and quality of risk analyses with a focus on accident prevention for personnel

### IT Security

Nammo's IT directives serve as guidelines for employees in their daily work. The IT directives are updated on a regular basis and can be easily accessed on the company's intranet.

The Nammo Group has increased its focus on IT security over recent years.

The Group has been exposed to several attack attempts, and the IT security defenses in place have worked as intended, both to detect and to isolate the attempts.

Our development and products are based on extreme technology, which may be of great interest to competitors as well as criminals. Developing our types of products demands a strong focus on security and strict routines. Much to our benefit, the people at Nammo are accustomed to performing important parts of their work at high levels of confidentiality.

Employee consciousness is crucial when it comes to IT security. Therefore, we focus on two parallel approaches: we focus on security culture for the employees, and, we constantly improve our technical solutions. Both are necessary to protect the Group from any malicious IT attacks.

### Education and training

Nammo has introduced a development program for employees, which further enables them to reach their full

## Education and training within health, environment, safety and security

Site:	Country	Number of personell trained	Numbers of hours in total
Nammo Bakelittfabrikken AS	Norway	10	4
Nammo Raufoss AS	Norway	662	6 716
Nammo LIAB AB	Sweden	11	3
Nammo Vanäsverken AB	Sweden	350	1 203
Nammo Lapua GmbH	Germany	18	400
Nammo Buck GmbH	Germany	67	286
ND PressTec GmbH	Germany	162	228
Nammo Lapua Oy Vihtavuori Site	Finland	53	548
Nammo Lapua Oy	Finland	97	40
Nammo Talley Inc	USA	460	2 376
Nammo MTH SA	Switzerland	75	230
<b>Nammo Group</b>		<b>1 965</b>	<b>12 034</b>

potential. The organization needs to be flexible in adapting to new challenges in a continuously changing framework.

To ensure use of the organization's overall competence and experience, broad participation in the development and decision-making processes is required. To achieve this, it is of great importance that all employees show enthusiasm and initiative.

We continue with the Talent Factory, an internal leadership program, with the goal to establish and strengthen a common platform for operational management.

### Top modern technology

Nammo Raufoss AS has established an in-house Enterprise School to train apprentices, TAF (Technical general), practice candidates and training of employees.

The training primarily takes place in the area of CNC (computer numerical control) - machining techniques. This will give trainees a solid knowledge base before they begin their practice in various production units.

The Nammo Enterprise School is

located inside the production facility in the same area as the engineering workshops. Two state-of-the-art CNC machines (a lathe and a milling unit) were purchased for the school, as well as two programming simulators. The total investment is approaching NOK 5 million.

With this investment, Nammo hopes to have paved the way for a learning environment that will attract the best skills among people who are considering vocational education. At the same time, these people will help the company develop a higher level of expertise among its own employees.

### EU-Excert partnership

In 2010, Nammo was involved in an EU-Excert partnership program, which led to the license to use the EU-Excert logo for certificates in explosives competence. EU-Excert will continue its work to establish a transferable certificate of explosives competence, which will be recognized inside and outside of the EU.

To achieve this, the partners in the program will conduct a comprehensive analysis of the explosives business conducted throughout the EU.

It will identify, for each member state, the size and scope of the explosives worker community, from top-level management to technician and process worker levels. It will also identify the competencies and skills required by these workers, in order to gain a full scope of the explosives industry. The process will involve close consultation with stakeholders in each of the member nations. An inclusive framework illustrating all of the required competencies will be established as well.

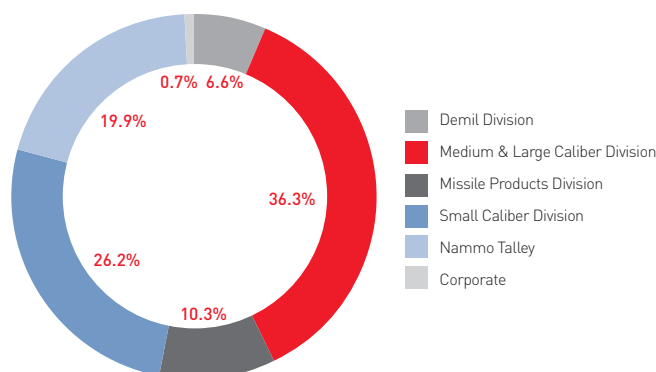
The training needs of the community of explosives workers will be made proportionate to the required competencies. A comprehensive education program will be developed utilizing the widest range of methods, from traditional classroom-based teaching to workplace and electronic learning. The workers will participate in this program at established educational sites, such as universities and specialized higher education institutions, corporate sites and trade union organizations .

### Ethical behavior

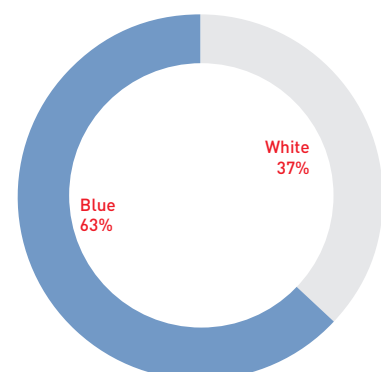
Ethical behavior is a natural ingredient in the Nammo company culture.

### Employees per business unit

Total number of employees in average = 1 956



### Group distribution between white-collar and blue-collar



Nammo's ethical committee conducts quarterly meetings each year. The committee meets according to a fixed agenda that is actively updated on ethical issues, and report on the implementation of the company's ethical standard for the year. The committee reports directly to the President & CEO, and all ethical issues are treated as confidential. In 2010, only one case was reported to the ethical committee. The committee evaluated the case and concluded it not to be of ethical significance and that any further need of follow up should be done by the concerned Site.

The ethical committee secures a common understanding of and compliance with Nammo's ethical requirements. It also implements and follows up on the ethical code of conduct within the Nammo Group.

The implementation work continued positively through 2010. Representatives from both the Human Resources and Communication departments continued to meet with the management teams from the business units and sites. The purpose of these visits was to present selected topics from the ethical code of conduct as well as highlights of potential dilemmas that may occur.

In 2010, a benchmarking was carried out with similar defense companies in order to learn about other possible implementation processes that could be convenient for a group like Nammo. During the second half of 2011, Nammo plans to implement an e-learning session on the ethical guidelines in all six Nammo languages. HR and Communication has the responsibility to coordinate and organize the training.

The ethical committee is responsible for the annual review of the ethical code of conduct, and has the authority to consult external competence and expertise as required.

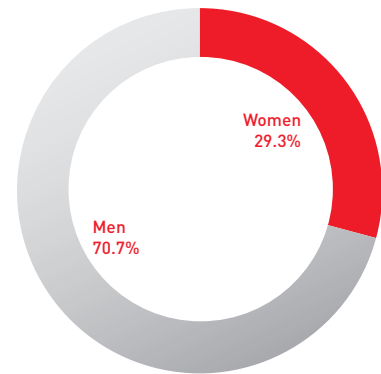
The Nammo Group is committed to the Global Principles of Business Ethics established by the European Association of the Aerospace and Defense Industries, and will continue the work to implement these principles during 2011.

### Whistleblowers

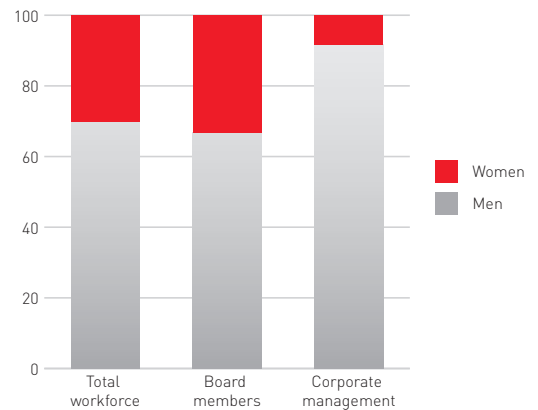
Nammo will not make sanctions in any form against any individual who responsibly informs a superior or internal entity about possible breaches of Nammo's ethical guidelines, applicable laws, or other reprehensible circumstances in Nammo's business.

### Percentage men vs. women

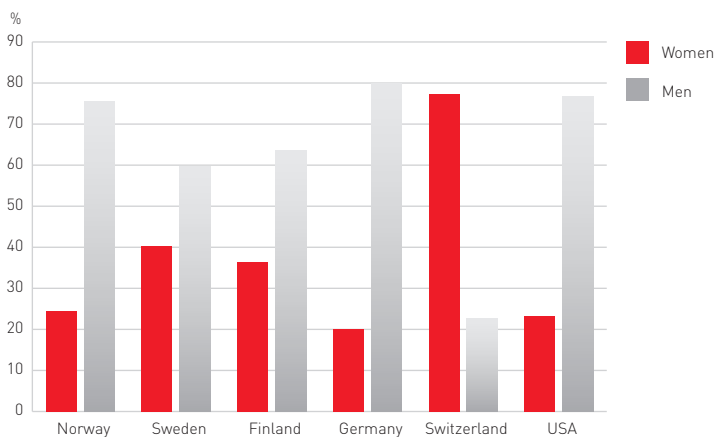
Total number of employees in average = 1 956



### Gender percentages



### Percentage men vs. women per country





## Equal opportunities

Equal opportunity for all employees, regardless of sex, race and minority, is an important platform for our human resources policy. This applies in particular to recruitment, career development, equal pay for equal work and working conditions.

This is an example of how our policy is carried out, as exhibited by Nammo Talley:

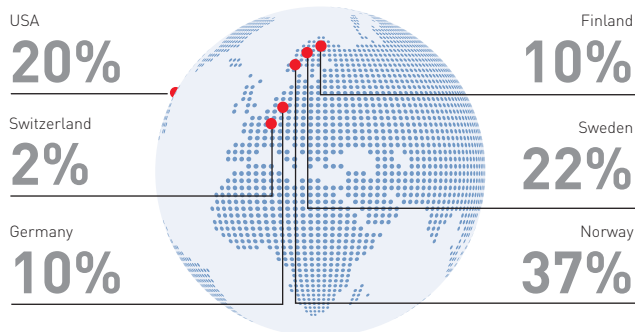
Regarding recruitment, job openings are e-mailed to Community Based Organizations (CBO's). These are women, minority, disabled and veteran-related organizations that specialize in referring qualified individuals for job openings. The HR staff attends job fairs that are targeted to specific groups like the aforementioned, and communicates openly with the fairs' organizers.

Between 2009 and 2010, minority representation increased by 7 per cent. HR evaluates all promotions, transfers and voluntary or involuntary terminations to further determine adverse impacts to women and/or minorities during each process. At least once a year, HR also compares male/female, minority/non-minority salaries to ensure that differences are based on experience, education, training or performance level, and not on any discriminatory factor.

Nammo Talley HR ensures that all employees have equal access to any educational programs. Eighteen current employees have completed a college degree using the company's educational assistance program, with 45 per cent of these being women or minorities.

## Employees per country

Total number of employees in average = 1 956



## Health, environment, safety and security

### Key figures 2006 – 2010

Year	2006	2007	2008	2009	2010
Accidents with work-days off	19	21	37	38	22
H-value	8	7	11	11	6
Work-days off	237	155	625	476	254
F-value	102	54	197	137	72
Accidents without work-days off	40	43	45	45	52
Incidents	224	283	525	593	837
Environment	3	7	6	5	13
Sick absence %	5.3	4.1	4.0	4.1	4.0





The breakthrough for women in most male sports, such as cross country skiing, cycling, hockey and soccer, came as late as in the 1970's. Up to 2010, the female ski jumpers have struggled to be recognized. To underline Nammo's ambition to hire more women, the company supports the Norwegian world cup team in ski jumping. The photo is from the National Cup in Asker, Norway in 1896. Copyright: Skimuseet i Holmenkollen

## Society

### Facts about Nammo:

**Nammo is a nordic defense and aerospace group headquartered in Raufoss. Nammo has nearly 2 000 employees and has an approximate annual revenue of NOK 3.5 billion. The Group has 18 manufacturing plants and several sales offices in seven countries.**

### Nammo - more than just a workplace

Corporate responsibility is a company's perception of its duty toward its employees, shareholders, customers and suppliers, along with local, regional and national authorities, NGO's and the media.

Nammo acts as a responsible corporate citizen, and applies and follows all the laws and regulations set forth by the national authorities. We work hard to live our values and earn the trust and support of the local communities in where we are located. At Nammo, it is important to demonstrate our responsible business practices, which are based on our values, policies and guidelines.

### Stakeholders

Nammo has an open communication policy toward its stakeholders in order to satisfy any relevant questions

or requests, as long as they comply with the Group's accepted levels of confidentiality. We keep our processes and results as transparent as possible for our various stakeholders, strive to conduct an open dialogue with the different interest groups, and take into account our stakeholders' viewpoints regarding our work whenever appropriate.

Nammo's relationship with the NGO's has always been one of transparency and cooperation. Nammo has registered a growing interest in the Group's business, particularly from the Norwegian NGO's. The NGO's interest and campaign towards Nammo has mainly consisted of questions related to export control, end user certificates within NATO, and a request for improved marking of ammunition.

Nammo will continue to perform its business according to the national

export regulations, which are upheld by the authorities in the countries where Nammo has its production facilities. The Group is not opposed to improvements on current regulations related to end user certificates within NATO, or the marking of ammunition, however, any changes to these must be based on certain conditions. Any improvements or new regulations must not jeopardize the level playing field among the defense industries in Europe and NATO.

### Come in, we're open

Nammo's communication policy is based on openness. We seek to provide truthful and verified information as long as it does not interfere with regular business confidentiality.

A company's good reputation is rooted in its professional implementation of a clear and thorough communication strategy over time. In order to maintain

this reputation for our company, we encourage our employees to follow our ethical code of conduct, promoting exceptional behaviour throughout the whole organization.

A clear communication structure is of great importance to Nammo. With about 2 000 employees spread across seven different countries and cultures, it is obvious that the company is quite dependent on good communication skills, and a precise, steady flow of information from all management levels. The communication strategy states that everyone has the responsibility to communicate.

The most important communication task of the managers and leaders in Nammo is to make all our employees understand that we are one unified company, and that this fact stands regardless of the country, nationality or Division. Open communication across lines and borders improves the knowledge and the synergy between the business units and sites. An increased interaction between the employees will take the research and technology within the Group to a higher level.

