

A trusted partner

NAMMO ANNUAL REPORT 2012

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Why Nammo?

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Why Nammo?

“ Nammo, with its value-based company culture and way of doing business, is an excellent partner in our efforts to develop a strong and healthy culture in Norwegian ski jumping, where a good attitude and way of living our values is the foundation for our performance culture.

– Clas Brede Bråthen, Director Ski Jumping, Norwegian Ski Federation

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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

Nammo in brief

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

Core business

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

Customer base

As a technology driven aerospace and defense group, the majority of Nammo's business is with the national armed forces or the national defense industries in the countries where we operate. The remaining portion of the company's business is

comprised of commercial sales of services and sports and security products.

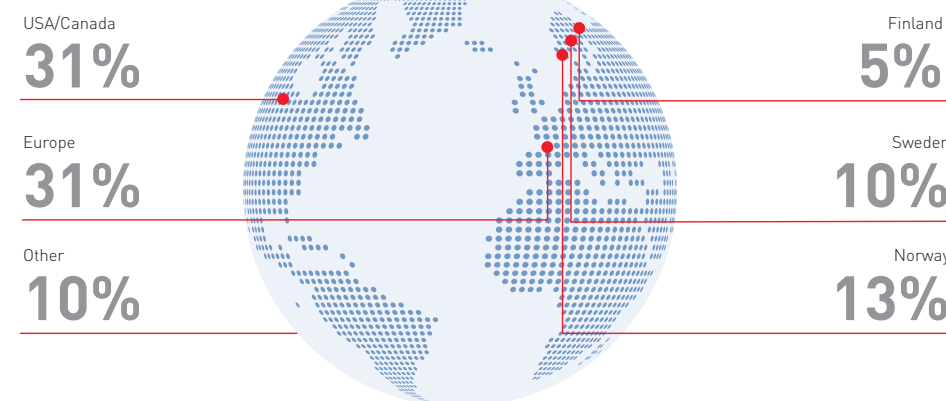
Organization

Nammo is present in eight countries with a total of 18 production sites and sales offices. The group operates through its five business units: Small Caliber, Medium & Large Caliber, Missile Products, Demil and Nammo Talley.

Ownership

The Nammo Group's shareholders are the Norwegian Ministry of Trade and Industry [50%] and the Finnish Defense and Aerospace Group, Patria Oyj [50%].

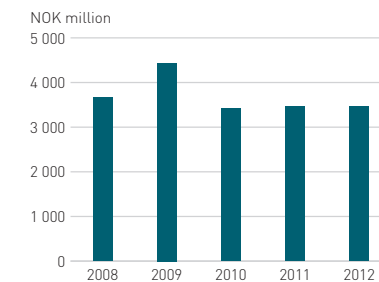
Sales per region



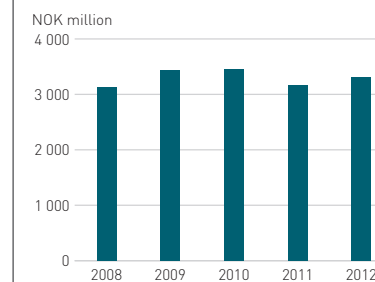
Key figures

(NOK 1 000)	2008	2009	2010	2011	2012
Order stock	3 662	4 437	3 410	3 460	3 464
Sales	3 130	3 439	3 448	3 165	3 311
Earnings before interest and tax (EBIT)	390	407	435	427	459
Net income before tax (NIBT)	375	410	433	435	464
Net profit of the year	268	268	280	290	319
Total assets	3 087	2 906	2 906	2 988	3 509
Total equity	1 171	1 161	1 305	1 480	1 603
Total liabilities	1 901	1 726	1 575	1 480	1 875
Average man years	1 785	1 872	1 940	1 876	1 922
Economic value added (EVA)	181	178	212	151	173
Return on sales (ROS)	12.0 %	11.9 %	12.6 %	13.7 %	14.0 %
Return on equity (ROE)	30.5 %	22.9 %	24.2 %	22.2 %	21.5 %

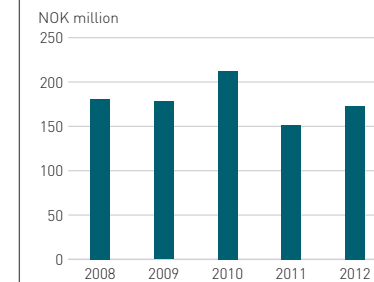
Order stock



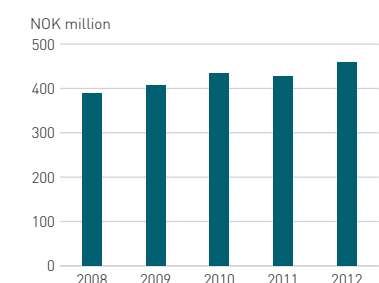
Sales



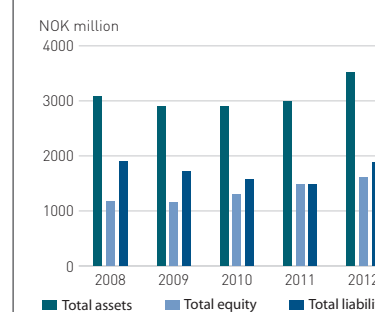
Economic value added (EVA)



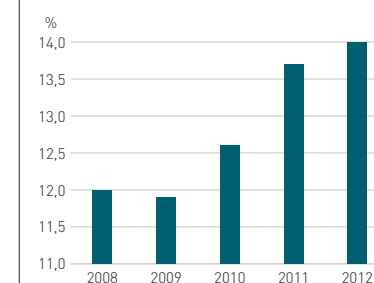
Earnings before interest and tax (EBIT)



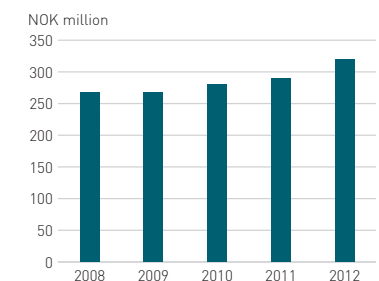
Assets, equity and liabilities



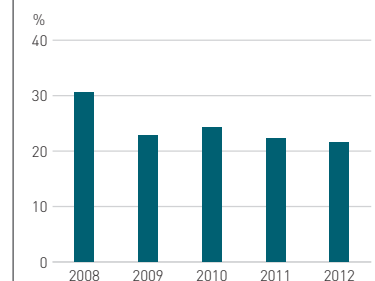
Return on sales (ROS)



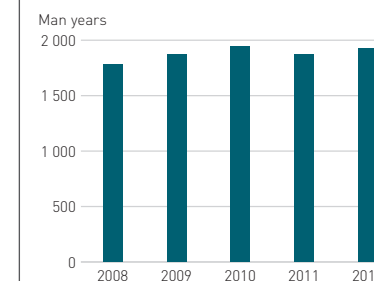
Net profit of the year



Return on equity (ROE)



Average man years



Why
Nammo?

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Important notice: If there are any diverging information between the English translation of Nammo's annual report and the Norwegian edition, the Norwegian edition will be the pre-vailing and legal version.

Exploit and explore



We started 2012 with high goals and the ambition to continue the positive development of our company, and I am proud to report that we achieved very good results.

Turnover was up 4.6 percent and the net income before tax was an all-time high at NOK 460 million, giving 14 percent ROS (Return on Sales). I can say with great satisfaction that all of our divisions succeeded in their different market areas and made very positive contributions, as they all improved productivity and results.

I am also pleased to report that we have secured attractive long-term contracts in a market that shows clear signs of slowing down. We are well positioned for the future.

The “One Nammo” project

continuous to be a focus area.

Introduced last year, the initiative is all about taking out synergies and cooperating across divisions, borders, cultures and functional activities. In short, excel at what you do best and improve where you can: exploit and explore! We see that the attitude of our employees continues to mature – that they are more and more active in finding synergies across the divisions. It is all about the orchestration of exploitation and exploration. In other words, there is a lot to learn from the past, but we always have to be innovative, with respect to both products and the way we do business. We are also increasing productivity across the group, and we strive every day to make our deliveries according to plan, in full, on time, every time.

Nammo is a major player

in the ammunition and rocket motor industry, an industry that continues to find itself in a challenging market, where we must be prepared for structural changes. On the customer side, we see increased military cooperation between the European nations, with regard to operations, purchasing, development projects and maintenance. I am convinced that we will see more consolidation in the near future. Nammo is well positioned and will continue its growth activities, both organically and through acquisitions, first and foremost internationally. Nammo is and will continue to be a proud supplier of high-end niche products, serving the most demanding customers, first and foremost our military customers, but also our industrial partners.

Corporate social responsibility

remains a focus area. We have structured our CSR activities around three main areas: people, society and the environment. Through our growing focus on CSR, we are steadily increasing our activities, our communication and our reporting. We see that, through a focused approach, CSR is gradually becoming more and more integrated into our business approach. We have completed the e-learning ethics course for all employees this year and are about to enter new phases in this area for the coming years. We are signed into initiatives like the UN Global Compact and follow the GRI reporting within CSR, and we intend and hope that we shall continue to satisfy what is expected for the transparency of our business.

Securing the future,

doing it the Nammo way and living the values: Dedication, Precision, Care. This is a joint effort, trusting, valuing and challenging all of our employees, being good together and serving the customers in a way that makes them always want to return. This has become an integral part of our leadership, our cultural heritage, how we work and how we behave. I am very pleased to see that our experience has led to an honest and strong company culture.

I am pleased and grateful for all the efforts of our employees and I thank all our customers, partners and suppliers for contributing to making 2012 a great year for Nammo.

Edgar Fossheim, President & CEO

Highlights 2012

Business

Nammo's ammunition business experienced several important milestones and highlights throughout the year, such as:

- The Norwegian Armed Forces selected Nammo as the main supplier of lead-free small arms ammunition, a contract worth half a billion NOK, plus options.
- The new generation aircraft ammunition, APEX, completed the development phase and is now in the qualification phase. Preparation for an FCT (Foreign Comparative Test) program with the US is being made.
- Nammo was selected for a contract on the Artillery Ammunition Project in cooperation with the Norwegian Armed Forces.
- Nammo signed a 5 year contract with the Norwegian Armed Forces for deliveries of plastic training ammunition.
- New multi-year IDIQ contract for 40 mm air burst.

Within Rocket Motors several important achievements in 2012 are summarized as follows:

- Nammo rolled out the 1st AMRAAM Rocket Motor to Raytheon in June 2012. New contracts have been awarded by Raytheon securing considerable AMRAAM rocket motor production the coming years.
- New contracts with Raytheon for TOW rocket motor cases and launch motors.
- Andøya Rocket Range (ARR), Nammo Raufoss and Norwegian Defence Research Establishment (FFI) have started a feasibility study of launching mini-satellites from Andøya in Northern Norway.

In the Shoulder launched systems business the main highlights are related to:

- Multi-year contract with Finland on the new family of M72.
- Continued deliveries of M72 to important users such as Canada, Australia and the USMC.

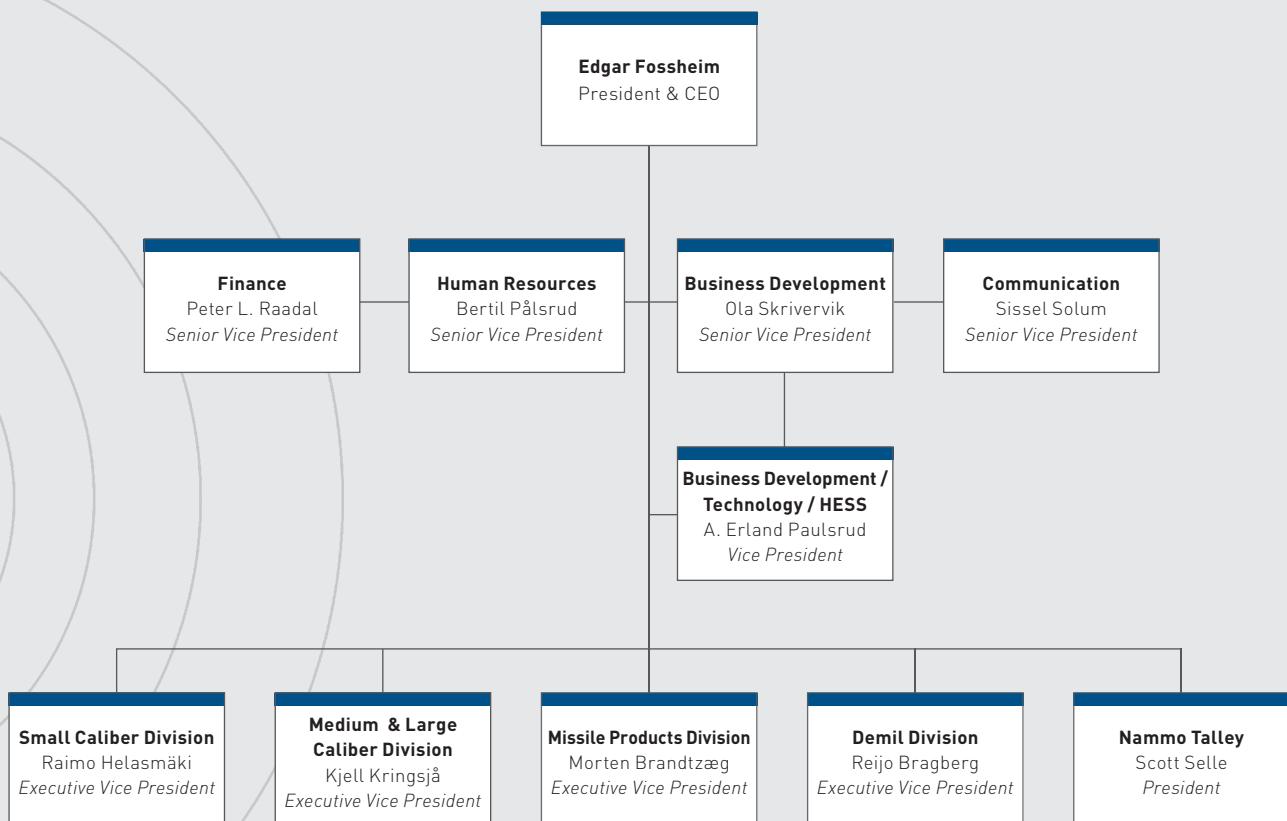
For Demil the most important highlight was:

- UK MoD selecting Nammo to demilitarize different types of large caliber ammunitions and rockets.

Organization

- Nammo established a permanent presence in Australia to better serve the Australian Customer, expand sales and strengthen industrial partnerships in the region.
- In April Nammo opened a brand new Lapua testing facility for competitive shooters in Mesa, Arizona. Top shooters can test their firearms on a new 100m rimfire test range.
- In August Nammo celebrated the official opening of a brand new motor case factory worth 15 MUSD investments.
- In December the Norwegian distributor of civil ammunition opened a Lapua test center in the Oslo area.
- "One Nammo" - improvement program of living the values accomplished at all sites from March 2012 to March 2013.
- By the end of the year Nammo signed an asset agreement to acquire the Palencia operations of GDELS-SBS. The agreement is subject to approval by the Spanish Ministry of Defense.
- Nammo became a member of UN Global Compact and will start to report on progress in 2013.

How we are organized



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

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

The CEO is responsible for the day-to-day management of the Group. The responsibility and financial commitment are outlined in the shareholders' agreement. The CEO is supported by his corporate staff that is responsible for implementing and following up on directives and tasks, while also working closely with the leaders of the five business units.

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 eight Nammo countries.

Unique diversity in operations

In terms of market understanding, technological requirements and environmental issues, Nammo is a market leader in the disposal and demilitarization of conventional ammunition and explosive products.

Briefly

2012 saw the continued development of automated high-speed disassembly for cluster munitions, where substantial investments have been made in process developments and equipment.

With our demilitarization services, Nammo is capable of offering customers complete life cycle support. The market remains challenging and our focus is still on raising awareness and willingness to increase the demilitarization budget within the defense industry. Nevertheless, we have been reasonably successful in gaining additional business from existing customers as well as new ones, mainly in Europe and the US.

In September 2012, the third meeting of states parties to the CCM took place in Oslo, Norway. There is a continuing focus on cluster munitions and by 8 October a total of 111 states had joined the Convention on Cluster Munitions (CCM). See www.clusterconvention.org for more information.

Increased profitability in all operations

We have dramatically increased profitability in all five of our demilitarization companies, where we have successfully restructured our workforce and undergone a rigorous cost-cutting exercise. The focus now is on maintaining the good 2012 level into 2013 while growing the top line.

Safety first

The processes used within our demilitarization business unit encompass the highest standards of safety and environmental aspects, exceeding the requirements of EU laws and regulations. During the year we continued the constant work of improving work safety, with the focus on decreasing the number of personnel in sensitive processes by, in parallel, increasing the automation level of our equipment.