Nammo aims to be characterized by high ethical standards, ensuring that

human and labor rights, environmental considerations, and the internal focus against corruption are honored in its business activities and by the Group's suppliers. Nammo also consistently operates within its established ethical code of conduct. In accordance with its company policy, Nammo review its ethical guidelines on an annual basis. Active follow-up at all levels of the organization ensures that the current guidelines are being implemented correctly and at all times.

### National sponsorships

Nammo has always been an active player and support to the local community. In 2010 we decided to take this support to a national level. It is and has always been important for Nammo that our sponsorship is either locally based, or that the sponsorship has some form of a direct link to our core business.

### Promoting the Lapua brand

In 2010, Nammo entered into a four-year sponsorship agreement with the Norwegian Biathlon Association, promoting the Lapua brand on the women's national team. Through this sponsorship opportunity, Nammo will be the primary supplier of ammunition for the national teams of the Norwegian Biathlon Association, and

towards the Winter Olympics in Sochi in 2014. The agreement also includes the granting of Lapua ammunition for promising young athletes.

### Rocket scientists support ski jumpers

Nammo also signed a sponsorship agreement with the Norwegian Ski Federation. The goal of this agreement consists of two parts. The first part is a technology project where Nammo will contribute to the development of ski jumping through increased technological development and support around aerodynamics. The second part is that Nammo will sponsor the women's national team in ski jumping as they compete to participate in their first Olympic competition in Sochi 2014.

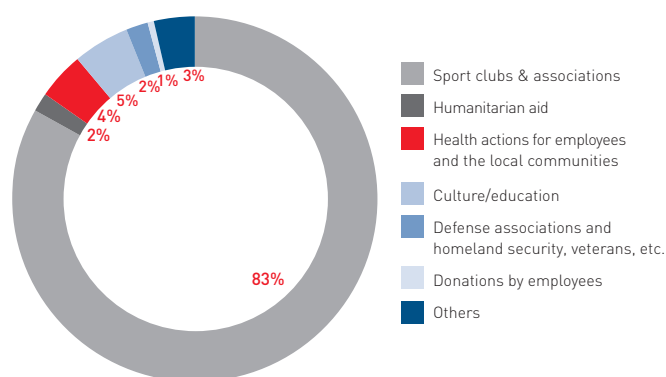
These two national sponsorships are important steps to promote Nammo and the Lapua brand in Norway. Nammo has an ambition to recruit more women into the company, and to keep the employee focus on top performance.

Every site in Nammo has a sponsorship program, and the objective is on more than just supporting positive activities in the community – activities that benefit our employees and core-business are prioritized. Nammo encourages employees to take part in community activities, like being engaged in health activities, sports clubs, social programs and cultural events.

### Building the company culture

Through our sponsorships, we want to create an arena for building a strong internal culture. We will create motivation among our employees, as well as make Nammo a more familiar name, both locally and nationally. Nammo enjoys sponsorship agreements that primarily benefit our employees as a whole. Therefore,

### Sponsoring programs 2010





Norwegian World Cup team in ski jump for women 2010-2011

as a part of our internal motivation program our employee had the possibility to attend the Nordic World Ski Championship 2011 in Oslo. Events like these create commitment and cohesion. We aim to arrange similar events in the other Nammo countries in the coming years to the benefit of our employees and the company.

### Olympics in Vancouver

2010 started with success for Nammo! At the Olympics in Vancouver, Nammo biathlon ammunition LAPUA was used by more than 80 per cent of the athletes, and 23 out of 30 medals were won with our ammunition.

### Nammo on Discovery Channel

Discovery Channel Canada visited Norway for two weeks to shoot at different locations for a scientific technology program called MegaWorld. They visited the Vikersund ski flying arena and various companies that demonstrated spectacular technology. At Nammo Raufoss the film team covered the testing of 40mm Smart ammunition, and the M72 Anti Structure Munition at the Raufoss Test

Center. The program is scheduled to air in May 2011. Previously, Discovery has made similar programs in other countries like Sweden and Switzerland but this is the first time with Nammo's participation.

### Best booth

A jury of journalists selected the Nammo booth to be the best booth at the MSPO exhibition in Kielce, Poland early September 2010. We experienced very positive attention regarding the Nammo booth. Nammo also received a prize from the exhibition organizer for "Modern and distinctive way of Fair presentation".

### Product responsibility

- Nammo's products are mainly exported to NATO and EU countries
- All exports require an export license from the national authorities
- Exports to countries that are not NATO members requires end-user certification
- Ammunitions produced by Nammo carry identification that is in compliance with customer requests and/or NATO standards



Tora Berger, during the World Cup in Holmenkollen, Norway, March 2011.



# Corporate governance

## Introduction

Nammo AS is a limited liability company established under Norwegian law, with a governance structure based on Norwegian corporate law (Aksjeloven) and similar laws in the six other countries where we operate: Finland, Sweden, Germany, Switzerland, USA and Canada. Our governance system has been developed through cooperation between the Board of Directors and the Nammo group management in order to ensure compliance with the relevant laws and regulations. Our governance system is also important for ensuring efficient controls for the business processes. Work is ongoing to improve our corporate governance system. Corporate governance is regarded as a key element in the short-term sustainability of business operations, as well as preparation for a longer-term development of the company. Corporate governance encompasses the leadership culture, vision and values, ethical code of conduct, risk management, reporting and control mechanisms.

## Corporate directives

The framework for leadership, organization and culture is the foundation of our governance system. The system is based on the delegation of responsibility to our legal subsidiaries and business units, as well as corporate functions, such as finance, human resources, communication and business development. In order to maintain uniform standards and control, we have defined common requirements in the form of corporate directives that are mandatory in all parts of our organization. The directives address areas such as strategy and business planning, finance, risk management, organizational and employee development, intermediary relations, legal affairs, patenting, auditing, health, the environment, safety and security, ethics and social responsibility.

## Controls and procedures

Nammo's internal procedures for financial control and reporting are designed to provide reasonable assurance to Nammo's Group management and the Board of Directors

regarding the preparation and presentation of our financial statements. The management of Nammo AS is responsible for establishing and maintaining adequate internal control for financial reporting. Our internal control of financial reporting is a process designed under the supervision of the Group CEO and the Group CFO. The accounting policies applied by the group follow the Norwegian General Accepted Accounting Principles (N GAAP).

In the finance area, there are directives for planning and budgeting, financial reporting, investments, treasury management, as well as a directive for acquisitions and divestments. As an integral part of the directives in the financial area, we have implemented an accounting manual that regulates the accounting treatments for all material accounting processes at Nammo. This work has also resulted in an internal control handbook that states the minimum requirements for the internal control activities to be performed in the respective financial areas.

## General Meeting of Shareholders

The shareholders of Nammo AS have the ultimate authority through the General Meeting. The shareholders are Patria Holding Oyj, and the Norwegian State, represented by the Norwegian Ministry of Trade and Industry. The Annual General Meeting is normally held in the second quarter each year. The Shareholders' Agreement outlines the number of representatives on the Board of Directors for each of the owners, and guidelines for the election of the Chairman of the Board.

The Annual General Meeting approves the annual report based on the Norwegian requirements and financial statements, including the dividend proposed by the Board of Directors and recommended by the Group management. The General Meeting also elects the external auditors and determines the auditors' remuneration. In addition, the General Meeting deals with all other matters listed in the notice convening the meeting.

$$\mathbf{u} = \dot{\mathbf{X}}$$

$$m\ddot{x} = -m\dot{\theta}w + \dot{X} - mg \sin \theta$$

### Board of Directors

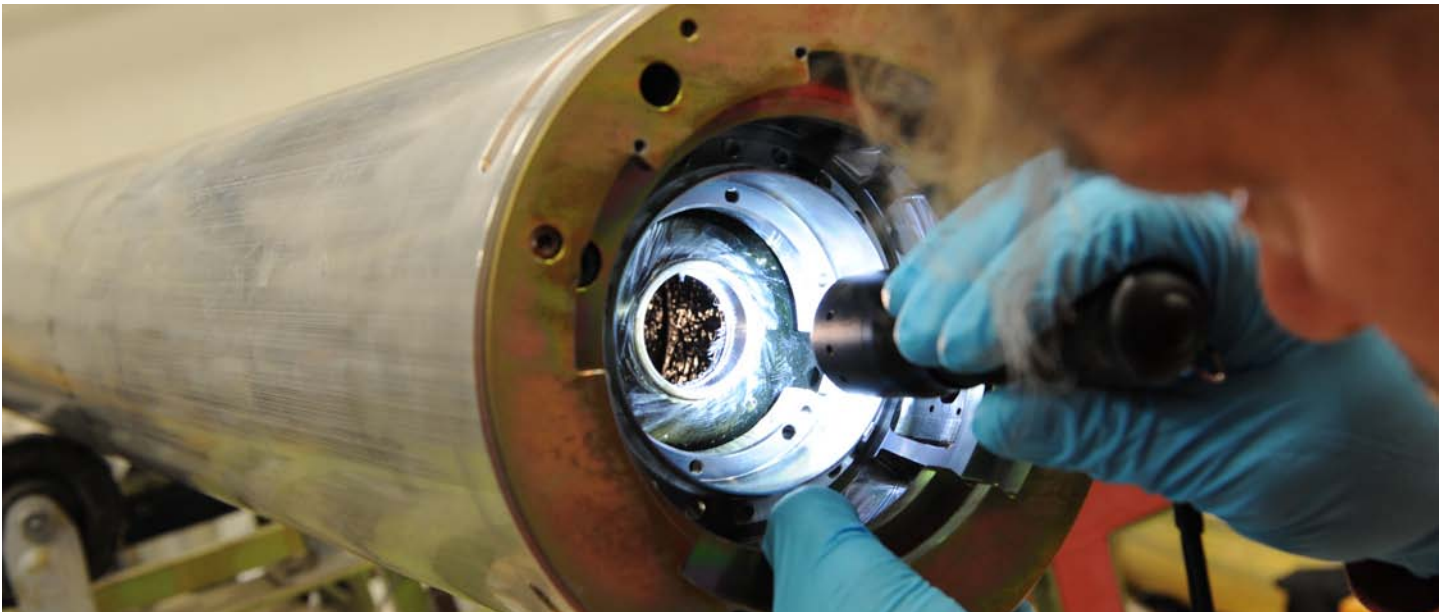
The Board of Directors of Nammo AS shall consist of six to eight directors in accordance with the Shareholders' Agreement: three from each owner, and two directors representing the employees. The employees may also nominate one additional observer, so that all the employees from Norway, Sweden and Finland are represented. The position of Chairman of the Board alternates annually between the two owners. The Board of Directors meets regularly with a minimum of four meetings per year.

In accordance with the Norwegian corporate law (Aksjeloven), the Board of Directors exercises overall governance of the company, including ensuring that appropriate management and control systems are in place. The Board of Directors supervises the daily management carried out by the Group CEO.

### President and CEO

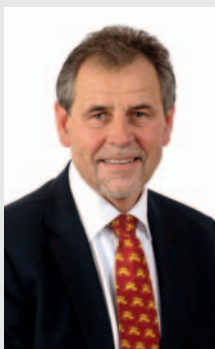
The President and CEO constitute a formal corporate body

in accordance with Norwegian Corporate Law (Aksjeloven). The CEO is responsible for the 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 the internally established corporate directives described above, current corporate policies, management meetings and business reviews. Management meetings are held about eight times a year and are called by the CEO. The Executive Vice Presidents and Senior Vice Presidents on the CEO's staff also participate. These meetings focus on monitoring the status of operations and key performance indicators. The market situation and business development issues are also addressed, as well as health, environment, safety and security indicators and human resource issues. The Group CEO conducts quarterly individual business review meetings with the Divisions. These meetings are a vehicle for scrutiny of the Divisions' performance relative to budgets and targets. The market situation, order intake and new opportunities are also addressed.



# Group Management

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



Edgar Fossheim  
*President & CEO*



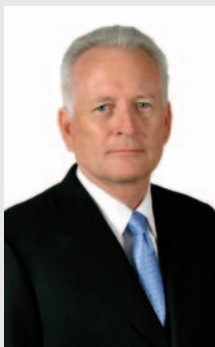
Kjell I. Kringsjå  
*Exec. Vice President  
Medium & Large Caliber Division*



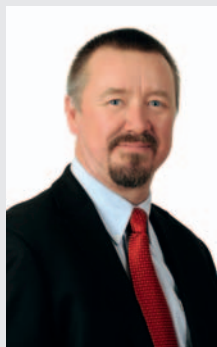
Morten Brandtzaæg  
*Exec. Vice president  
Missile Products Division*



Raimo Helasmäki  
*Exec. Vice President  
Small Caliber Division*



Steve Wegener  
*President Nammo Talley Inc.a*



Reijo Bragberg  
*Exec. Vice President  
Demil Division*



Peter Lerche Raadal  
*Senior Vice President  
Finance & CFO*



Ola Skrivervik  
*Senior Vice President  
Business Development*



Sissel Solum  
*Senior Vice President  
Communication*



Bertil Pålstrup  
*Senior Vice President  
Human Resources*



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

# Company organizational structure





# Board of Directors report 2010

For Nammo, 2010 was a very good year results-wise, and the Group is well positioned for further growth. The company has strengthened its position in its core business areas, while the market situation showed a weaker trend through 2010.

## General comments

Operating income amounted to NOK 3 448 million, which is at the same level as in 2009. Operating profit rose by 6.8 per cent to NOK 435 million (NOK 407 million in 2009). The return on sales ended at 12.6 per cent (11.9 %). The ordinary result before tax amounted to NOK 433 million in 2010, which is up 5.8 per cent from 2009. The Board is satisfied with the financial results.

Nammo is a developer and manufacturer of ammunition systems and missile products, and has become a world leader among environmentally friendly demilitarization services. Since its inception in 1998, Nammo's strategy has been to develop a wide range of ordnance products and services, through focusing on high performance and niche technologies. Nammo has manufacturing companies in Norway, Sweden, Finland, Germany, Switzerland, and USA, and a sales office in Canada. The headquarters are located at Raufoss, Norway.

## Strategy

The Nammo vision is "Securing the future" and serves as a guideline for the company's management and employees in the day-to-day efforts to develop Nammo in line with the company's strategy. Nammo's values are; Dedication, Precision and Care and represent the foundation on which the strategy is to be carried through and the vision to be accomplished.

Close contact and dialog with demanding customers and the development of high-performance niche products have enabled Nammo to achieve a leading position within its core business areas and maintain an important balance between research and development (R&D) and ongoing production. The long term strategy of developing Nammo's position

and presence in the international market has gradually generated positive results. The company aims to continue this strategy.