Variety of processes

Nammo has more than 40 years of experience in demilitarization and has developed and uses a variety of different industrial and environmentally-friendly technologies for all types of ammunition.

- Full recycling focus
- Automated cluster munitions disposal and thermal treatment
- Controlled underground detonations

In 2012, we have seen an increased demand in assignments that involve using several or all of our companies. These typically include mixes of ammunitions and quantities that require different technologies to be demilitarized in an optimal and cost-effective way.

Cooperation

In May, Nammo and Dunarit, a leading company in the Bulgarian defense industry, entered into cooperation on demilitarization. Dunarit participates in the utilization processes in Bulgaria for demilitarization of surplus ammunition. Both companies have agreed to share their knowledge and experience for safe and environmentally friendly

Core business

Disposal and demilitarization of conventional ammunition and explosive products.

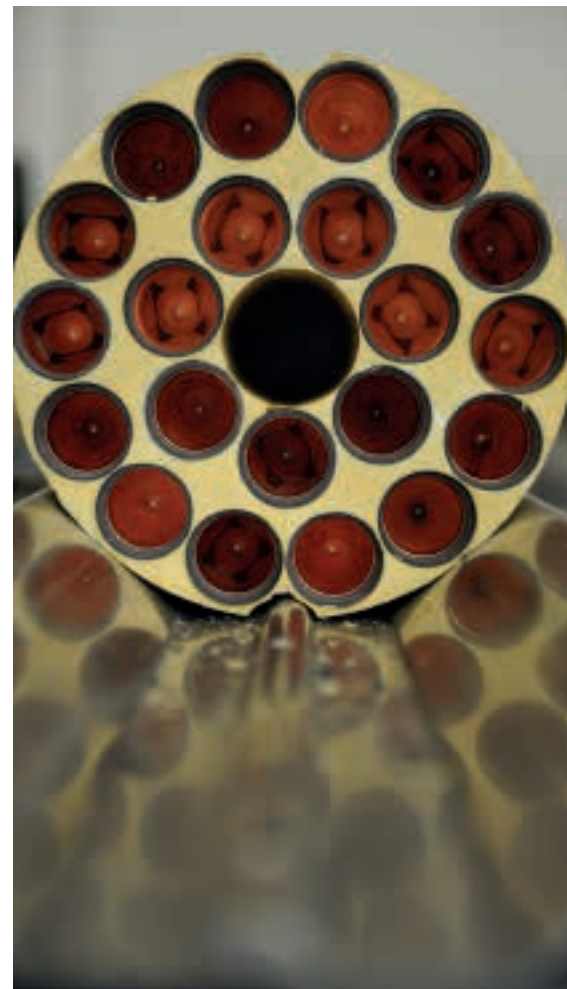
Locations

- 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 120 at year end.

demilitarization and to join their capabilities and capacities in selected work areas for the benefit of the Bulgarian demilitarization program and other customer needs in Europe.



Small Caliber Division

Continuously meeting customer expectations

The Small Caliber Division is one of the world's leading suppliers of high quality niche ammunition products, services and technology, serving the military as well as the civilian market. Customers around the world include defense forces, competition shooters and hunters, as well as law enforcement authorities.



Core business

A niche supplier of small caliber ammunition technology, services and products. The products, ranging from 4.6 to 9.3 mm, include combat and premium projectiles, cartridge technology and commercial brands.

Locations

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

- Nammo Lapua (Lapua, Finland)
- Nammo Vanäsverken (Karlsborg, Sweden)
- Lapua (Schönebeck, Germany)
- ND PressTec (Schwerte, Germany)
- Nammo Tactical Ammunition (Mesa, USA)

Employees

Approximately 500 at year end.

The extensive product range includes combat and premium projectiles, cartridge technology and commercial brands ranging from 4.6 mm to 9.3 mm ammunition.

Major contracts

Within the military market, which accounts for approximately 65% of the total volume of the Small Caliber Division, we have recently secured two major contracts. The Norwegian Armed Forces has chosen Nammo as the main supplier of lead-free, small arms ammunition. The multi-year contract, signed in April, is worth close to USD 100 million, plus options.

The five-year ID/IQ system contract, signed with the US army in October 2011, has had a very successful startup and deliveries this year have gone smoothly. The system contract includes linking the US MIL SPEC tracers together with Armor Piercing (AP) rounds, making Nammo the complete supplier to the US Army of the final configuration of linked 5.56 mm and 7.62 mm ammunition.

World-class

After the first report of health issues related to lead-free ammunition in Norway in 2008, Nammo has, in conjunction with the Norwegian Armed Forces and the Norwegian Defense Research Establishment, developed new, improved, lead-free ammunition in record time. The new type of ammunition, NM255, emits lower levels of suspended dust particles and exhaust gases and, most importantly, does not expose the gunner to harmful lead gases. It is environmentally friendly and has improved performance.

The Scenar^L bullet for target competition shooting is continuously expanding its portfolio. 12 new calibers were developed in 2012.

Continuous development

The Naturalis ammunition for hunting purposes is today produced using solid copper. The current in-house development focus is on lead substitutes, aiming to reduce fragmentation around the wound hole.

In April, Nammo opened a brand new testing facility for competitive shooters in Mesa, Arizona, USA. At this facility, Lapua keeps rounds of rimfire ammunition available for top shooters to test with their firearms on a new 100m rimfire test range.

Complementing Nammo's existing testing facilities in Finland and Schönebeck, one of Nammo's distributors of civilian ammunition, Magne Landrø AS, opened a Lapua test center in Norway in late 2012. Common to all Lapua test centers is the combined provision of facilities, equipment and expertise to facilitate effective ammunition testing under a variety of conditions.

Internal improvements

Two major health, environment, safety and security programs were completed this year. We have succeeded in a major reduction of the stress level in visual inspection, where we have installed state-of-the-art laser and photo-type inspecting machines. In the factory area, we have also invested in noise-reduction cabins around the drawing presses.

Medium & Large Caliber Division

New era

The Medium and Large Caliber Division provides ammunition solutions for the modern warfighter, vehicles, aircraft, artillery and mortar systems. The product range includes ammunition in calibers from 12.7 mm to 155 mm. It also includes the 66 mm M72 LAW, hand grenades and pyrotechnical and illuminating products. The division also offers restoring services of obsolete ammunition and extensive test services at its test center.

Outstanding 2012

2012 was a very good year for both production and deliveries. We started the year with the best possible prerequisite: a solid order backlog. Production lines have been running smoothly, qualitative targets have been met and, consequently, customer expectations were fulfilled, creating solid profitability for the company.

Highlights

The M72 continues its successful track record. New versions have been developed and we have secured a new contract with the Finnish Defense Forces (FDF).

We have increased our activities in Canada, supplying 40 mm airburst ammunition as well as programming hardware for the ammunition (fuze setters/antennas) to the Canadian forces.

We see increased demand for our hand grenade products for military use in the US market. A five-year ID/IQ contract for our 40mm ammunition was signed, also to the US.

We are progressing in Chile with several products, and in 2012 we

secured a significant contract for deliveries of hand grenades from Vihtavuori.

For the future

Nammo has completed the development phase of the world's most advanced new generation aircraft ammunition, APEX, and we are now entering qualification. APEX features optimal aerodynamics and a fuze that delays detonation. The 25 mm APEX is a high-explosive, armor-piercing ammunition, extremely precise up to a range of 2 000 meters. Our goal is that most of the world's F-35 air fighters will be equipped with APEX and the corresponding training ammunition that is being developed in parallel, securing jobs at Nammo for the coming decades, for both the combat and the training ammunition.

Requirements for performance are continuously changing. The business unit is a niche player with unique, high-performance products, characterized by a broad range of ongoing R&D activities, as well as technology and product development programs. In addition to APEX, we have the 40 mm L60 for the

Core business

The Medium and Large Caliber Division cover a broad range of 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 (Hérémece, Switzerland)

Employees

Approximately 650 at year end.

US market and new plastic training ammunition for the Norwegian Army.

Strategic acquisition

Nammo and Santa Bárbara Sistemas have reached an agreement for the takeover of the Spanish-based Palencia Factory, strengthening the overall product portfolio, enhancing the company's technological capabilities and securing both the domestic and international markets. Completion of the acquisition is pending final approval by the Spanish Ministry of Defense.



Nammo Talley

Leveraging capabilities in America

Core business

Four product lines: 66 mm and 83 mm shoulder-launched munition systems, composite solutions and energetic materials systems.

Locations

The company's headquarters and primary operating location is in Mesa, Arizona.

Additional production units are:

- Nammo Composite Solutions (Salt Lake City, Utah, USA)
- Nammo Talley (Columbus, Mississippi, USA)
- Nammo Talley (Davidsville, Pennsylvania, USA)

Employees

Around 355 at year end.

Nammo Talley is the US operation of the Nammo Group. Nammo Talley develops, manufactures and sells shoulder-launched weapons, energetic material solutions and composite solutions.

Energetic material solutions incorporate products such as aircraft emergency escape systems, actuation devices, rocket motors and warheads. Composite Solutions products include carbon fiber tubes and composite aerostructures.

Growth and performance

Nammo Talley's strategy starts with its role as the growth engine for the Nammo Group in US defense and industrial markets.

During 2013, several newly-fielded products will create growth not just for the US operations, but also for the rest of the Group.

Nammo Talley qualified a new rocket launch motor for the BGM-71 TOW missile that will include an in-house produced propellant from our Missile Product Division. Similarly, Nammo Talley utilized Small Caliber Division's expertise in high-volume manufacturing to introduce a new series of downhole delay fuzes for the oil and gas industry. The Composite Solutions product line partnered with the Medium and Large Caliber Division to develop lighter, more durable launcher tubes for the next generation of the battle-proven M72 shoulder launched munition system. We also

played a key role in international sales growth, and succeeded with the largest export contract ever in Nammo Talley's history on shoulder-launched munitions.

Process improvement

Strong sales in shoulder-launched munitions were facilitated by Six Sigma projects intended to speed production cycle time and eliminate manufacturing process variation.

Combined results from several projects enabled Nammo Talley to achieve record shipments of the M141 Bunker Defeat Munition (BDM) and field a new, extended-range sight for BDM to allied forces in about one-third of the normal development time. Six Sigma process improvement tools used by product development teams at our Composite Solutions were crucial to qualification of an all-new case design for the TOW missile system that provides enhanced electromagnetic interference (EMI) protection crucial for naval shipboard installation.

A global leader

We have implemented an overall global strategy for the M72 Light Assault Weapon (LAW) that features integrated supply chains, efficient co-production and joint program management for the benefit of our customers. This includes new weapon system technology, such as fire-from-enclosure (FFE) propulsion, programmable airburst capability and enhanced warhead performance.



Missile Products Division

At the forefront of technology

The Missile Product Division offers a wide range of capabilities in design, analysis, development, testing, qualifications and manufacturing of advanced rocket motors, as well as high-performance warheads. Nammo enjoys a unique position in the competitive landscape, being the only global player with a position that is independent of any missile house.

Highlights

The business unit operates in the European and US missile market. In a market characterized by having a handful of players, whether customers or suppliers, Nammo boasts major achievements in 2012.

- Completion of AMRAAM development program and successful start up of production and deliveries
- Completed building of rocket motor case factory, on time, on budget
- Initiated the building of a new mixer facility
- Established relationship with a new customer: Thales in the UK
- Great success in European space activity
- Best operating result ever

Flagship missile

Raytheon's AMRAAM is the flagship missile of the US air force and the US navy. It is sold to more than 36 countries worldwide. This medium range, air-to-air missile is the key weapon for the western nations to maintain air superiority and to keep local conflicts on the ground and not let them escalate through air operations. After signing a development contract in 2010, Nammo is today one of the world's premier suppliers of AMRAAM rocket motors.

New motor case factory

In August 2012, we completed the building of a highly automated, state-of-the-art motor case factory at Raufoss, a NOK 75 million investment. Key elements in the planning process for the new factory have been lean production, personnel education and training for the new processes. Nammo's investment in the factory and the delivery of steel motor cases is a direct outcome of the AMRAAM contract, but is also highly suitable for other motor cases.

ESA

Nammo has a proven track record of delivering separation boosters for Ariane 5, the biggest commercial space launch vehicle in Europe. This has attracted a lot of attention from the European Space Agency (ESA), which has chosen Nammo to bring this technology onward into what is a European ambition to make a lunar lander, for which Nammo will deliver the hybrid rocket motor needed to land the vehicle on the moon.

Core business

The Missile Products Division develops and produces advanced rocket motors, serving the most demanding rocket motor segments in air-to-air, ground-to-air and space applications. The product portfolio also includes high-performance thrust vector control systems and advanced warheads.

Locations

Nammo Raufoss (Raufoss, Norway)

Employees

Around 200 at year end.

Owning the technology

There is no room for not delivering quality – there is no alternative to success. Currently, the business unit has 10 different rocket motors on the production line. Nammo has developed a successful formula for customer-driven development programs, constantly and continuously developing products, processes and add-on technology. Typically, a rocket motor development program takes about two years. Once in production, the program can last up to 40 years.



Corporate social responsibility

“Corporate Social Responsibility is the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large.”

– The World Business Council for sustainable development (WBCSD)



Demilitarization by Nammo.

Friend of the future

The “One Nammo” initiative launched in 2011 is based on the company vision and values and involves every part of Nammo. It is based on a common understanding of the vision and values, and the performance management culture. Every day Nammo earns its license to operate. Every year we take steps forward to improve our citizenship

and to be a workplace all our employees are proud to be a part of. Nammo is a friend of the future.

Nammo has the last years been a part of the Global Reporting Initiative (GRI). At last count, more than 3 500 companies were part of this initiative. Our company supports also the ten principles of the UN Global Compact

and will report on progress for 2013. The CSR chapter covers the most important improvements and initiatives done in 2012 within environment, people and society. Our aim is to ensure all stakeholders that CSR is an important and prioritized part of our business and to secure our employees a safe and healthy working environment.

Environment

A responsible player

Through education and training Nammo employees know the company's standards and annual goals for environmental issues. A safe workplace and a minimal impact on the local and global environment is frequently on the agenda. Our commitment to the environment is an important part of being a responsible player in the industry.

Annual audits

Every year the HESS (Health, Environment, Safety & Security) managers perform an audit at all sites to discuss policies and regulations, and set goals for the next year. Each unit has established a routine for reporting incidents and accidents, the security standards and the organization of training. The unit also communicates the results of risk analyses and contingency planning. All relevant environmental issues are included in this annual audit. The HESS manager combines the visit with an inspection of the factory area.

In this report the sites have reported on the main environmental elements; Energy consumption, water consumption and waste, such as dangerous goods, cardboard, paper, wood, residual waste and plastics. In most areas there has been positive progress.

Energy saving program

The energy saving program aims to reduce energy consumption at every site, and to use renewable energy wherever this is possible. Investments are made, and cost reductions are achieved. Nammo LIAB AB in Sweden is one of the sites that has very good results to report on energy saving.



They started the program in 2006 and established ambitious goals for energy cost savings.

Stefan Nilsson is an employee who has come up with good ideas on improvements, which have been implemented at Nammo LIAB. Stefan is responsible for buildings, heating, roads, etc. When we added up the total cost savings from 2006 until 2012 we ended up with SEK 7 million net.

The short version is that Stefan as the driving force, supported by management, has initiated, planned and implemented the different parts as project manager in a very efficient way and has exceeded goals.



Stefan Nilsson at Nammo LIAB.



It is important for the defense industry to take the environment into consideration. This is important not only for the surrounding environment, but also for the public, all of our employees and the users of our products.

– Sissel Solum, Senior Vice President Communication, Nammo Group

Some examples of what has been done:

- Replaced oil heating with district heating
- Ventilation and air conditioning plant uptimes have been adjusted
- New insulation in buildings
- Replaced leaking water piping

A very interesting energy and cost saving project with a long-term perspective, to 2026, was launched

at Raufoss Industrial Park where Nammo is headquartered. The project is based on bio-fuel and is administrated by Dalkia Norway AS. The work actually started four years ago when heating of all the 300 buildings was based on oil and electricity. With focus on more sustainable energy and new pipelines in addition to technical adjustments at each building, the project manager estimated a saving of 180,000 tons of CO₂ and important cost savings.

More than NOK 54 million has been invested by the Industrial Park. But energy is one of the major basic costs for a company. Nammo has reduced energy costs by NOK 0.20 per kWh.

Energy is one of the major basic costs for a company. This facility reduced costs for us by NOK 0.20 per kWh. The bio-fuel center consumes 80-90 tons of tiles every day and produces 7 GWh. This corresponds to the energy use of 10,000 homes.