Through 2010 Nammo continued its efforts of strengthening its position in the markets where the company already had a presence. Through merger and acquisition (M&A) activities during the past years, Nammo has become an even stronger, more dedicated and focused supplier for customers internationally. At the same time, Nammo has managed to maintain its strong position in the Nordic countries.

In addition, Nammo has given priority to carry out systematic improvements in operations and measures for cost reductions, which has gradually strengthened its financial position.

During 2010, Nammo increased its ownership share in the partly-owned company PB Nammo LLC from 49 to 100 per cent, and changed the company name to Nammo Demil LLC. Nammo also increased its ownership share in Nammo NAD AS from 50 to 90 per cent and increased its ownership in Norabel Ignition System AB from 50 to 100 per cent. The Canadian security company Nammo Primex Security was sold during 2010.

## Operations

### The Nordic market

The Nordic markets remain a very important part of Nammo's future development. A continued strong position in the home markets creates a production and market base from which to compete in the international markets. In 2010 the Nordic markets share of Nammo's operating income was 27 per cent.

$$u = \dot{x}$$

$$m\ddot{x} = -m\dot{\theta}w + X - mg \sin \theta$$

### The international market

Since Nammo was established in 1998, the international market has become increasingly important to the company. In 2010, the international market's share of Nammo's operational income was 73 per cent.

The sales to USA and Canada represented 44 per cent of the Group's revenues in 2010, and sales generated from Nammo's companies in the US represented 18 per cent. The US has taken a leading role in the development and qualification by implementing new technology within the armed forces, and therefore represents an important relationship for Nammo when it comes to future growth.

### Development, research and technology

Nammo is involved in development programs incorporating advanced technology solutions for national and international markets. Nammo also takes part in numerous network-enabled activities that allow separate systems to work together to increase effectiveness, while continuing to invest in new technologies to maintain and enhance competitiveness. A few of Nammo's development programs have a duration of several years. Other programs have a shorter duration, typically programs to develop already existing products. Nammo's policy is to expense all R&D costs when incurred.

### Financial statements

Pursuant to Section 3-3a of the Norwegian Accounting Act, the Board of Directors confirms that the financial statements have been prepared under the assumption that the enterprise is a going concern, and that this assumption was realistic as of the date of the financial statements. The Nammo Group's annual accounts have been prepared in accordance with the Norwegian Accounting Act and the

Generally Accepted Accounting Principles (NGAAP). The accounting principles used by the Nammo Group have also been applied by Nammo AS and all subsidiaries. For further information, please refer to the financial statements and note disclosures.

### Operating income and profitability

Nammo had an operating income of NOK 3 448 million in 2010 (3 439). The operating profit increased by 6.8 per cent to NOK 435 million in 2010 (407), and the operating profit margin increased from 11.8 per cent in 2009 to 12.6 per cent in 2010. Net financial items were negative at NOK 1.7 million in 2010 (+2.5). The ordinary result before tax was NOK 433 million in 2010 (410). The profit for the year was NOK 280.4 million in 2010 (267.7).

### Cash flow and liquidity

Nammo's net cash flow from operating activities was NOK 538 million in 2010 (241). Net cash flow from investment activities amounted to NOK -91 million in 2010 (139). Net cash flow from financing activities was NOK -305 million in 2010 (151). This mainly reflects dividend to the owners and repayment of long term loans. Cash and cash equivalents were NOK 433 million on 31 December 2010 (292). Nammo had utilized credit facilities of NOK 362 million measured as of 31 December 2010 exchange rates.

### Balance sheet

The total assets of the Nammo Group were NOK 2 906 million at the end of 2010 (2 906). Net working capital excluding cash was NOK 392 million (534), while equity was NOK 1 305 million (1 161). Total liabilities was NOK 1 575 million (1 726) on 31 December 2010. Total interest bearing liabilities to financial institutions amounted to NOK 299 million (495) on 31 December 2010.

## Risk factors

Nammo operates in a global market, characterized by rapid technological shifts in product and service offerings and strong competitive pressures. The group is therefore exposed to a number of risk factors. Nammo's market represents risks of various kinds and magnitudes, and it is very important to be aware of those risks and manage or minimize them as much as possible. Risk management is therefore an integral part of the strategic business management, with the aim of supporting both strategic and financial goals.

### Market risk

The operational and financial developments of the Nammo Group depend on the general development of the defense markets. The fact that Nammo has five operating Divisions, each with a number of business areas and many different products, is an advantage when it comes to risk management because it spreads the risk over a broad platform of activities.

### Financial risk

Nammo has established guidelines for financial risk management both at the corporate and Divisional levels. The following areas are identified as the key financial risk factors for the Nammo Group:

**Currency risk:** Nammo's customer base is global and the currency fluctuations have a major impact on the Group's financial statements. In light of this, the currency risk is continuously monitored and reduced. Nammo also has both transaction risk and translation risk.

**Transaction risk** is reduced through internal risk matching and hedging in the market through financial instruments. The hedging of contractual currency cash flows is carried out continuously, and the strategy is to secure the calculated earnings on industrial contracts and thereby reduce exposure to fluctuations.

**Translation risk** is the effect on balance sheet items in foreign currencies due to currency fluctuations. The risk comprises equity in subsidiaries and joint ventures reported in foreign currencies. The translation risk is partly hedged

through hedge accounting of long term debt, being the hedging instrument.

**Commodity price risk:** Price volatility related to copper, steel and other raw materials can impact Nammo's operating costs directly, and can also have an effect on the Group's reported operating results. Nammo reduces the risk by consistently monitoring commodity hedges for all significant purchase transactions of metals, which are possible to hedge in the market.

**Liquidity risk:** Liquidity risk management implies maintaining sufficient cash and cash equivalents, and having funding available through an adequate amount of committed credit facilities. Nammo maintains a high degree of financial flexibility by keeping sufficient cash and cash equivalents or committed credit facilities available.

**Credit Risk:** Nammo's customers are mainly defense ministries in different countries and other big, industrial companies in the defense industry in NATO and EU-countries. The inherent credit risk is thus considered to be low. The credit risk is evaluated annually, and for the time being the risk associated with outstanding accounts receivables is considered to be low.

**Interest rate risk:** The interest rate risk for the Nammo Group is monitored and continuously evaluated during the year.

## Distribution of dividend

The Board proposes a dividend payment of NOK 140.3 million for 2010 to the General Meeting of Shareholders. The profit in the parent company Nammo AS will be distributed as follows:

Dividend	NOK 140.3 million
Other equity	NOK 76.8 million
<b>Total</b>	<b>NOK 217.1 million</b>

The proposed dividend represents 65 per cent of the Nammo AS profit for the year. In relation to the profit in the Nammo Group, the proposed dividend represents 50 per cent.

$$q = \dot{\theta}$$

$$m\ddot{z} = m\dot{\theta}u + Z + mg \cos \theta$$

### Corporate social responsibility

Nammo promotes sustainable development through business operations that emphasize environmental, ethical and social considerations. Nammo is committed to ensure that human and labour rights, environmental considerations and the fight against corruption are respected in its business activities and by the Group's suppliers, and Nammo should be characterized by high ethical standards. Nammo also operates consistently within its established ethical code of conduct. In accordance with company policy, Nammo reviews its ethical guidelines on an annual basis and has a proactive approach to these issues, in addition to ensuring that the guidelines are implemented and continuously followed up on in the day-to-day operations on all levels in the organization.

In 2010, Nammo entered into a 4-year sponsorship agreement with the Norwegian Biathlon Association, promoting the Lapua brand on the women's national team. Through this sponsorship opportunity, Nammo will be the primary supplier of ammunition to the national teams of the Norwegian Biathlon Association, with a close cooperation towards the Winter Olympics in Sochi in 2014. The cooperation also includes an establishment of a Lapua scholarship for young talented athletes.

Additionally, Nammo signed a sponsorship agreement with the Norwegian Ski Federation. The goal of the agreement is split in two. The first part is a technology project where Nammo will contribute to the development of ski jumping through increased technological expertise and support around aerodynamics. Secondly, Nammo will sponsor the women's national team in ski jumping on their way towards to the expected participation in their first Olympic competition in Sochi 2014.

These two national sponsorships are important steps to promote Nammo and the Lapua brand in Norway. Nammo has an ambition to recruit more women to the company and to keep employee focus on top performance.

### Policy

Nammo operates in the explosives industry and handles high-energetic materials. Therefore conditions concerning health, environment, safety and security have higher priority

than all other business objectives and goals. This is a highly prioritized issue for Nammo's employees, and constantly on the management's agenda. The Group's policy is evaluated each year. All accidents or serious, near-accidents involving employees are reported and preventive actions are taken. Monthly reports are sent to all sites for information and action. Health, environment, safety and security audits were last conducted at the sites in 2010.

### Education and training

All sites in Nammo have their own education and training schedule related to health, environment, safety and security each year. Once a year, Nammo arranges a seminar for all employees involved in these issues. In 2010 Nammo was involved in an EU-Excert partnership program, which will be licensed to use the EU-Excert logo for certificates in explosives competence. EU-Excert will continue this work to establish a transferable certificate of explosives competence, which will be recognized inside and outside of the EU.

### The environment

Nammo has a direct impact on external environment through its production and testing of ordnance products and services, through consumption of paper and energy, waste management, procurement and use of means of transport. All main Nammo sites are certified in accordance with ISO 14001 or similar environmental standards. The environmental conditions for personnel exposed to hazardous materials are registered and followed up by preventive medical examinations.

A common effort is made to focus on the area of energy efficiency, special waste and water consumption, and there are plans and goals for continuous improvement.

### Health, environment, safety and security results

The sick leave among Nammo's employees was at an average of 4.0 per cent for 2010 (4.1). The Board is satisfied with the stable, low sick leave in Nammo, and with the management's and unions' work to encourage low results like this. Various activities such as workplace improvements, measures to secure a good and healthy work environment, protective equipment and physical training have been given attention by the management.

There were 22 accidents resulting in employees being absent from work in Nammo in 2010, representing an H-value of 6 (number of accidents resulting in absence per million working hours). This gives an F-value of 72 (number of days off due to accidents multiplied by one million and divided by number of working hours), which indicates that the most frequent types of accidents are minor. Most of the injuries concern fingers or hands as a result of handling materials or machinery. Another type of frequent injury is caused by falls due to icy or slippery ground. The Group will continue its preventive work in all areas and maintain a particular focus on conditions for employees.

#### Human resources

Nammo is committed to ensure diversity in the Group and equal opportunities for all employees are a key element of the human resources policy. This applies in particular to recruitment, career development, equal pay for equal work, and working conditions. Women account for 29.3 per cent of the employees and activities to motivate female university graduates to join the company will continue to be an important endeavor in the future. Nammo does not tolerate discrimination on the basis of gender, race, religion, national or ethnic origin, cultural background, social group, disability, family status, age or political views. However, when recruiting personnel, the process must be performed in accordance with the national security authorities in the respective country. The Board encourages all Nammo subsidiaries to pursue this aim in order to ensure diversity

within the company. The working environment in Nammo is considered to be good.

#### Outlook for the Nammo Group

Nammo has developed into a financially robust company with balanced business activities in the US, Canada and other NATO countries, all based on its foundation in the Nordic market and the continued strength of its position in its home markets. The company plans to continue growing along these lines based on its current strategy. In the markets where Nammo is present today, the company will evaluate any growth opportunities that emerge, both organically and through M&A activity.

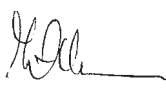
Nammo's exposure to variations in market conditions are limited because of the company's broad range of business activities and the weaker overall market trend is expected to be somewhat offset by internal optimization and efficiency improvements. There are elements of uncertainty when it comes to estimates on Nammo's future growth, but the Board expects that the group will maintain its strong market positions and thus deliver solid results in 2011.

The solid results posted by Nammo in 2010 reflect the hard work and dedicated efforts made by a highly skilled and competent workforce. The Board expresses its appreciation to all employees for their commitment and individual service during the year.

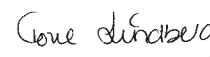
Gardermoen, 23 March 2011



Karl Glad, Vice Chairman



Heikki Allonen, Chairman of the Board



Tone Lindberg, Board Member




Annika Tanttinen, Board Member



Dag J. Opedal, Board Member



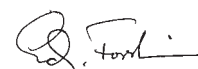
Kai Nurmio, Board Member



Petri Kontola, Board Member



Einar Linnerud, Board Member



Edgar Fosshelm, President & CEO

# Board of Directors



Heikki Allonen  
*Chairman of the Board*



Dag J. Opedal  
*Board Member*



Annika Tanttinen  
*Board Member*



Karl Glad  
*Vice Chairman*



Tone Lindberg  
*Board Member*



Kai Nurmio  
*Board Member*



Einar Linnerud  
*Board Member*



Petri Kontola  
*Board Member*



Astrid Berg Ardesjö  
*Observer*

The Board of Directors of Nammo AS consists of eight directors, three from each owner, and two directors representing the employees. The chairman and the vice chairman alternate every year. The employees also nominate one additional observer, so that all the employees from Norway, Sweden and Finland are represented.



# Nammo Group 2010

Consolidated financial statements





# Income statement

## Nammo Group

(NOK 1 000)	Notes	2010	2009
<b>Operating income</b>	1	<b>3 448 450</b>	3 439 156
<b>Operating expenses</b>			
Changes in stock of work in progress and finished goods		(6 033)	64 712
Changes in self-manufactured fixed assets		(1 062)	(692)
Cost of goods sold		1 234 096	1 232 727
Payroll expenses	3, 11	1 004 886	954 342
Depreciation of tangible and intangible fixed assets	6	130 959	143 801
Other operating expenses		650 721	637 252
<b>Total operating expenses</b>		<b>3 013 567</b>	3 032 142
<b>Operating profit</b>		<b>434 883</b>	407 014
<b>Financial income and expenses</b>			
Income from associates and joint ventures - equity method	5	(152)	1 832
Interest income		6 497	2 641
Other financial income	4	17 343	36 239
Interest expenses		(7 197)	(9 100)
Other financial expenses	4	(18 152)	(29 066)
<b>Net financial income (expense)</b>		<b>(1 661)</b>	2 546
<b>Ordinary result before tax</b>		<b>433 222</b>	409 560
<b>Taxes on ordinary result</b>	12	<b>(140 432)</b>	(132 614)
<b>Ordinary result</b>		<b>292 790</b>	276 946
<b>Minority share</b>		<b>(12 364)</b>	(9 271)
<b>Profit (loss) for the year</b>		<b>280 426</b>	267 675

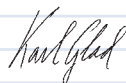
# Balance sheet

## Nammo Group

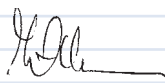
(NOK 1 000)	Notes	As of 31.12.10	As of 31.12.09	As of 31.12.08
<b>Assets</b>				
<b>Fixed assets</b>				
<b>Intangible assets</b>				
Deferred tax asset	12	51 766	53 264	103 792
Licenses, trademarks and other intangible assets	6	294 943	316 528	402 595
Goodwill	6	32 180	54 474	91 781
<b>Total intangible assets</b>		<b>378 889</b>	<b>424 266</b>	<b>598 168</b>
<b>Tangible assets</b>				
Buildings	6	198 961	183 699	171 291
Property	6	15 095	15 198	16 799
Machinery and equipment	6	264 618	249 316	228 649
Fixtures and fittings, tools, office machinery, etc.	6	31 576	32 604	38 473
Fixed assets under construction	6	19 304	20 673	66 741
<b>Total tangible assets</b>		<b>529 554</b>	<b>501 490</b>	<b>521 953</b>
<b>Financial fixed assets</b>				
Shares in joint ventures	5	601	13 783	10 120
Shares in associated companies	5	344	524	137
Investments in other shares and participations	5	6 023	1 844	1 554
Other receivables	7	13 646	16 491	10 786
<b>Total financial fixed assets</b>		<b>20 614</b>	<b>32 642</b>	<b>22 597</b>
<b>Total fixed assets</b>		<b>929 057</b>	<b>958 398</b>	<b>1 142 718</b>
<b>Current assets</b>				
<b>Stocks</b>				
Stocks of raw materials		271 829	276 865	322 756
Stocks of work in progress		410 010	414 908	407 017
Stocks of finished goods		130 540	114 575	141 286
<b>Total stocks</b>		<b>812 379</b>	<b>806 348</b>	<b>871 059</b>
<b>Receivables</b>				
Advance payments to suppliers		11 815	17 077	29 773
Accounts receivable	8	452 717	559 292	578 581
Other receivables	7	266 847	273 266	123 346
<b>Total receivables</b>		<b>731 379</b>	<b>849 635</b>	<b>731 700</b>
<b>Cash and cash equivalents</b>	9	<b>432 855</b>	<b>291 637</b>	<b>341 068</b>
<b>Total current assets</b>		<b>1 976 613</b>	<b>1 947 620</b>	<b>1 943 827</b>
<b>Total assets</b>		<b>2 905 670</b>	<b>2 906 018</b>	<b>3 086 545</b>

(NOK 1 000)	Notes	As of 31.12.10	As of 31.12.09	As of 31.12.08
<b>Shareholders' equity and liabilities</b>				
<b>Equity</b>				
Subscribed share capital	10	100 000	100 000	100 000
Share premium reserve		258 670	258 670	258 670
Other equity	10	945 916	802 257	812 340
<b>Total equity</b>		<b>1 304 586</b>	<b>1 160 927</b>	<b>1 171 010</b>
<b>Minority share</b>		<b>26 259</b>	<b>18 883</b>	<b>14 492</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Pension liabilities	11	116 821	105 426	125 216
Deferred tax	12	76	130	179
<b>Total non-current liabilities</b>		<b>116 897</b>	<b>105 556</b>	<b>125 395</b>
<b>Other non-current liabilities</b>				
Liabilities to financial institutions	13	298 575	495 162	603 545
Other non-current liabilities		7 615	3 646	-
<b>Total other non-current liabilities</b>		<b>306 190</b>	<b>498 808</b>	<b>603 545</b>
<b>Current liabilities</b>				
Allocation for guarantee liabilities		98 335	101 509	93 866
Prepayments from customers		290 787	247 451	266 792
Accounts payable		177 819	175 420	248 508
Taxes payable	12	64 661	71 533	57 682
Public duties payable		116 306	162 306	132 943
Dividend payable to shareholders		140 300	133 800	133 000
Other current liabilities		263 530	229 825	239 312
<b>Total current liabilities</b>		<b>1 151 738</b>	<b>1 121 844</b>	<b>1 172 103</b>
<b>Total liabilities</b>		<b>1 574 825</b>	<b>1 726 208</b>	<b>1 901 043</b>
<b>Total shareholders' equity and liabilities</b>		<b>2 905 670</b>	<b>2 906 018</b>	<b>3 086 545</b>

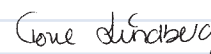
Gardermoen, 23 March 2011



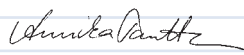
Karl Glad, Vice Chairman



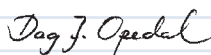
Heikki Allonen, Chairman of the Board



Tone Lindberg, Board Member



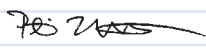
Annika Tanttinen, Board Member



Dag J. Opedal, Board Member



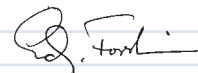
Kai Nurmio, Board Member



Petri Kontola, Board Member



Einar Linnerud, Board Member



Edgar Fosshelm, President & CEO

# Cash flow

## Nammo Group

(NOK 1 000)	2010	2009	2008
<b>Cash flow from operational activities</b>			
Result before tax	433 222	409 560	375 073
Tax payments	(133 602)	(108 490)	(135 183)
Profit and loss on sale of fixed assets	-	-	(2 299)
Ordinary depreciations	130 959	143 801	137 456
Changes in stock	(6 031)	64 711	(135 018)
Changes regarding debtors	106 575	19 289	6 150
Changes regarding creditors	(10 170)	(44 374)	11 147
Changes in other depositions	16 764	(243 993)	220 603
<b>Net cash flow from operational activities (a)</b>	<b>537 717</b>	240 504	477 929
<b>Cash flow for investement activites</b>			
Payments received from sale of fixed assets	1 163	-	404
Purchase of fixed assets	(86 875)	(138 969)	(131 646)
Payments received from sale of other long-term investments	-	-	21 532
Purchase of other long-term investments	(5 416)	(200)	(22 485)
<b>Net cash flow from investment activities (b)</b>	<b>(91 128)</b>	(139 169)	(132 195)
<b>Cash flow from financing activities</b>			
Payments received regarding new long term loans	-	698	149 213
Installments on long-term loans	(170 203)	(9 670)	(185 626)
Net payment of interest	(1 368)	(8 794)	(14 461)
Paid dividend	(133 800)	(133 000)	(129 600)
<b>Net cash flow from financing activities (c)</b>	<b>(305 371)</b>	(150 766)	(180 474)
Net changes in cash and bank accounts (a+b+c)	141 218	(49 431)	165 260
Cash and bank accounts as of 01.01.	291 637	341 068	175 808
<b>Cash and bank accounts as of 31.12.</b>	<b>432 855</b>	291 637	341 068

Total unused cash credits as of December 2010 is NOK 361.9 million. See note 9 and 13.

# Index to the accounting notes

Accounting policies	4	Financial items	10	Equity – changes in equity
Nammo Group	5	Shares in other companies	11	Pension commitments – pension costs
1 Operational income for the Nammo Group	6	Fixed and intangible assets	12	Tax calculations
2 Financial market risk	7	Other receivables (long and short term)	13	Interest bearing loans and guarantees
3 Salaries and social cost	8	Receivables and losses on bad debts		
	9	Cash reserve		

## Accounting policies Nammo Group

### General

The Nammo Group consists of Nammo AS and its subsidiaries. Nammo AS is a public limited company (Aksjeselskap). The Nammo AS headquarters are located in Raufoss, Norway.

The consolidated financial statements consist of the group and its interests in associated companies and joint ventures.

The consolidated financial statements have been prepared in accordance with the Norwegian Accounting Act and the Norwegian General Accepted Accounting Principles.

### Basis of consolidation

The consolidated financial statements include Nammo AS and subsidiaries where the group holds, directly or indirectly, the majority of voting rights. Controlling interest is usually achieved when Nammo has more than 50% of voting rights. In some situations, de facto control of an entity may be achieved through contractual agreements. Subsidiaries that are acquired or sold during the year are included or excluded from consolidation when the Group achieves control or ceases to have control. All inter-company transactions and balances between group companies are eliminated.

Minority interests of consolidated subsidiaries are identified separately from the group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination.

### Foreign currencies

The individual financial statements of a subsidiary company are prepared in the company's functional currency, normally the currency of the country where the company is located. Nammo AS uses NOK as its functional currency, which is also used as the presentation currency for the consolidated financial statements.

In preparing the consolidated financial statements, the financial statements of foreign operations are translated using the exchange rates at year-end for balance sheet items and yearly average exchange rates for income statement items. Translation gains and losses, including effects of exchange rate changes on transactions designated as hedges of net foreign investments, are included in shareholder's equity.

In individual companies, transactions in currencies other than the entity's functional currency are recorded at the exchange rate at the date of the transaction.

Gains and losses arising on transactions, assets and liabilities other than the translation gains/losses, are recognized in the income statement, except for gains and losses on transactions designated and effective as hedge accounting.

To hedge the group's currency exposure the group enters into currency-based derivative financial instruments. The group's accounting policies for such hedge contracts are explained below in these accounting policies.

### Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given and liabilities incurred or assumed, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under NRS (F) Konsernregnskap, are recognized at their fair values at the acquisition date. The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognized at the date of acquisition. Goodwill is initially recognized at cost and then depreciated according to the economic lifetime.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for products provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of products is recognized when all of the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the Group
- the costs incurred or to be incurred in respect of the transaction can be measured reliably

### Dividends received

Dividends from investments are recognized in the income statement when the Group has a right to receive the dividends.

### Interest income

Interest income is recognized in the income statement as it is accrued.

### Government grants

Government grants are recognized in the consolidated financial statement when the group has reasonable assurance that it will receive them and comply with conditions attached to them. Government grants that compensate the group for expenses are recognized in the income statement as the expenses are incurred. Government grants that compensate the group for the cost of an asset are recognized as a reduction to the total investment and thus also to the future depreciations of the asset.

### Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill that is not deductible for tax purposes.

Current and deferred tax are recognized as expense or income in the income statement, except when they relate to items recognized directly to equity, in which case the tax is also recognized directly in equity.

In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of Nammo's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

### Intangible assets

Separately acquired intangible assets are recognized at cost at the time of acquisition. As part of business combinations, intangible assets acquired as a result of contracts or legal rights,



or rights that can be separated from the acquired entity, are recognized at fair value.

Research costs are normally expensed as they incur.

Intangible assets are amortized on a straight-line basis over their expected useful life.

#### Property, plant and equipment

Property, plant and equipment are measured at historic cost less accumulated depreciation and any impairment loss.

Expenses in connection with ordinary maintenance and repairs are recognized in the income statement as they incur. Expenses incurred in connection with major replacements and renewals are capitalized and depreciated on a systematic basis.

Property, plant and equipment are depreciated on a straight-line basis over their expected useful life.

Gain or loss due to sale or retirement of property, plant and equipment is calculated as the difference between sales proceeds and carrying value and is recognized in the income statement.

Interest is capitalized as part of the historical cost of major assets constructed.

#### Associated companies

Associated companies are investments in companies where the Group has significant influence, but not control. Significant influence normally exists when the Group controls between 20% and 50% of the voting rights. The share of results, assets and liabilities of associated companies are incorporated into the consolidated financial statements using the equity method of accounting.

#### Joint ventures

A joint venture is a contractual arrangement whereby the Group and one or more parties undertake an economic activity that is subject to joint control, which is when the strategic and financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control. Accounting for participation in joint ventures is based on the equity method basis as described under the accounting principles for associated companies.

#### Inventory

Inventories are stated at the lower of cost, using the first-in, first-out method ("FIFO") and net realizable value. Net realizable value is estimated sales price reduced by costs of completion and other sales costs. Recognized value for work in progress or finished goods are all appropriate direct and indirect production costs, while raw materials and other inventory are recognized at purchase price (historic cost).

#### Impairment of non-current assets other than goodwill

The group assesses the carrying amount of tangible assets and identifiable intangible assets annually, or more frequently if events or changes in circumstances indicate that such carrying amounts may not be recoverable. Factors considered material by the group trigger an impairment test. These include:

- significant underperformance relative to historical or projected future results, or
- significant changes in the manner of the Group's use of the assets or the strategy for the overall business, or
- significant negative industry or economic trends.

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less cost to sell and value in use. When it is determined that the carrying amount of tangible assets and identifiable intangible assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, any impairment is measured based on discounted projected cash flows. An impairment loss is recognized to the extent that the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Previously recognized impairment losses are reversed if the assumptions for impairment are no longer present.

#### Dividend liability

Dividends are recognized as a liability in the period that they are declared by the Annual General Meeting.

#### Defined benefit plans

The Group's net obligation in respect of defined benefit plans are calculated separately for each plan, based on the legislation in the respective countries where group companies have defined benefit plans. The amount is an estimation of future benefits that the employees have earned in return for their service in current and prior periods. The benefit is discounted to determine its present value, and the fair value of the plan assets and unvested past service cost is deducted. The discount rate is based on the risk free rate (interest rate on long term government bonds) and the recommendation from The Norwegian Accounting Standards Board (Norsk Regnskapsstiftelse), plus a risk premium. Qualified actuaries perform the calculations.

The actuarial gains or losses are recognized using a corridor. The corridor is defined as 10% of the highest of the Defined Benefit Obligation (DBO) and total plan assets. The net actuarial gain or loss exceeding the corridor is amortized in the profit and loss over the estimated remaining period of service from the members in the plan.

#### Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognized as an expense in the income statement when employees have rendered services entitling them to the contributions.

#### Restructuring

A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

#### Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as a provision. An onerous contract is considered to exist where the group has a contract under which the unavoidable costs of meeting the obligations under the contract exceeds the economic benefits expected to be received from it.

#### Guarantees

A provision for guarantees is recognized when the products or services are sold. This is done to meet future claims on already sold products and services. The provision is based on business Nammo operates in, historical information on actual guarantee payments incurred, and the probability that claims will be made.

#### Cash and cash equivalents

Cash and cash equivalents include cash and bank deposits.

Trade receivables and other short-term receivables  
Trade receivables and other short-term receivables are recognized at the lower of the transaction amount (historic cost) and the fair value at the time of reporting.