Environmental reporting 2012

Locations	Country	Energy consumption (kWh)		Water consumption (l)
		Current year		Current year
		Fossile	Renewable	
Nammo Raufoss	Norway	5 511	19 045	66 075
Nammo NAD	Norway	0	1 556 068	1 181
Nammo Bakelittfabrikken	Norway	383 022	164 100	323
Nammo Vingåkersverken	Sweden	5 079 417	998 783	NR
Nammo LIAB, Lindsberg	Sweden	0	5 402 402	2 745
Nammo Vanäsverken	Sweden	0	9 082 000	36 742
Nammo LIAB, Björkborn	Sweden	0	5 832 000	10 722
Nammo Lapua, Lapua	Finland	1 260 258	2 864 200	91 038
Nammo Lapua, Vihtavuori	Finland	4 318 215	443 842	400
Nordic Distribution	Finland	NR	NR	NR
Nammo Talley, Columbus	USA	297 900	0	79
Nammo Talley, Mesa	USA	8 340 088	0	9 785
Nammo Talley, Davidsville	USA	134 305	NR	NR
Nammo Composite Solutions	USA	NR	NR	NR
Nammo Tactical Ammunition	USA	NR	NR	NR
Nammo Germany	Germany	NR	NR	NR
Lapua GmbH	Germany	2 901 227	0	6 190
Nammo Buck	Germany	1 729 580	505 020	NR
Nammo MTH	Switzerland	314 690	98 646	NR

NR = Not reported

Why Nammo?

– A trusted partner

Noise

Nammo strives to be a good neighbor in the communities in which it operates. One example is the Nammo Bakelittfabrikken at Aurskog. In 2012 the site got a new test firing building. Not a new location, but a building where they install the test equipment alongside the firing range. The testing is now done in-house as the demands for noise reduction for the neighbors are met. The noise from the activity is significantly reduced. A local

company constructed the building and the content was also purchased locally. This is a result of Nammo's policy of using suppliers in the local communities as long as they are competitive.

Security

Every year there is a Nammo seminar that gathers several high-ranking managers and safety and security personnel to share good ideas and make improvements.

Every year security issues concerning threats of terror are evaluated. All sites have good cooperation with local and national police for updates on the threats against our organization. All sites review procedures and plans for catastrophes and evacuation plans. Realistic training and simulation is performed and reported.

Safety in Nammo is also an issue of good communication with the local population. The safety information

Locations	Waste (kg)					
	Current year					
	Hazardous waste	Cardboard	Paper	Woodwork	Plastics	Residual waste
Nammo Raufoss	357 798	48 478	2 316	51 394	6 536	105 197
Nammo NAD	0	0	1 500	198 960	0	30 560
Nammo Bakelittfabrikken	350	9 590	0	0	2 180	11 690
Nammo Vingåkersverken	NR	NR	NR	NR	NR	NR
Nammo LIAB AB, Lindesberg	3 600	18 160	3 340	0	3 500	27 470
Nammo Vanäsverken	76 626	25 310	1 732	90 440	4 031	35 409
Nammo LIAB AB, Björkborn	13 110	540	120	1 000	0	7 980
Nammo Lapua Oy, Lapua	14 447	5 544	460	0	0	62 275
Nammo Lapua, Vihtavuori	3 573	1 090	360	0	0	20 370
Nordic Distribution	NR	NR	NR	NR	NR	NR
Nammo Talley, Columbus	929	0	0	0	0	NR
Nammo Talley, Mesa	10 724	6 495	10 410	56 418	0	213 949
Nammo Talley, Davidsville	170	0	0	0	0	NR
Nammo Composite Solutions	0	NR	NR	0	0	NR
Nammo Tactical Ammunition	180	68	210	120	22	240
Nammo Germany	NR	NR	NR	NR	NR	NR
Lapua GmbH	12 000	1 200	800	1 900	500	10 000
Nammo Buck	301	24	5	50	61	92
Nammo MTH	0	218	218	0	10	5 200

session at the Vihtavuori site in Finland is a good example of how Nammo performs in this area:

In December 2012 the three companies at the Vihtavuori Plant in Finland organized a safety information session that was open to everybody in the local community. The evening was preceded by a review of the Vihtavuori factories' safety information sheet that was distributed to every household beforehand. The information session attracted local inhabitants, a journalist from the local newspaper and representatives from the local school.

The companies were assisted by the fire chief and informed about the plant's operations, risk assessment issues, potential risks & hazards and preventive activities. All three companies operate in the same factory area of 300 hectares.

The companies store and handle explosives and/or hazardous chemicals and are making every effort to ensure that the operations will not harm people or the environment. When operating in the same area, it is extremely important that all the employees are aware of the other companies' risks and how the consequences can be minimized, if something should go wrong.

Award

Many sites are doing a good job on improving the HESS level in Nammo. Nammo Lapua, Vihtavuori was the first site to receive the Health, Environment, Safety and Security (HESS) Award at the Nammo Forum 2012. The award recognizes that Vihtavuori has contributed towards improving Nammo Group performance in HESS. The site has been a good example and works systematically on the improvement of the HESS standard in accordance with Nammo's HESS directive and policy. The jury decision was based on the following comments: The whole

organization is involved with HESS improvements and they contribute annually at the HESS seminar in Nammo. The factory emerges as tidy and well-organized. Improvements have been made in several production areas. The site has a very good training and education program that is documented down to the individual level. A HESS day for all employees and a risk management process is some of the preventive work that was done at the site. The site had no accidents with or without absence last year and is working systematically to prevent accidents. The site has a good system for reporting and follow-up of HESS incidents in the factory. The site has increased the number of incident reports by 25% from 2010 to 2011 and reduced sick leave by more than 50% from 2010.

Løkken mining area

An extended monitoring program for the Løkken mining area and for the receiving watercourse has been in operation since 2005. Nammo NAD is operating in the abandoned Astrup mine, a part of the abandoned Løkken pyrite mine. The Astrup mine is separated from the above Wallenberg mine, which is flooded. The discharged mine water from the Astrup mine is highly acidic with pH-values varying from 2.7 to 4.2 in 2010-2011. The content of heavy metals is substantial. However, the metal content and acidic conditions are caused by weathering processes at the surface of the pyrite minerals in the mine. Due to the activity in the Astrup mine, the water level is stabilized at a very low level, which prevents larger amounts of contaminated water to be pumped over to the Wallenberg mine. The Norwegian Institute for Water Research (NIVA) has monitored the water quality of the mine water since the mine was operated and since 1995 when Nammo NAD started its activities. NIVA considers the discharge from the Astrup mine as insignificant in relation to the total discharge of mine water and transport

of pollutants from the flooded Wallenberg mine. "Compared to past times considerable mining activity at Løkken, it must be assumed that the release level from the Astrup shaft is considerably lower at the present than before the mine and the mining was shut down." Tom Myran, Professor in rock technique

Cleaning up

Nammo Talley in particular, but also other sites have in the past year made significant efforts to identify and begin cleanup of contamination in the ground. Contamination from past industrial activity, and particularly Nammo Talley, create great challenges due to contamination of groundwater. There is currently no legislation in this area, but the company is working proactively and has established a well-functioning compliance program.

ITAR compliance

Nammo promotes compliance with the International Traffic in Arms Regulations (ITAR). The company's commitment to the implementation of procedures to comply with ITAR and other regulations that control the transfer of sensitive technologies creates a culture of compliance within the Nammo Group. This culture of compliance extends to Nammo's suppliers, partners and customers through business activities which includes; development, procurement, sales and marketing.

REACH

The REACH regulations, which Nammo is committed to complying with, are European regulations for chemicals and products manufactured, produced, imported or used in the EU-EEA area. The intention of REACH is to ensure a high level of protection of human health and environment, as well as the free movement of chemicals, while enhancing competitiveness and innovation.

“

Over the years our municipality has grown and become established around what Nammo represents today. Social involvement, high-tech work environments and spin-offs from the defense industry have created the Raufoss Industry Park and the society we benefit from today in Vestre Toten.

– Leif Waarum, mayor, Vestre Toten municipality, Norway

Why Nammo?

“

We use Nammo because their products are cost effective and reliable. This is critical for our man-rated aircrew escape applications.

– US ranger Breacher

– A trusted partner

People

“We believe that employees engaged in maintaining a safe, respectful, professional and developmental work environment are highly motivated to fulfill commitments and exceed customer expectations.”

– Scott Selle, Nammo Talley

Living the values

In 2011 the management of Nammo decided to establish the “One Nammo” initiative. One Nammo means a more consistent and uniform business, endorsing the one-company and talking with *one voice*. Rapid growth through acquisition of existing businesses has spurred the effort to establish a common culture based on the company’s values and vision. The initiative has been implemented in all divisions of Nammo in 2012 and the first months of 2013.