#### Trade payables and other short-term liabilities

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

#### Impairment of financial assets

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

#### Interest-bearing borrowings

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

#### Financial instruments

The Group uses financial instruments to hedge exposure against foreign exchange risk in operating, financing and investment activities. The financial instruments are entered into based on a "back-to-back" system, meaning that we normally make a hedge based on a specific underlying sale- or purchase contract.

#### Hedge accounting

The Group designates certain financial instruments as either hedges of foreign currency risk of future cash flows (cash flow hedges), or hedges of net investments in foreign operations.

#### Cash flow hedges

The effect of the financial instruments used as hedging instrument in a cash flow hedge are recognized in the profit and loss in the same period as the hedged transaction is recognized.

#### Hedge of net investment

Changes in book value of financial instruments used as hedges of net investment in foreign operations are recognized directly in equity.

#### Leasing

Property, plant and equipment which is leased on conditions which substantially transfer all the economic risks and rewards to Nammo (finance lease) are accounted for as property, plant and equipment at the present value of minimum lease payments or fair value if this is lower. The corresponding finance lease liabilities are included in long-term debt. Property, plant and equipment is depreciated over the estimated useful lives of the assets. The related liabilities are reduced by the amount of lease payments less the effective interest expense. Other leases are accounted for as operating leases, with lease payments recognized as an expense over the lease terms.

# Notes to the accounts

## Nammo Group

### 1. OPERATIONAL INCOME FOR THE NAMMO GROUP

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

#### Turnover from Nammo subsidiaries per country

(NOK 1 000)	2010
Norway	1 262 995
Sweden	793 734
Finland	326 261
Germany	392 923
Switzerland	43
USA	672 493
<b>Total</b>	<b>3 448 450</b>

#### Turnover per geographical location of customers

(NOK 1 000)	2010
Norway	309 136
Sweden	392 622
Finland	212 965
Germany	273 844
Denmark	55 966
Great Britain	118 184
France	108 735
Netherlands	52 653
Belgium	26 145
Other European countries	291 413
USA	1 348 974
Canada	155 528
Australia	6 085
Asia	22 511
Other countries	73 690
<b>Total</b>	<b>3 448 450</b>

### 2. FINANCIAL MARKET RISK

Nammo has both sales and purchases in foreign currencies. To reduce the financial risk of currency changes, secured exchange rate instruments (forwards contracts) are used to hedge substantial contracts in foreign currency with both the customers and suppliers.

Transactions are recorded at the hedged rates of exchange.

**Cash flow hedges as of December 2010:**

(Amounts in currency 1 000)

Transaction type	Buy/Sell	CAD	CHF	EUR	GBP	PLN	SEK	USD
FX Forward	Buy	977	759	9 186	100	-	10 167	2 964
	Sell (-)	-	-	(57 573)	(5 134)	(935)	(92 815)	(47 905)
FX SWAP	Buy	-	-	1 345	-	-	-	-
	Sell (-)	-	-	(11 705)	-	-	-	(7 994)

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

Transaction type	Buy/sell	Year 2011	Year 2012	Year 2013	Year 2014
FX Forward	Buy	92%	8%	-	-
	Sell	78%	16%	4%	2%
FX SWAP	Buy	100%	-	-	-
	Sell	98%	2%	-	-

According to the Norwegian accounting legislation the hedging instrument is recognized in the profit and loss in the same period as the underlying transaction.

In some cases the underlying transaction does not happen at the maturity date of the hedging instrument. In these cases FX SWAP's are placed with a maturity date matching the new estimated time of the underlying transaction. The profit and loss effect of both the FX Forward and FX SWAP is matched with the underlying transaction.

**3. SALARIES AND SOCIAL COST**

	2010	2009
Salaries	769 074	735 707
Social security taxes	124 398	119 839
Pension costs	66 455	57 204
Other personnel costs	44 958	41 591
<b>Total</b>	<b>1 004 886</b>	<b>954 342</b>

	2010	2009
Average number of man years	1 940	1 872

**Remuneration to CEO and Board of Directors**

(NOK)	Function	Salary and other remuneration	Prepaid pension	Bonus	Total
Edgar Fosshem	President and CEO	3 041 847	1 328 902	1 030 768	5 401 517
Nammo AS Board	Board of Directors	1 117 765	-	-	1 117 765

Loan to the CEO has a balance of NOK 283 000 as of 31.12.2010. The loan is due in 4 years and the interest rate is 0.75% p.a. in 2010.

The CEO is included in Nammo AS's collective pension scheme, limited to 12G. The prepaid pension in 2010 is the calculated difference between collective pension rights and 60% of salary at retirement by the age of 63.

Bonus payments are based on the existing incentive plan for the CEO.

**Auditor's fee**

All numbers are presented exclusive VAT.

(NOK 1 000)	<b>2010</b>
Auditors fee	3 226
Fees for other assurance work, including IFRS	270
Tax advisory services	879
Other services	374
<b>Total</b>	<b>4 749</b>

**4. FINANCIAL ITEMS**

(NOK 1 000)	<b>2010</b>	2009
Gain on exchange	13 111	36 231
Other financial income	4 232	7
<b>Total other financial income</b>	<b>17 343</b>	<b>36 239</b>
Exchange costs	(16 062)	(27 065)
Other financial expenses	(2 090)	(2 001)
<b>Total other financial expenses</b>	<b>(18 152)</b>	<b>(29 066)</b>

**5. SHARES IN OTHER COMPANIES**

	Company's share capital	Number of shares owned	Nominal value	Booked value NOK	Owner- ship
(NOK 1 000)					
<b>Joint controlled companies:</b>					
SN Technologies SA, Meyrin, Switzerland	CHF 200 000	100	CHF 100 000	560	50%
N2 Defense, USA	USD 120 000			41	50%
<b>Total</b>				<b>601</b>	
<b>Associated companies:</b>					
DrawTech Oy, Finland	EUR 36 000	533	-	344	33%
<b>Total</b>				<b>344</b>	
<b>Other shares and participations:</b>					
Sintef Raufoss Manufacturing AS, Raufoss, Norway				1 302	14%
Raufoss Næringspark AS, Raufoss, Norway				4 209	7%
Lean Lab, Gjøvik, Norway				200	13%
Others				312	
<b>Total</b>				<b>6 023</b>	

Joint controlled companies and associated companies are recognized according to the equity method in the consolidated financial statements.

## 6. FIXED AND INTANGIBLE ASSETS

(NOK 1 000)	Other intangible assets		Buildings	Other fixed assets		Machinery and office equipment		Fixed assets under		Total
	Goodwill	assets		assets	equipment	Fittings	construction			
Acquisition cost as of 01.01.10	142 572	414 711	343 186	14 993	967 442	128 558	20 377	2 031 839		
Additions during the year	3 310	560	29 614	117	69 922	12 279	-	115 802		
Disposals during the year	-	-	-	-	17 671	2 156	1 073	20 900		
Acquisition cost as of 31.12.10	145 882	415 271	372 800	15 110	1 019 693	138 681	19 304	2 126 741		
Accumulated depreciations	113 702	120 328	173 839	15	755 075	107 105	-	1 270 064		
Book value as of 31.12.10	32 180	294 943	198 961	15 095	264 618	31 576	19 304	856 677		
Ordinary depreciations for the year	27 115	27 255	17 125	8	47 561	11 895	-	130 959		
Annual leasing cost of assets not recognized in the balance sheet	-	-	38 978	-	3 711	4 287	-	46 976		
Economic life time (years)	5	1 - 20	10 - 30	7 -->	5 - 10	3 - 10	-	-		
Depreciation plan	linear	linear	linear	linear	linear	linear	-	-		

## 7. OTHER RECEIVABLES (LONG AND SHORT TERM)

These items include receivables concerning employees, loans to companies not part of the Nammo group and other receivables.

## 8. RECEIVABLES AND LOSSES ON BAD DEBTS

(NOK 1 000)	2010	2009
Accounts receivable	455 181	560 660
Provision for bad debt	2 464	1 368
<b>Book value of accounts receivables</b>	<b>452 717</b>	<b>559 292</b>

Our assessment of accounts receivable concluded that the provision for bad debts is sufficient to meet future potential losses on bad debts as of 31.12.2010.

## 9. CASH RESERVE

(NOK 1 000)	2010	2009
Cash and cash equivalents	432 855	291 637
Unused cash credits	361 878	258 400
<b>Net cash reserve</b>	<b>794 733</b>	<b>550 037</b>

Nammo AS has established an international cash pool together with the following group companies:

In Finland: Nammo Lapua Oy.

In Germany: Lapua GmbH, Nammo Buck GmbH and Nammo Germany GmbH.

In Norway: Nammo AS, Nammo Bakelittfabrikken AS and Nammo Raufoss AS.

In Sweden: Hansson Pyrotech AB, Nammo Demil Division AB, Nammo LIAB AB, Nammo Sweden AB and Nammo Vanäsverken AB.

In USA: Nammo Composite Solutions LLC., Nammo Inc. and Nammo Talley Inc.



## 10. EQUITY – CHANGES IN EQUITY

(NOK 1 000)	Other paid					Total
	Share capital	in capital	Funds	Net result	Dividend <sup>2)</sup>	
Equity as of 01.01.10	100 000	258 670	802 257	-	-	1 160 927
Net result	-	-	-	280 426	-	280 426
Application of net result	-	-	140 126	(280 426)	140 300	(140 300)
Transferred direct to equity <sup>1)</sup>	-	-	3 533	-	-	3 533
<b>Equity as of 31.12.10</b>	<b>100 000</b>	<b>258 670</b>	<b>945 916</b>	<b>-</b>	<b>-</b>	<b>1 304 586</b>

<sup>1)</sup> Exchange rate adjustments from translation of foreign subsidiaries and consolidation adjustments.

<sup>2)</sup> Board of Directors proposal to the General Meeting of shareholders.

## 11. PENSION COMMITMENTS – PENSION COSTS

The companies with pension arrangements, which provide the employees with the right to determined future pension payments, are included in the calculations of the pension liability (defined benefit plans). The pension liability in December 2010 was NOK 116.8 million, which is derived from the companies in Norway, Sweden and Germany. In addition, contribution plans exist in the other countries where we operate.

The total periodic pension costs for both defined benefit plans and contribution plans are included in personnel costs in the profit and loss statement.

The different pension plans are structured and based upon the laws and regulation in the respective countries.

### Pension costs

(NOK 1 000)	2010	2009
Service costs	35 765	29 006
Amortization of net actuarial losses (gains)	17 500	1 202
Interest costs	13 125	14 461
Expected return on plan assets	(10 753)	(9 608)
Pension cost related to defined contribution plans	19 417	22 143
Settlement pension plans	(8 599)	-
<b>Net periodic pension costs</b>	<b>66 455</b>	<b>57 204</b>

### Pension liability

(NOK 1 000)	2010	2009
Defined benefit obligation incl. social security tax	361 171	363 097
- Fair value of plan assets	205 319	185 319
Net pension obligation	155 852	177 778
Items not recorded in the profit and loss:		
Unrecognized net actuarial loss (gain)	(39 031)	(72 352)
<b>Net amount recognized in the balance sheet</b>	<b>116 821</b>	<b>105 426</b>

## 12. TAX CALCULATIONS

### 12.1. This year's tax cost

(NOK 1 000)	2010
Tax payable	145 464
Changes in temporary differences	(5 032)
<b>This year's tax cost</b>	<b>140 432</b>

Tax payable in the balance sheet is reduced by prepaid taxes. Net amount recognized is NOK 64.7 million.

### 12.2. Calculations of deferred tax/deferred tax asset

The deferred tax liabilities/tax asset has been calculated on the basis of the temporary differences existing at the end of the accounting year between accounting values and taxation values. The specification below shows the temporary differences and the calculation of the deferred tax liabilities/tax advantages as at the end of the accounting year.

### 12.3. Deferred tax liability (-deferred tax asset)

(NOK 1 000)	2010	2009
Differences in:		
Accounts receivable	(280)	-
Stock-in-trade	13 904	42 817
Guarantee liabilities	(97 637)	(89 822)
Other reservations pursuant to generally accepted accounting principles	(11 378)	(3 257)
<b>Total short-term items</b>	<b>(95 392)</b>	<b>(50 262)</b>
Fixed assets	15 383	15 511
<b>Total long-term items</b>	<b>15 383</b>	<b>15 511</b>
Tax losses carried forward	(61 508)	(83 150)
Adjustments for consolidation items	(17 259)	(19 160)
<b>Basis for calculation of deferred tax liabilities</b>	<b>(158 776)</b>	<b>(137 060)</b>
<b>Deferred tax liability (-deferred tax asset)</b>	<b>(43 845)</b>	<b>(45 184)</b>
<b>Classified as deferred tax asset</b>	<b>43 922</b>	<b>45 314</b>
<b>Deferred tax liability in the balance sheet</b>	<b>76</b>	<b>130</b>

Deferred tax in the balance sheet refers to business combinations.

#### 12.4. Deferred tax advantage

Pursuant to the accounting standard for the calculation of taxes, any future realizable deferred tax assets shall, as rule, be offset against deferred tax liabilities. Deferred tax assets related to pensions cannot be offset and are consequently entered in the balance sheet.

(NOK 1 000)	2010	2009
Pension liabilities	28 047	28 462
<b>Basis for calculation of deferred tax assets</b>	<b>28 047</b>	<b>28 462</b>
<b>Deferred tax asset</b>	<b>7 844</b>	<b>7 950</b>
<b>Deferred tax asset from other items (ref. 12.3)</b>	<b>43 922</b>	<b>45 314</b>
<b>Deferred tax asset in the balance sheet</b>	<b>51 766</b>	<b>53 264</b>

#### 13. INTEREST BEARING LOANS AND GUARANTEES

(NOK 1 000)	2010	2009
Mortgage loan	-	20 771
Loan from credit institutions	298 575	474 391
<b>Total interest bearing loans</b>	<b>298 575</b>	<b>495 162</b>

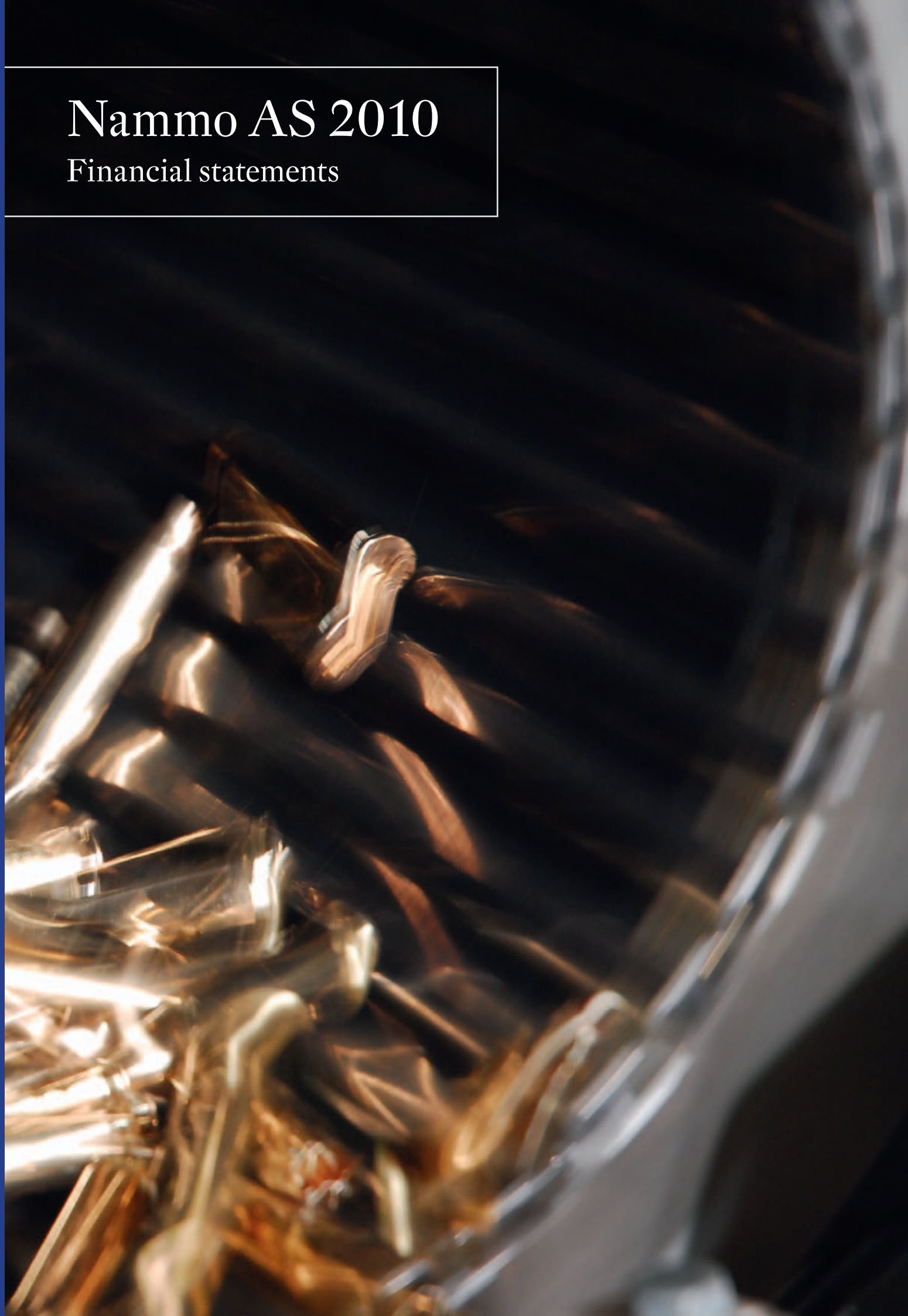
Loan from credit institutions is mainly a credit facility of NOK 600 million which was set up in 2007. As of 2009, the facility is reduced by NOK 75 million yearly. As of the end of 2010, the facility is at NOK 450 million. The facility will terminate at the end of March 2014.

In addition, Nammo has unused cash credits totaling NOK 207.7 million.

Guarantees not recognized in the balance sheet as of 31.12.2010 total NOK 160.3 million.

# Nammo AS 2010

Financial statements



# Income statement

## Nammo AS

(NOK 1 000)	Notes	2010	2009
<b>Operating income</b>		<b>47 071</b>	42 103
<b>Operating expenses</b>			
Payroll expenses	1	18 429	21 268
Depreciation of tangible and intangible fixed assets	3	547	413
Other operating expenses		42 649	33 894
<b>Total operating expenses</b>		<b>61 625</b>	55 575
<b>Operating profit</b>		<b>(14 554)</b>	(13 472)
<b>Financial income and expenses</b>			
Received group contribution		100 000	100 000
Interest income	2	13 598	11 560
Other financial income	2	152 688	168 210
Interest expense	2	(2 942)	(4 468)
Other financial expenses	2	(18)	(10 388)
<b>Net financial income (expenses)</b>		<b>263 326</b>	264 914
<b>Ordinary result before tax</b>		<b>248 772</b>	251 442
<b>Taxes on ordinary result</b>	10	<b>(31 691)</b>	(24 878)
<b>Profit (loss) for the year</b>		<b>217 081</b>	226 564
<b>The Board's proposal for allocation of the profit</b>			
Dividend		140 300	133 800
Other equity		76 781	92 764
<b>Total</b>		<b>217 081</b>	226 564



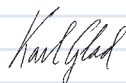
# Balance sheet

## Nammo AS

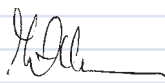
(NOK 1 000)	Notes	As of 31.12.10	As of 31.12.09	As of 31.12.08
<b>Assets</b>				
<b>Fixed assets</b>				
<b>Intangible assets</b>				
Deferred tax asset	10	448	1 445	2 211
<b>Total intangible assets</b>		<b>448</b>	<b>1 445</b>	<b>2 211</b>
<b>Tangible assets</b>				
Buildings	3	619	788	-
Fixtures and fittings, office machines, etc.	3	1 124	666	648
Fixed assets under construction	3	4 059	4 059	2 309
<b>Total tangible assets</b>		<b>5 802</b>	<b>5 513</b>	<b>2 957</b>
<b>Financial assets</b>				
Investments in subsidiaries	4	594 333	588 958	587 195
Investments in other shares and participations	4	95	4 033	4 033
Loans to group companies		410 703	418 474	489 274
Other receivables		2 797	3 044	3 346
<b>Total financial assets</b>		<b>1 007 928</b>	<b>1 014 509</b>	<b>1 083 848</b>
<b>Total fixed assets</b>		<b>1 014 178</b>	<b>1 021 467</b>	<b>1 089 016</b>
<b>Current assets</b>				
<b>Receivables</b>				
Accounts receivables	5	1 324	2 157	8 753
Receivables from group companies		101 431	79 293	110 964
Receivables related to group contributions		100 000	100 000	100 000
Other receivables		5 208	6 585	2 178
<b>Total receivables</b>		<b>207 963</b>	<b>188 035</b>	<b>221 895</b>
<b>Cash and cash equivalents</b>	6	<b>449 669</b>	<b>231 502</b>	<b>290 437</b>
<b>Total current assets</b>		<b>657 632</b>	<b>419 537</b>	<b>512 332</b>
<b>Total assets</b>		<b>1 671 810</b>	<b>1 441 004</b>	<b>1 601 348</b>

(NOK 1 000)	Notes	As of 31.12.10	As of 31.12.09	As of 31.12.08
<b>Shareholders' equity and liabilities</b>				
<b>Equity</b>				
Subscribed share capital	7, 8	100 000	100 000	100 000
Share premium reserve	8	258 670	258 670	258 670
<b>Total paid in capital</b>		<b>358 670</b>	<b>358 670</b>	<b>358 670</b>
Other equity	8	240 844	164 064	71 205
<b>Total earned equity</b>		<b>240 844</b>	<b>164 064</b>	<b>71 205</b>
<b>Total equity</b>		<b>599 514</b>	<b>522 734</b>	<b>429 875</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Pension liabilities	9	1 177	4 907	7 750
<b>Total non-current liabilities</b>		<b>1 177</b>	<b>4 907</b>	<b>7 750</b>
<b>Other non-current liabilities</b>				
Liabilities to financial institutions	11	295 832	474 391	568 258
<b>Total other non-current liabilities</b>		<b>295 832</b>	<b>474 391</b>	<b>568 258</b>
<b>Current liabilities</b>				
Prepayments from customers		30 389	20 414	49 023
Accounts payable		3 957	1 797	4 034
Payables to group companies		560 563	249 395	369 884
Taxes payable	10	30 693	24 113	32 096
Public duties payable		3 674	3 428	2 391
Dividend payable to shareholders		140 300	133 800	133 000
Other current liabilities		5 711	6 025	5 037
<b>Total current liabilities</b>		<b>775 287</b>	<b>438 972</b>	<b>595 465</b>
<b>Total liabilities</b>		<b>1 072 296</b>	<b>918 270</b>	<b>1 171 473</b>
<b>Total shareholders equity and liabilities</b>		<b>1 671 810</b>	<b>1 441 004</b>	<b>1 601 348</b>

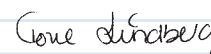
Gardermoen, 23 March 2011



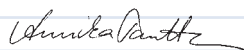
Karl Glad, Vice Chairman



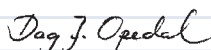
Heikki Allonen, Chairman of the Board



Tone Lindberg, Board Member



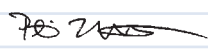
Annika Tanttinen, Board Member



Dag J. Opedal, Board Member



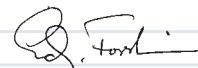
Kai Nurmio, Board Member



Petri Kontola, Board Member



Einar Linnerud, Board Member



Edgar Fosshem, President & CEO

# Cash flow

## Nammo AS

(NOK 1 000)	2010	2009	2008
<b>Cash flow from operational activities</b>			
Result before tax and group contribution	248 772	151 442	127 919
Tax payments	(24 113)	(32 096)	(23 070)
Ordinary depreciation	547	413	331
Changes in accounts receivable	(21 305)	38 267	(5 670)
Changes in accounts payable	43 315	3 595	(2 349)
Pension cost less paid pension premium	(3 622)	(2 842)	1 955
Changes in loans to group and joint control companies	(4 261)	(13 770)	(9 659)
Changes in other depositions	165 036	(161 920)	205 837
<b>Net cash flow from operational activities (a)</b>	<b>404 369</b>	<b>(16 911)</b>	<b>295 294</b>
<b>Cash flow from investment activities</b>			
Payments from sold fixed assets	530	-	-
Investments in fixed assets	(1 018)	(2 969)	(2 309)
Investments in other assets	(3 200)	(1 763)	-
<b>Net cash flow from investment activities (b)</b>	<b>(3 688)</b>	<b>(4 732)</b>	<b>(2 309)</b>
<b>Cash flow from financing activities</b>			
Payments from new bank loans	-	-	149 213
Installments on long-term loans	(170 203)	-	(183 081)
Net payment of interest	21 489	(4 292)	(27 282)
Received group contribution	100 000	100 000	90 000
Paid dividend	(133 800)	(133 000)	(129 600)
<b>Net cash flow from financing activities (c)</b>	<b>(182 514)</b>	<b>(37 292)</b>	<b>(100 750)</b>
Net changes in cash and bank accounts (a+b+c)	218 167	(58 935)	192 235
Cash and bank accounts as of 01.01.	231 502	290 437	98 202
<b>Cash and bank accounts as of 31.12.</b>	<b>449 669</b>	<b>231 502</b>	<b>290 437</b>

Total unused cash credits as of December 2010 is NOK 361.9 million. See note 11.

## Index to the accounting notes

Accounting policies Nammo AS	5	Accounts receivable	10	Tax
1 Salaries and social cost	6	Cash reserve	11	Interest bearing loans and guarantees
2 Financial items	7	Share capital	12	Credit facility
3 Fixed and intangible assets	8	Equity		
4 Shares in other companies	9	Pension commitments – pension costs		

# Accounting policies Nammo AS

### General

Nammo AS is a public limited company (Aksjeselskap). The Nammo AS headquarters are located in Raufoss, Norway.

The financial statements for Nammo AS have been prepared in accordance with the Norwegian Accounting Act and the Norwegian General Accepted Accounting Principles.

Nammo AS provides financing to most of the subsidiary companies in the Nammo Group.

### Foreign currencies

Realized and unrealized gains and losses on transactions, assets and liabilities denominated in a currency other than the functional currency (NOK) of Nammo AS that do not qualify for hedge accounting treatment are included in net income.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for products provided in the normal course of business, net of discounts and sales related taxes. Revenue from services is recognized as the services are rendered.

### Dividends received

Dividends from investments are recognized in the income statement when Nammo AS has a right to receive the dividends.

### Interest income

Interest income is recognized in the income statement as it is accrued.

### Government grants

Government grants are recognized in the consolidated financial statement when the Nammo AS has reasonable assurance that it will receive them and comply with conditions attached to them. Government grants that compensate Nammo AS for expenses are recognized in the income statement as the expenses are incurred. Government grants that compensate Nammo AS for the cost of an asset are recognized as a reduction to the total investment, and thus also to the future depreciations of the asset.

### Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements, and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences, to the extent of probability that taxable profits will be available against which those deductible temporary differences can be utilized.

Current and deferred tax are recognized as expense or income in the income statement, except when they relate to items recognized directly to equity, in which case the tax is also recognized directly in equity.

In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of Nammo's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

### Intangible assets

Separately acquired intangible assets are recognized at cost at the time of acquisition. As part of business combinations, intangible assets acquired as a result of contracts or legal rights, or rights that can be separated from the acquired entity, are recognized at fair value.

Research costs are normally expensed as they incur.

Intangible assets are amortized on a straight-line basis over their expected useful life.

### Property, plant and equipment

Property, plant and equipment are measured at historic cost less accumulated depreciation and any impairment loss.

Expenses in connection with ordinary maintenance and repairs are recognized in the income statement as they are incurred. Expenses incurred in connection with major replacements and renewals are capitalized and depreciated on a systematic basis.

Property, plant and equipment are depreciated on a straight-line basis over their expected useful life.

Gain or loss due to sale or retirement of property, plant and equipment is calculated as the difference between sales proceeds and carrying value, and is recognized in the income statement.

#### Subsidiaries and associated companies

Shares in subsidiaries and associated companies are recognized according to the historic cost method.

#### Impairment of non-current assets other than goodwill

Nammo AS assesses the carrying amount of tangible assets and identifiable intangible assets annually, or more frequently if events or changes in circumstances indicate that such carrying amounts may not be recoverable. Factors considered to be material which trigger an impairment test include:

- significant underperformance relative to historical or projected future results, or
- significant changes in the manner of the company's use of the assets or the strategy for the overall business, or
- significant negative industry or economic trends.