The One Nammo initiative has followed three main lines: Cross business unit cooperation, one Nammo culture and urging common working methods and systems. It involves every single unit and employee and is a continuously ongoing project.

Nammo operates in an industry with intense competition, and customer

requirements change from country to country. This requires a clear focus on innovation, precision and new technology. To achieve the company’s goals it is crucial to set common targets, establish systems for the sharing of knowledge across units, cooperate on working methods and coordinate marketing activities.

New steps have been taken in the creation of the “One Nammo” culture based on the company values and vision. It is all about living the values, respect and exploiting the cultural differences and creating a common understanding of the value of being a unified company.

We work hard at finding the right way to motivate our employees. Our intellectual competence is our most important asset. We have started an appraisal review, which is an important contribution in the development of our employees as well

as creating a unified performance culture at Nammo.

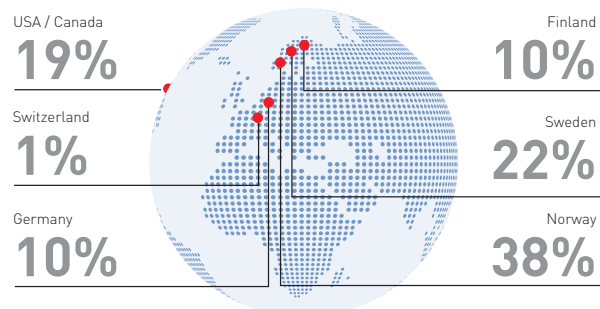
Appraisal review

Nammo has implemented a common computer based structure for the preparations to the annual appraisal review. The purpose is to align individual goals with overall goals and strategies. It will help managers to recognize what to be expected of them. The appraisal review intends to ensure clear and constructive feedback and clear communication. It is also an invitation to increased involvement with increased motivation as a result.

The themes in the appraisal review are work, environment and co-operation, a review of competency levels, assessing alignment to values, assessing achieved goals and results, setting objectives and annual performance planning and setting personal development goals.

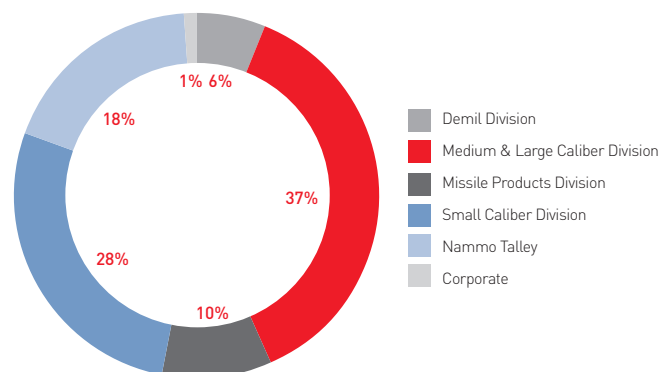
Employees per country

Total number of employees in average = 1 956



Employees per business unit

Total number of employees in average = 1 956



During the year employees can update the status and progress. We strongly believe that this will improve Nammo's performance and unify communication towards customers and improve internal communication, provide increased efficiency and reduce failures and time wasting.

One Nammo ambassadors

As a part of the implementation of "One Nammo", every Nammo unit has one or more "One Nammo" ambassadors, and all employees have participated in workshops to strengthen the understanding of the importance of Nammo as a unified company. We want all employees to take ownership of the values and act in line with the values in a responsible manner, and to inspire further development of the Nammo culture locally.

"Values are a set of concepts that are fundamental to a culture, and our values are the basis for building trust and a stronger organizational culture."

Diversity

Traditionally Nammo and our industry has been dominated by men. Nammo

is continuously working to ensure diversity. A key element in the human resources policy is equal opportunities for all employees. This applies in particular to recruitment, career development, equal pay for equal work and working conditions.

Women account for 29.2 percent of the employees and we still have a job to do. Activities to motivate female university graduates and other women to join the company will continue to be an important endeavor in the future. We encourage women to join our management-training program. Talent Factory and Nammo Forum are such arenas. Talent Factory has existed for nine years and offers a leadership program with 15 to 20 participants every season.

In order to demonstrate that Nammo has an ambition to increase the numbers of women in the group, the company is sponsoring the Norwegian women's ski jumping team and the Norwegian women's Biathlon team. The cooperation with the female top athletes is a part of our employer branding and we want to visualize that we support women with ambition.

We have a policy of no tolerance for discrimination on the basis of gender, race, religion, national or ethnic origin, cultural background, social group, disability, family status, age or political views.

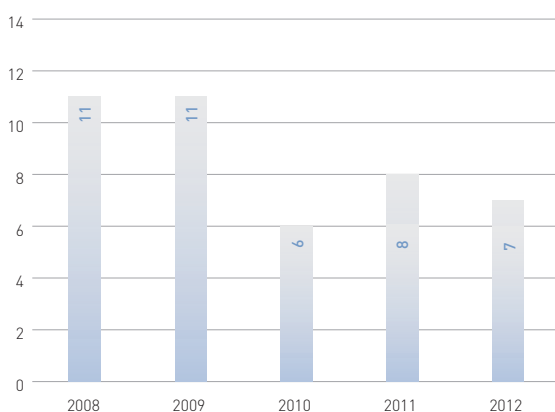
Nammo is a cross-cultural company with a willingness to initiate projects that will make us even stronger in the future.

Health, safety and security

We can never relax when it comes to the issue of health, safety and security of our employees. The company focuses on preventive work, risk analysis and updated accident prevention plans. Every year managers arrange seminars for personnel with special responsibilities within health, safety, security and the environment. The company operates in the explosives industry with high-energy materials. This means that much attention must be given to conditions related to our employees' working environment. Health, safety, security and the environment are the number one priority, and are more important than other business objectives and goals. These issues are always on the

LTI rate in Nammo 2008-2012

LTI rate: Accidents with days off per million hours worked



Sickness absence in Nammo 2008-2012

Sickness in %



management agenda. All employees are instructed to report all accidents, near accidents involving employees, and preventive action is taken. The policy is evaluated every year and monthly reports are sent to all sites to share information and action.

Nammo is a part of a EU-Excert partnership program to establish a transferable certificate of explosive competence.

Sick leave

Nammo's management focuses on the health and welfare of employees every year. A low and stable rate of long-term sick leave indicates a good working environment. Workplace improvements and measures to secure a good and healthy working environment are essential, in addition to protective equipment and physical training. Sick leave among Nammo's employees

Tor Erland Hveding Bergum, CNC operator at Nammo.



averaged 4.2 percent for 2012 (4.6). There were 26 accidents resulting in employees being absent from work at Nammo in 2012. Our goal will always be zero.

The sick leave rate represents an LTI rate accidents with days off per million hours worked of 7 (8 in 2011). This gives an LWD rate number of work days off per million hours worked of 251 (177 in 2011) which indicates that the most frequent types of accidents are minor.

Ethical behavior

Nammo is committed to ensuring that human and labor rights, environmental considerations and the anti-corruption act are respected in its business activities and by the Group's suppliers. Nammo shall be characterized by its 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 ethics.

In 2012, 50 per cent of the employees completed an e-learning program in ethics. This course is based on a series of short, theme-based lessons. In addition, managers have a particular responsibility to put ethics and the code of conduct on the agenda locally in a transparent manner.

In 2013 we will start a training program in ethical dilemmas. All business units will be involved in this program.

The ethical committee consists of three persons from the Nammo Group. The committee meet quarterly and reports to the President & CEO. In 2012 new members were elected and there will be a new election in 2014. Individuals who come across cases of doubtful ethics and breaches of the code of conduct have a duty to inform their superiors or the ethical committee, without any risk of sanction.

Employee of the year

Nammo has introduced an award program, Employee of the year. The objective is to recognize employees that have demonstrated and contributed towards the improvement of Nammo Group performance in selected areas. This award is given to one employee that has contributed positively and been a good example in building a strong, competitive and united culture, based on the company values.

Mr. Reinhold Kolberg, Pinnow (Demil Division) was the first to receive the employee of the year award in 2012. He has fulfilled the criteria of the award by consistently demonstrating the spirit of teamwork by offering support to fellow employees whenever a need arises for a collective effort in accomplishing a task or goal. He has taken a positive approach in interacting with fellow employees and recognized and met the needs and requirements of internal and external customers.