The recoverable amount of an asset or cash-generating unit is the higher of its fair value less cost to sell and value in use. When it is determined that the carrying amount of tangible assets and identifiable intangible assets may not be recoverable based upon the existence of one or more of the above indicators of impairment, any impairment is measured based on discounted projected cash flows. An impairment loss is recognized to the extent that the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Previously recognized impairment losses are reversed if the assumptions for impairment are no longer present.

#### Defined benefit plans

The net obligation in respect to defined benefit plans are calculated separately for each plan. The amount is an estimation of future benefits that the employees have earned in return for their service in current and prior periods. The benefit is discounted to determine its present value, and the fair value of the plan assets, and then unvested past service cost is deducted. The discount rate is based on the risk free rate (interest rate on long-term government bonds) and the recommendation from The Norwegian Accounting Standards Board (Norsk Regnskapsstiftelse), plus a risk premium. Qualified actuaries perform the calculations.

The actuarial gains or losses are recognized using a corridor. The corridor is defined as 10% of the highest of the Defined Benefit Obligation (DBO) and total plan assets. The net actuarial gain or loss exceeding the corridor is amortized in the profit and loss over the estimated remaining period of service from the members in the plan.

#### Cash and cash equivalents

Cash and cash equivalents include cash and bank deposits.

Trade receivables and other short-term receivables  
Trade receivables and other short-term receivables are recognized at the lower of the transaction amount (historic cost) and the fair value at the time of reporting.

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

#### Impairment of financial assets

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

#### Interest-bearing borrowings

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

#### Financial instruments

Nammo AS uses financial instruments to hedge exposure against foreign exchange risk in operating, financing and investment activities. These are mainly forward currency contracts to hedge risk of currency fluctuations (cash flow hedges). The effect of the financial instruments used as hedging instruments in a cash flow hedge are recognized in the profit and loss for the same period as the hedged transaction is recognized (hedge accounting).



# Notes to the accounts

## Nammo AS

### 1. SALARIES AND SOCIAL COST

(NOK 1 000)	2010	2009
Salaries	17 896	18 507
Employment taxes	2 746	2 839
Pension costs	(2 653)	(607)
Other social costs	440	529
<b>Total</b>	<b>18 429</b>	<b>21 268</b>

Average number of man-years	12	11
-----------------------------	----	----

#### Auditors fee

(NOK 1 000) - All numbers are presented exclusive VAT	2010
Auditors fee	367
Fees for other attestation services	170
Tax advisory services	626
Other services	53
<b>Total</b>	<b>1 216</b>

### 2. FINANCIAL ITEMS

(NOK 1 000)	2010	2009
Interest income from Group companies	10 090	11 544
Other interest income	3 508	16
<b>Total interest income</b>	<b>13 598</b>	<b>11 560</b>

Gain on exchange	11 416	-
Dividend from Group companies	141 272	168 135
Other financial income	-	75
<b>Total other financial income</b>	<b>152 688</b>	<b>168 210</b>

Other interest cost	(2 942)	(4 468)
<b>Total interest cost</b>	<b>(2 942)</b>	<b>(4 468)</b>

Loss on exchange	-	(10 365)
Other financial expenses	(18)	(23)
<b>Total other financial expenses</b>	<b>(18)</b>	<b>(10 388)</b>

### 3. FIXED AND INTANGIBLE ASSETS

(NOK 1 000)	Buildings	Fittings and office equipment	Assets under construction
Acquisition cost as of 01.01.10	844	1 614	4 059
Additions during the year	-	1 018	-
Disposals during the year	-	(974)	-
Acquisition cost as of 31.12.10	844	1 658	4 059
Accumulated depreciations	225	534	-
<b>Book value as of 31.12.10</b>	<b>619</b>	<b>1 124</b>	<b>4 059</b>
Ordinary depreciations for the year	169	378	-
Annual leasing cost on assets not in the balance sheet	293	72	-
Economic life time (years)	5 years	3 - 10 years	
Depreciation plan	linear	linear	

### 4. SHARES IN OTHER COMPANIES

(NOK 1 000)	Company's share capital	Number of shares owned	Nominal value	Booked value NOK	Ownership
Group companies:					
Nammo Raufoss AS, Raufoss	NOK 150 000 000	150 000	150 000	175 000	100%
Nammo Sweden AB, Lindsberg	SEK 10 000 000	100 000	10 000	59 961	100%
Nammo Lapua Oy, Lapua	EUR 4 793 000	285 000	-	105 006	100%
Nammo Buck GmbH, Pinnow	EUR 26 000	1	26	7 246	100%
Nammo Incorporated, Virginia	USD 38 380 000	-	-	239 982	100%
Nammo NAD AS, Løkken Verk	NOK 4 782 000	23 910	2 391	7 138	90%
<b>Total</b>				<b>594 333</b>	
Other shares and participations:					
Toten Golf AS, Reinsvoll				95	
<b>Total</b>				<b>95</b>	

### 5. ACCOUNTS RECEIVABLE

(NOK 1 000)	2010	2009
<b>Accounts receivable</b>	<b>1 324</b>	<b>2 157</b>

Accounts receivable are booked at nominal value. There has been no loss on accounts receivable in 2010.

## 6. CASH RESERVE

This amount includes bank balances of Group companies that participate in the international cash pool of NOK 509.4 million. See note 12.

## 7. SHARE CAPITAL

As of 31.12.2010 Nammo AS's share capital is NOK 100 million, split on 1 000 000 shares of NOK 100 each.

### Nammo AS shareholders as of 31.12.2010

	Number of shareholders	Number of shares	Ownership
The Norwegian State, represented by Ministry of Trade and Industry		500 000	50%
Patria Holding Oyj, Finland		500 000	50%
<b>Total</b>	<b>2</b>	<b>1 000 000</b>	<b>100%</b>

## 8. EQUITY

(NOK 1 000)	Share			Net result	Total
	Share capital	premium reserve	Other equity		
Equity as of 01.01.10	100 000	258 670	164 064	-	522 734
Net result	-	-	-	217 081	217 081
Allocation of the net result <sup>*1</sup>	-	-	217 081	(217 081)	-
Dividend <sup>1</sup>	-	-	(140 300)	-	(140 300)
<b>Equity as of 31.12.10</b>	<b>100 000</b>	<b>258 670</b>	<b>240 844</b>	<b>-</b>	<b>599 514</b>

<sup>\*1</sup> Board of Directors proposal for the General Meeting

## 9. PENSION LIABILITIES – PENSION COSTS

The pension liabilities are calculated based on the Norwegian accounting standard. Nammo AS has established a collective pension plan according to Norwegian tax law and the law for pensions for all employees (Lov om foretakspensjon). The plan includes 12 active members. Nammo AS is a member of the LO/NHO AFP-plan. The old plan was closed during the year and the corresponding pension liability deriving from the plan is de-recognized in the balance sheet. The pension liability in the new AFP-plan is not possible to estimate reliably at year's end; therefore, this pension liability is not recognized in the balance sheet.

The net periodic pension cost is based on this year's actuarial calculations of earning of pension rights, and is included in payroll expenses in the profit and loss.

The actuarial calculation was performed in December 2010 with the following assumptions:

Yield from pension funds	5.00%
Interest rate used to discount future cash flows	4.20%
Annual salary increase	4.00%
Annual increase in G	3.75%
Annual change in pension	0.90%

Deferred tax asset is NOK 330 000. See note 10.

<b>Pension cost</b>		
(NOK 1 000)	2010	2009
Service costs	978	1 333
Settlement AFP-plan and adjustment 2009	(3 788)	-
Amortization of net actuarial losses (gains)	43	(2 197)
Interest costs	633	612
Expected return on plan assets	(519)	(355)
<b>Net pension costs</b>	<b>(2 653)</b>	<b>(607)</b>
<b>Pension liabilities</b>		
(NOK 1 000)	2010	2009
Defined benefit obligation incl. payroll tax	12 758	15 565
- Fair value of plan assets	9 745	9 002
<b>Net pension liability</b>	<b>3 013</b>	<b>6 563</b>
Items not recognized in the profit and loss:		
Unrecognized net actuarial loss (gain)	(1 836)	(1 656)
<b>Net amount recognized in the balance sheet</b>	<b>1 177</b>	<b>4 907</b>

## 10. TAX

### 10.1. This year's tax cost

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

(NOK 1 000)	2010	2009
Net income before tax	248 772	251 442
Permanent differences	(135 590)	(162 591)
Changes in temporary differences	(3 563)	(2 734)
<b>Basis for the tax calculation</b>	<b>109 619</b>	<b>86 117</b>

Specification of the tax cost in the profit and loss:

Tax payable	30 693	24 113
Changes in temporary differences	998	765
<b>This year's tax cost</b>	<b>31 691</b>	<b>24 878</b>

### 10.2. Deferred taxes

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

<b>Deferred tax calculation</b>		
(NOK 1 000)	31.12.10	31.12.09
Fixed assets	(422)	(254)
<b>Deferred tax in the balance sheet at 28%</b>	<b>(118)</b>	<b>(71)</b>

Negative deferred tax is classified as deferred tax asset in the balance sheet

### 10.3. Deferred tax asset

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

(NOK 1 000)	31.12.10	31.12.09
Pension liability	1 177	4 907
<b>Deferred tax asset (28%)</b>	<b>330</b>	<b>1 374</b>
Deferred tax asset, ref note 10.2	118	71
<b>Deferred tax asset in the balance sheet</b>	<b>448</b>	<b>1 445</b>

## 11. INTEREST BEARING LOANS AND GUARANTEES

	2010	2009
<b>Loans from banks</b>	<b>295 832</b>	<b>474 391</b>

Loans from credit institutions are mainly a credit facility of NOK 600 million, which was set up in 2007. The facility is from 2009, reduced by NOK 75 million annually, and was then at NOK 450 million in December 2010. The facility will terminate at the end of March 2014.

In addition, Nammo AS has unused cash credits of NOK 207.7 million.

Guarantees not in the balance sheet as of 31.12.2010 are NOK 158.9 million.

## 12. CREDIT FACILITY

Nammo AS has established an international cash pool together with the following group companies:

In Finland: Nammo Lapua Oy.

In Germany: Lapua GmbH, Nammo Buck GmbH and Nammo Germany GmbH.

In Norway: Nammo AS, Nammo Bakelittfabrikken AS and Nammo Raufoss AS.

In Sweden: Hansson Pyrotech AB, Nammo Demil Division AB, Nammo LIAB AB, Nammo Sweden AB and Nammo Vanäsverken AB.

In USA: Nammo Composite Solutions LLC., Nammo Inc. and Nammo Talley Inc.

Nammo AS subsidiaries' balance on the overdraft facility is included in payables to group companies.

This amounts to NOK 509.4 million. See note 6.



# Auditors report for 2010



KPMG AS  
P.O. Box 214  
Torggata 22  
N-2302 Hamar

Telephone +47 04063  
Fax +47 62 59 87 60  
Internet www.kpmg.no  
Enterprise 835 174 627 MVA

To the Annual Shareholders' meeting in Nammo AS

## INDEPENDENT AUDITOR'S REPORT

### Report on the Financial Statements

We have audited the accompanying financial statements of Nammo AS, which comprise the financial statements of the parent company Nammo AS, showing a profit of NOK 217 081 000, and the consolidated financial statements of NAMMO AS, showing a profit of NOK 280 426 000. The parent company's and the consolidated financial statements comprise balance sheet as at 31 December, 2010, and the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *The Board of Directors and the Managing Director's Responsibility for the Financial Statements*

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and generally accepted accounting standards and practices in Norway, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the parent company Nammo AS and of Nammo AS and its subsidiaries as at 31 December, 2010, and of their financial performance and cash flows for the year then ended in accordance with the

#### Offices in:

Oslo	Hamar	Sandefjord
Ålesund	Haugesund	Sandnessjøen
Arendal	Kristiansand	Stavanger
Bergen	Larvik	Stord
Bodø	Molde	Trondheim
Elverum	Molde	Trondheim
Finnnes	Narvik	Tønsberg
Grinestad	Roros	Ålesund

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

Statsautoriserte revisorer - medlemmer av Den norske Revisorforening



*Independent auditor's report*  
*Nammo AS*

Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

**Report on Other Legal and Regulatory Requirements**

*Opinion on the Board of Directors' report*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

*Opinion on Accounting Registration and Documentation*

Based on our audit of the financial statements as described above, and control procedures, we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Hamar, 23 March 2011  
KPMG AS

Thore Kleppen  
*State Authorised Auditor*

[Translation has been made for information purposes only]

# UN Global Compact

## Nammo supports the ten principles of the UN Global Compact.

The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labor, environment and anticorruption.

As a natural part of our business, Nammo has developed and implemented values and policies

for the environment, human rights, labor standards and ethics. Our code of conduct is intended to assist employees when encountering ethical dilemmas such as bribery, facilitation payments and gift giving. It is important that we act responsibly no matter where we do business. We strive to develop relationships with suppliers to increase awareness of sustainability and responsible behavior.

The UN Global Compact initiative is global and local; private and public; voluntary, yet accountable for our business. Our commitment is based on a greater awareness of corporate social responsibility; guided by our values of Dedication, Precision and Care; and in the spirit of the ten principles:

<b>Human rights</b>	2, 10, 14-18, 22, 30
<i>Principle 1:</i>	Businesses should support and respect the protection of internationally proclaimed human rights; and
<i>Principle 2:</i>	make sure that they are not complicit in human rights abuses.
<b>Labor standards</b>	2, 10, 14-18, 22, 29-30
<i>Principle 3:</i>	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
<i>Principle 4:</i>	the elimination of all forms of forced and compulsory labor;
<i>Principle 5:</i>	the effective abolition of child labor; and
<i>Principle 6:</i>	the elimination of discrimination in respect of employment and occupation.
<b>Environment</b>	2, 10-13, 22, 29
<i>Principle 7:</i>	Businesses should support a precautionary approach to environmental challenges;
<i>Principle 8:</i>	undertake initiatives to promote greater environmental responsibility; and
<i>Principle 9:</i>	encourage the development and diffusion of environmentally friendly technologies.
<b>Anti-corruption</b>	2, 10, 19-21, 22, 29
<i>Principle 10:</i>	Businesses should work against corruption in all its forms, including extortion and bribery.