WorldSkills for Nammo-student

Tor Erland Hveding Bergum is completing his last year of the high school course Technical Industrial Production and Theory, where the students combine practical work in an industrial company with theory at school. As part of his development at Nammo, he qualified for CNC turning in the National Skills Competition where he won a bronze medal. In July 2013 he will represent Norway in the WorldSkills Competition in Leipzig.

Tor Erland works as a CNC operator (Computer Numerical Control) at Nammo for the practical part of his course. Practical work combined with theory has given him a broader understanding of the subject and resulted in considerable personal, professional and technical expertise and development. He has also been given the opportunity to teach new apprentices as they start working in the production area.



NDT Engineer Vivian Solhaug.

"I am very grateful for the experience gained at Nammo. After four years I will be well prepared for employment and independent tasks," Tor Erland concludes

Supervisor's voice

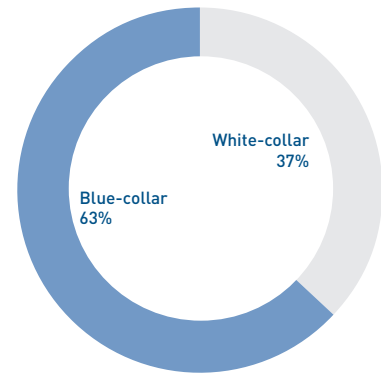
"Work experience combined with theory has resulted in great personal development, both professionally and mentally, and in increased knowledge of the subject," says supervisor at Nammo Raufoss, Knut Sandvold. He looks forward to the training of other apprentices that are combining theoretical studying with practical work in the production. In the first year at school apprentices work in various departments such as construction, engineering and measurement to gain a broad understanding of the various aspects of the business.

Became a Nammo-engineer

Vivian Solhaug is now working as NDT (Non Destructive Testing) engineer following the completion of Technical High School as one of nine employees nominated at Nammo Raufoss. The course was carried out part time from 2008-2012, where they work at Nammo in the morning and go to school in the afternoon twice a week. Nammo makes it possible to do this and covers all school costs.

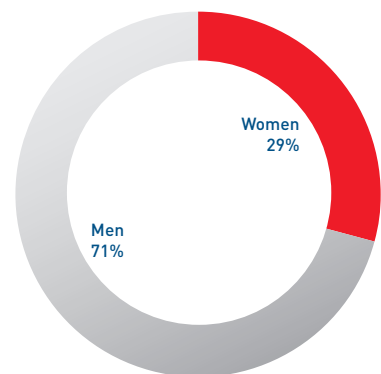
In addition, Vivian is radiation protection coordinator in Missile Products Division and has achieved the highest competence level within NDT; Level 3 Radiography. She was jointly responsible for the setup of the radiology section in the new motor case factory at Raufoss in 2012.

Group distribution between white-collar and blue-collar

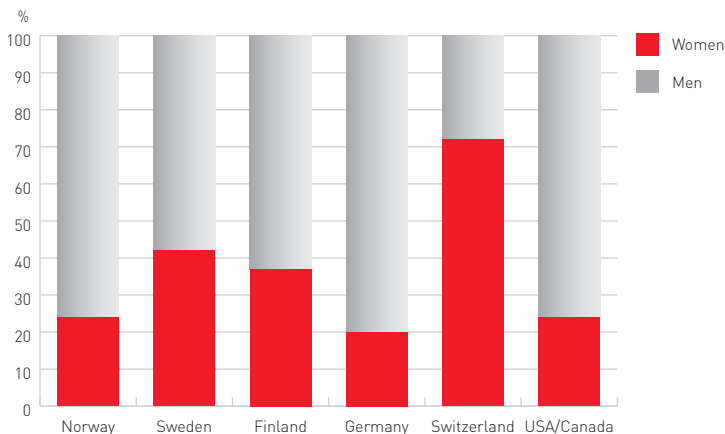


Percentage men vs. women

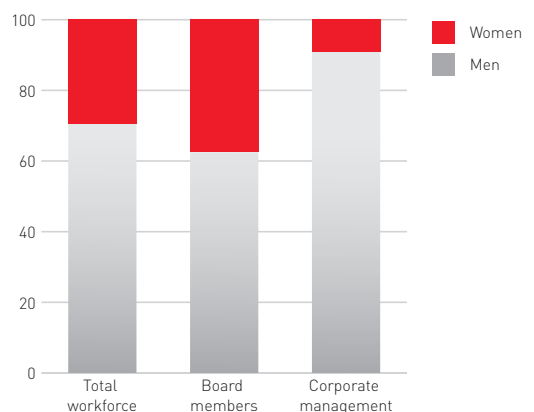
Total number of employees in average = 1 956



Percentage men vs. women per country



Gender percentages



“

When it comes to the quality of bullets, brass and ammunition Lapua is superior ahead of all others. When it comes to the quality of a partner, Lapua is superior far ahead of all others.

– Raine Peltokoski, multiple European and Nordic Champion,
Team Lapua, Finland

Why Nammo?

“

Nammo Composites is not a supplier, they are a true Partner. They are customer focused with open two way communication. Nammo is a partner who is proactive and not reactive.

– Raytheon Missile Systems, USA

– A trusted partner



The Strides at Breast Cancer Walk in Tempe Beach Park.

Society

“We work hard to live by our values and earn the trust and support of the local communities in which we operate.”

– Edgar Fossheim, President & CEO, Nammo Group

A trusted partner

Nammo has a strong presence in all the communities in which it operates. As a cornerstone company we want to make a difference. This leads to close cooperation with the local community and many forms of involvement in activities such as local sports, health care and positive development of the community.

We want to be a good neighbor and employer.

Here are some examples: The Nammo Talley community relations committee invited all employees to join the Strides against Breast Cancer Walk at Tempe Beach Park on October 27, 2012. It was a 3-mile non-competitive walk in support of the American Cancer Society, which uses the funds to help women fighting breast cancer.

Employees who couldn't participate at the walk were encouraged to be sponsors.

In Germany, Lapua GmbH has supported the local social meeting point “Soup and Soul” in Schönebeck for many years. This institution is for less advantaged groups and people that experience difficulties in their everyday life. Often the children of socially deprived families are involved. A monetary donation is given to the social institution both for Christmas and other special days during the year to support a warm meal and a celebration, hopefully bringing some joy into the holiday season for these people.

Nammo Vanäsverken collaborates with Campus Alfred Nobel in Karlskoga on the course “Process Technician in

energetic materials, explosives and flammable substances”. The students are working in our company for shorter periods which is good both for them and the company.

At Nammo Raufoss the main involvement is with the local football team. However, Nammo also invests in future scientists by supporting the nearby science center. The main purpose of the center is to stimulate interest in mathematics, physics and other scientific subjects. The center involves the children in the subjects in a practical and fun way, through experiments, role-playing and games.

Despite a relatively young age, Vihtavuori in Finland had a long history before being established. In 1922 the establishment of a powder factory was one of the strategic goals to defend

and secure the recently independent Republic of Finland. In this small village the inhabitants' lives became invigorated by the factory noises and bustle of work. Over the years the powder plant has developed into the industrial area for three international defense and mining companies where one is Nammo Lapua Oy, Vihtavuori Plant. In 2012 the factory area turned 90 and organized a celebration, where Marcus Rantala, State Secretary from the Ministry of Defense, gave the opening speech.

Lapua's top quality products are shipped to more than 55 countries all over the world every year. But the global player is also visible locally. In order to maintain and develop the company image as well as attract new co-workers to Nammo Lapua, the Lapua Site has a program to support children and youth sport and art clubs locally as well other sport clubs, where the employees participate. The closest and longest co-operation has been with the Lapuan Virkiä's ladies team, which competes for the National Championship in Finnish Baseball. The Lapua-logo is well appreciated among the sport teams, and it makes them, the local society and the employees proud.

Arms Trade Treaty (ATT)

Nammo has participated as an industrial observer, representing the Norwegian Defense Industry, in cooperation with Norwegian Government officials in connection with the negotiation of the Arms Trade Treaty (ATT). In addition, Nammo is part of a working group in the Aerospace and Defense Industries Association of Europe (ASD). ASD has issued a number of position papers outlining the industries' support and key industrial objectives for the ATT.