# GRI 2010

This is the second year that Nammo is reporting according to the Global Reporting Initiative (GRI) standard for sustainable reporting. GRI is a network-based organization that has pioneered the development of the most widely used sustainable reporting framework.

This framework sets out the principles and indicators that organizations can use to measure and report their economic, environmental and social performance. As in 2009, Nammo is self-declaring, reporting at the B-level.

GRI element/ indicator		Comments and page references
<b>Strategy and analysis</b>		
1.1	Statement from the most senior decision maker of the organization about the relevance of sustainability to the organization and its strategy.	2
1.2	Description of key impacts, risks and opportunities.	2, 5, 28-29
<b>Organizational profile</b>		
2.1	Name of the organization.	Inside cover
2.2	Primary brands, products and/or services.	Inside cover, 3, 5-9, 26
2.3	Operational structure of the organization, including main Divisions, operating companies, subsidiaries and joint ventures.	4-9, 25
2.4	Location of organization's headquarters	Inside cover, 66
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	Inside cover, 4-9, 24, 66
2.6	Nature of ownership and legal form.	Inside cover, 22
2.7	Markets served.	Inside cover, 5-9, 26
2.8	Scale of the reporting organization.	Inside cover, 4-9
2.9	Significant changes in size, structure or ownership.	26
2.10	Awards received in the reporting period.	3, 9, 21
<b>Report parameters</b>		
<b>Report profile</b>		
3.1	Reporting period.	2010
3.2	Date of most recent previous report.	Nammo Annual Report 2009
3.3	Reporting cycle.	Annual
3.4	Contact point for questions regarding the report or its content.	info@nammo.com, SVP Communication and Chief Financial Office
<b>Report scope and boundary</b>		
3.5	Process for defining report content.	10, 37-38
3.6	Boundary of the report.	10, 37-38
3.7	State any specific limitations on the scope or boundary of the report.	10, 37-38

GRI element/ indicator		Comments and page references
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations and other entities that can significantly affect comparability from period to period and/or between organizations.	10, 37-38
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the indicators and other information in the report.	10, 37-38
3.10	Explanation of the effect of any re-statements of information provided in earlier report, and the reasons for such re-statement.	No significant restatements
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report.	No significant changes
	<b>GRI content index</b>	
3.12	Table identifying the location of the standard disclosures in the report.	61-65.
	<b>Assurance</b>	
3.13	Policy and current practice with regard to seeking external assurance for the report.	58-59, External assurance not practiced for the CSR report
	<b>Governance, commitments, and engagement</b>	
	<b>Governance</b>	
4.1	Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight.	22-23, 31
4.2	Indicate whether the chair of the highest governance body is also an executive officer.	22-23
4.3	For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members.	22-23, 31
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	22-23, 31
4.5	Linkage between compensation for members of the highest governance body, senior managers and executives and the organization's performance.	22-23, 40
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	22-23
4.7	Process for determining the composition, qualifications and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity.	22-23
4.8	Internally developed statements of mission or values, codes of conduct and principles relevant to economic, environmental and social performance and the status of their implementation.	22-23
4.9	Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct and principles.	22-23
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance.	22-23
	<b>Commitments to external initiatives</b>	
4.11	Explanation of whether and how the precautionary approach or principles is addressed by the organization.	11-12
4.12	Externally developed economic, environmental and social charters, principles or other initiatives to which the organization subscribes or endorses.	10, 16-17, 60-61
4.13	Memberships in associations and/or national/international advocacy organizations.	16-17
	<b>Stakeholder engagement</b>	
4.14	List of stakeholder groups engaged by the organization.	19, 26
4.15	Basis for identification and selection of stakeholders with whom to engage.	19
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	19
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting.	12, 19



GRI element/ indicator		Comments and page references
	<b>Environmental</b>	
	Disclosure on management approach	2, 10-13, 22, 29
	<b>Materials</b>	
EN1	Materials used by weight or volume.	Not reported
EN2	Percentage of materials used that are recycled input materials.	Not reported
	<b>Energy</b>	
EN3	Direct energy consumption by primary energy source.	13
EN4	Indirect energy consumption by primary source.	Not reported
	<b>Water</b>	
EN8	Total water withdrawal by source.	13
	<b>Biodiversity</b>	
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Not relevant
EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity values outside protected areas.	Not relevant
	<b>Emissions, effluents and waste</b>	
EN16	Total direct and indirect greenhouse gas emissions by weight.	Not reported
EN17	Other relevant indirect greenhouse gas emissions by weight.	Not relevant
EN19	Emissions of ozone-depleting substances by weight.	Not relevant
EN20	NOx, SOx and other significant air emissions by type and weight.	Not reported
EN21	Total water discharge by quality and destination.	Not reported
EN22	Total weight of waste by type and disposal method.	11-13
EN23	Total number and volume of significant spills.	12
	<b>Products and services</b>	
EN26	Initiatives to mitigate environmental impacts of products and services and extent of impact mitigation.	5, 12
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	Not reported
	<b>Compliance</b>	
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	No fines reported
	<b>Human rights</b>	
	Disclosure on management approach	2, 10, 14-18, 22, 30
	<b>Investment and procurement practices</b>	
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	17, 29.
	<b>Non-discrimination</b>	
HR4	Total number of incidents of discrimination and corrective actions taken.	No incidents reported
	<b>Freedom of association and collective bargaining</b>	
HR5	Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.	Not reported
	<b>Child labor</b>	
HR6	Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.	Not reported

GRI element/ indicator		Comments and page references
	<b>Forced and compulsory labor</b>	
HR7	Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.	Not reported
	<b>Assessment</b>	
HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	Not reported
	<b>Remediation</b>	
HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	No grievances reported
	<b>Labor practices and decent work</b>	
	Disclosure on management approach	2, 10, 14-18, 22, 29-30
	<b>Employment</b>	
LA1	Total workforce by employment type, employment contract and region broken down by gender.	Inside cover, 16-18
LA2	Total number and rate of new employee hires and employee turnover by age group, gender and region.	Not reported
LA15	Return to work and retention rates after parental leave, by gender.	Not reported
	<b>Labor/management relations</b>	
LA4	Percentage of employees covered by collective bargaining agreements.	Not reported
LA5	Minimum notice period(s) regarding operational changes including whether it is specified in collective agreements.	Not reported
	<b>Occupational health and safety</b>	
LA7	Rates of injuries, occupational diseases, lost days, absenteeism and number of workrelated fatalities by region and by gender.	3, 8, 14-15, 29-30
LA8	Education, training, counseling, prevention and risk-control programs in place to assist workforce members, their families or community members regarding serious diseases.	Not reported
	<b>Training and education</b>	
LA10	Average hours of training per year per employee by gender and by employee category.	15
	<b>Diversity and equal opportunities</b>	
LA13	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity.	17-18, 24, 31
	<b>Equal remuneration for women and men</b>	
LA14	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operations.	18
	<b>Society</b>	
	Disclosure on management approach	2, 10, 19-21, 22, 29
	<b>Local community</b>	
S01	Percentage of operations with implemented local community engagement, impact assessments and development programs.	Not reported
S09	Operations with significant potential or actual negative impacts on local communities.	Not reported
S010	Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities.	Not reported.
	<b>Corruption</b>	
S02	Percentage and total number of business units analyzed for risks related to corruption.	Not reported
S03	Percentage of employees trained in organization's anti-corruption policies and procedures.	Not reported
S04	Actions taken in response to incidents of corruption.	No incidents reported
	<b>Public policy</b>	
S05	Public policy positions and participation in public policy development and lobbying.	5, 19

GRI element/ indicator		Comments and page references
	<b>Anti-competitive behavior</b>	
S07 *	Total number of legal actions for anti-competitive behavior, anti-trust and monopoly practices and their outcomes.	No incidents reported
	<b>Compliance</b>	
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Nothing reported
	<b>Product responsibility</b>	
	Disclosure on management approach	2, 10, 12, 19-20, 22, 29
	<b>Customer health and safety</b>	
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	12
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	No incidents reported
	<b>Product and service labeling</b>	
PR3	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements.	21
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	No incidents reported
	<b>Marketing communications</b>	
PR6	Programs for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship.	Not reported
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes.	No incidents reported
	<b>Customer privacy</b>	
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	No incidents reported
	<b>Compliance</b>	
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	No fines reported
	<b>Economic</b>	
	Disclosure on management approach	2, 10, 22, 26-28
	<b>Economic performance</b>	
EC1	Direct economic value generated and distributed including revenues, operating costs, employee compensation, donations and other community investments, retained earnings and payments to capital providers and governments.	Inside cover, 3, 28, 47-50
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	Not reported
EC3	Coverage of the organization's defined benefit plan obligations.	43, 55-56
EC4	Significant financial assistance received from government.	3,12
	<b>Market presence</b>	
EC6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation.	Not reported
EC7	Procedures for local hiring and proportion of senior management hired from the local community at the locations of significant operation.	Not reported
	<b>Indirect economic impacts</b>	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement.	Not reported
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	Not reported

# Contact details

$$m\ddot{z} = m\dot{\theta}u + Z + mg \cos \theta$$

<b>HEAD OFFICE</b> Nammo AS  P.O. Box 142 NO-2831 Raufoss Tel: +47 61 15 36 00 Fax: +47 61 15 36 20	<b>NORWAY</b> Nammo Raufoss AS  P.O. Box 162 NO-2831 Raufoss Tel: +47 61 15 36 50 Fax: +47 61 15 36 60	<b>NORWAY</b> Nammo NAD AS  Moshaugan 6 NO-7332 Løkken Verk Tel: +47 72 49 70 80 Fax: +47 72 49 70 89
<b>NORWAY</b> Nammo Bakelittfabrikken AS  Bogstadfeltet NO-1930 Aurskog Tel: +47 63 86 59 50 Fax: +47 63 86 59 51	<b>SWEDEN</b> Nammo Sweden AB  SE-643 92 Vingåker Tel: +46 151 19500 Fax: +46 151 13475	<b>SWEDEN</b> Nammo Vingåkersverken AB  SE-643 92 Vingåker Tel: +46 151 19500 Fax: +46 151 13475
<b>SWEDEN</b> Nammo Demil Division AB  SE-643 92 Vingåker Tel: +46 151 19500 Fax: +46 151 13475	<b>SWEDEN</b> Nammo LIAB AB  Köpingsvägen 35 SE-711 23 Lindesberg Tel: +46 581 87100 Fax: +46 581 87200	<b>SWEDEN</b> Nammo Vanäsverken AB  Fabriksvägen 12 SE-546 23 Karlsborg Tel: +46 505 18100 Fax: +46 505 18155
<b>SWEDEN</b> Hansson PyroTech AB  Köpingsvägen 35 SE-711 23 Lindesberg Tel: +46 581 87250 Fax: +46 581 87251	<b>SWEDEN</b> Nammo LIAB AB Björkborn  SE-691 80 Karlskoga Tel: +46 586 83523 Fax: +46 586 83761	<b>FINLAND</b> Nammo Lapua Oy  Patruunatehtaantie 15 FI-62100 Lapua Tel: +358 10 5233 800 Fax: +358 6 431 0244
<b>FINLAND</b> Nammo Lapua Oy  Äyritie 8 D 5th floor FI-01510 Vantaa Tel: +358 10 5233 800 Fax: +358 6 4310 425	<b>FINLAND</b> Nammo Lapua Oy  Naulakatu 3 FI-33100 Tampere Tel: +358 10 5233 800 Fax: +358 6 4310 425	<b>FINLAND</b> NorDis, Nordic Distribution Oy Patruunatehtaantie 15 FI-62100 Lapua Tel: +358 10 5233 600 Fax: +358 6 431 0295
<b>FINLAND</b> Nammo Lapua Oy Vihtavuori Site  Ruutitehtaantie 80 FI-41330 Vihtavuori Tel: +358 10 5233 155 Fax: +358 14 377 9263	<b>USA</b> Nammo Inc.  2000 N 14th St. # 250 Arlington VA 22201 Tel: +1 703 524 6100 Fax: +1 703 522 2511	<b>USA</b> Nammo Talley Inc.  P.O. Box 9000 Columbus MS 39705-0015 Tel: +1 662 272 6111 Fax: +1 662 272 6139
<b>USA</b> Nammo Talley Inc.  4051 N. Higley Road Mesa AZ 85277-4299 Tel: +1 480 898 2200 Fax: +1 480 898 2358	<b>USA</b> Nammo Talley Inc.  P.O. Box 252 Davidsville PA 15928-0252 Tel: +1 814 479 4100 Fax: +1 814 479 4344	<b>USA</b> Nammo Composite Solutions, LLC  3938 South 300 West Murray UT 84107 Tel: +1 801 269 0998 Fax: +1 801 269 0780
<b>CANADA</b> Nammo Canada Inc.  112-5460 Canotek Road Ottawa, Ontario K1J 9H2 Tel: +1 613 238 3970 Fax: +1 613 238 4857	<b>GERMANY</b> Nammo Germany GmbH  Wilhelm Dümling Str 12 DE-39218 Schönebeck Tel: +49 39 28 729 102 Fax: +49 39 28 729 111	<b>GERMANY</b> Lapua GmbH  Wilhelm Dümling Str 12 DE-39218 Schönebeck Tel: +49 39 28 729 102 Fax: +49 39 28 729 111
<b>GERMANY</b> Nammo Buck GmbH Industrie- und Gewerbegebiet 1 DE-16278 Pinnow Tel: +49 33335 46 481 Fax: +49 33335 46 482	<b>GERMANY</b> ND PressTec GmbH  Rosenweg 15 DE-58239 Schwerte Tel: +49 2304 108-0 Fax: +49 2304 108 424	<b>SWITZERLAND</b> SN Technologies SA  Pré de la Fontaine, 19 CH-1217 Meyrin Tel: +41 22 989 1290 Fax: +41 22 989 1299
<b>SWITZERLAND</b> Nammo MTH SA P.O. Box 68 Rue Principal 3 CH-1987 Hérémeence Tel: +41 27 282 50 50 Fax: +41 27 282 50 54		

$$q = \dot{\theta}$$

m

Project management and writing: Markti AS, Design: Kylling Design AS, Illustration: Grimville, Photo: Stein Henningsen, Marius Mykleset, Nammo's archive Prod: Jonny Fladdy

$$m\ddot{x} = -m\dot{\theta}w + X$$