The global trade in conventional weapons, from warships and battle tanks to fighter jets and machine guns, has been poorly regulated. There has been a concern about the absence of globally agreed rules for all states to guide their decisions on arms transfers. The final negotiations will take place in the first quarter of 2013. For Nammo and the Norwegian Defense Industry it has been important to focus on a final treaty text that is reasonable and realistic for our industry and for the global community. The Industry would preferably like to achieve an Arms Trade Treaty with full consensus from the member states. We know that only around 50-60 countries worldwide have regulated

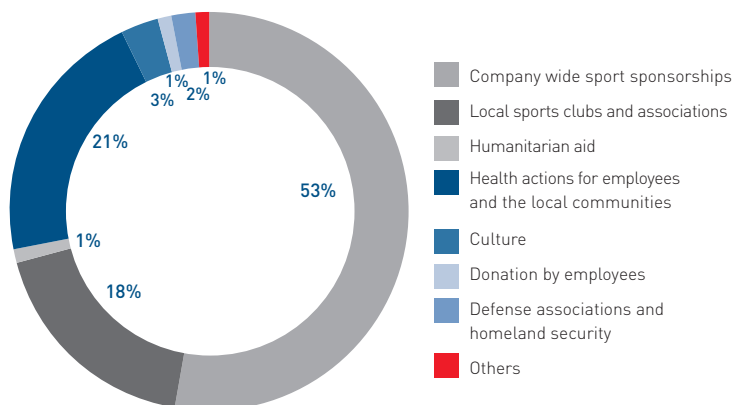
their weapon export control today. The more countries who follow the Treaty and regulate their export control of weapon and ammunition, the better. This is the best way for us to contribute in the work to prevent illegal trade of weapons and ammunition, and at the same time the best solution in terms of a level playing field for the industry.

Our stakeholders

We respect and listen to all stakeholders and have an open dialogue with different interest groups. We are continuously the focus of attention of Norwegian NGOs. Despite different opinions, we meet with them, communicate and take into consideration their viewpoints regarding our work whenever appropriate. It is our policy to provide the stakeholders with facts and to be transparent. As one of many examples, we received a visit from the Norwegian Save the Children organization and gave them a factory tour at Nammo Raufoss and explained how we work.

Politicians also visit Nammo regularly: The previous Norwegian State Secretary of Defense, Mr. Ingebrigtsen, visited Nammo at Raufoss on 12 July 2012 for a meeting with the Management and a guided tour of the factory. His reaction was: "I am impressed to see the development of the Nammo Group and the important spin-off effects they have created over the years." His concern was that the modernization of the fighter aircraft from F16 to F35 Lightning II will have a central role in securing Norway's defense capability for future generations, and the development of Nammo's 25 mm APEX ammunition will be of utmost importance to satisfy the operational ammunition needs both for Norway and the other partner nations.

Sponsoring programs 2012





The Lapuan Virkiä's ladies team.

An eye on CSR

Nammo has a shared Norwegian-Finnish ownership. The Norwegian owner is the Ministry of Trade and Industry, which administrates and follows up state ownership. Nammo is measured by financial results, but also by how the company performs in corporate social responsibility. There are quarterly meetings between Nammo's top management and the authorities, and CSR is always on the agenda.

Every year Nammo takes new steps in CSR reporting. In 2012 the company became a member of the UN Global Compact and is now fully committed to the ten principles. In 2013 Nammo also provide the communication on progress report.

The international Global Reporting Initiative standards (GRI) are

recommended by the government. In recent years Nammo has performed at the self-declared level. The Nammo Group has an ambition to improve CSR reporting every year because we see it as a motivational factor for both management and employees, and builds confidence in us as a professional and responsible company in the communities where we operate. Good CSR performance also has an impact on business results.

BBC and Discovery Channel

In August 2012 BBC radio 4 broadcast a program called "Greening the Military", and Nammo in Norway and Sweden contributed with information on lead-free ammunition and the demolition of ammunition. The BBC reporter asked Key Account Manager Urban Öholm if there really is a case for going lead-free. Öholm replied: " Most ammunition is used for training. If you recognize that

weapons and ammunition are needed in the world as it is today, you should design them in as environmentally friendly way as possible."

The BBC commented that lead is toxic and there have been studies that have suggested it can leach from firing ranges into ground water. The US Environmental Protection Agency provides guidelines for firing ranges to avoid lead contamination. There have also been concerns that gases emitted during firing can harm the health of soldiers, especially women of childbearing age. Five percent of Sweden's soldiers are female. In 1995, the Swedish government requested alternative ammunition. Four years later, the first lead-free bullets were supplied. Since then Nammo has produced more than 300 million at its plant on the shores of Lake Vättern in southern Sweden.



Norwegian ski jumper Anette Sagen.

Discovery Channel has visited Nammo twice. The second time was in 2012 to make a story for their Future Fights series. The reporters have travelled around the world to meet with representatives from the defense industry to showcase future technological challenges as the character of war changes. Three programs will be broadcast before the summer of 2013. Both Nammo's site at Raufoss Norway and Mesa in Arizona USA will participate in the Future Fights program.

More than a sponsorship

Nammo is in its second year as main sponsor of the women's national ski jumping team. Sponsorships can have many purposes. Firstly, it makes all employees proud to be a part of the athletes' success. Sponsoring the ski jumping team aims to contribute

to the development of ski jumping through increased technological know-how. Secondly, by supporting women's sport, Nammo signals its desire to strengthen and highlight focus on women and achievement, both in terms of career development and recruitment. The agreement will continue through the Olympic Games in Sochi in 2014.

Nammo AeroTech

For two years our rocket scientist Erland Ørbekk has worked with the ski jumping team and Olympiatoppen to develop a unique jump simulator that analyzes the stage from when a ski jumper leaves the edge of the jump until he or she lands. So how can you apply missile expertise to ski jumping? Well, for example, to help Norwegian skiers in the quest for the perfect ski jump.

The project is based on research from Nammo's missile technology and aerodynamics. The project has been named Nammo AeroTech. Ørbekk has a PhD in aerodynamics from NTNU, and has studied the so-called Bokløv style or V-style as it is also called. Today he heads Nammo's rocket engine technology development and is also responsible for Nammo AeroTech, which hopefully will give Norwegian ski jumpers gold in the Sochi Olympics. Sports manager for the national ski jumping team, Clas Brede Braathen, told the local newspaper Oppland Arbeiderblad that the joint project with Nammo is the single most important factor for the Norwegian jumpers' success alongside the appointment of Alexander Stöckl as national coach. "Cooperation with Nammo has been overwhelmingly positive. Through this project, we gain access to cutting edge knowledge, and we can be confident that the knowledge is well documented by people with expertise in aerodynamics and the physical conditions for ski jumping."

Biathlon

With their victories in Nove Mesto (Czech Republic), Norway became the first nation ever to win eight Gold medals at the IBU World Championships. In 2010 Nammo entered into a four-year sponsorship agreement with the Norwegian Biathlon Association, promoting the Lapua brand. In addition, Lapua sponsors the Finish national biathlon team. Lapua ammunition (Polar Biathlon) won 32 of 33 medals in the championships in Novo Mesto in February 2013.

Norway has a strong team and was very successful in Nove Mesto. The athletes, coaches and staff members all agreed that it had been "a fantastic journey". In particular, the fans filled the stadium with an atmosphere and added to the excitement of every

competition. There is never a question of loyalty as their faces are painted with Czech, Russian, German and Norwegian colors while they wave enormous national flags.

In addition to the fantastic athletes Tora Berger, Emil Hegle Svendsen and Martin Fourcade, other athletes also gave perfect performances in the track and on the shooting range. Tim Burke won the second-ever medal for USA; the first one was by Josh Thompson in 1987, also in the 20 km. The team expressed its "gratitude" to Lapua with a special gift, a WCH bib number with the signatures of the US team.

Individual athletes

Nammo supports a number of individual athletes within different sports such as cross country skiing, ski jumping, biathlon and marksmen from various countries in which we operate. In most cases the athletes are invited to the Nammo family to speak about their strategy, their motivation and struggle to achieve the best results for their team and their country. Tora Berger and Ole Einar Bjørndalen made presentations at Nammo Forum 2012.

Nammo Talley partnering with Toys for Tots

Nammo Talley selected Toys for Tots as a special partner for the Christmas holiday season 2012, and encouraged all employees to donate a new, unwrapped toy to the cause.

Toys for Tots began in 1947, when a group of Marine Reservists in Los Angeles collected and distributed 5,000 toys to needy children. The pilot project was so successful that the Marine Corps adopted Toys for Tots in 1948 and expanded it into a nationwide campaign.

The primary goal of Toys for Tots is to deliver, through a new toy at Christmas, a message of hope to less fortunate



Biathlon World Champion Tora Berger.

youngsters in the community that will assist them in becoming responsible, productive, and patriotic citizens. Over the years, Marines have established close working relationships with social welfare agencies, churches and other local community agencies, which are well qualified to identify the needy children in the community and play important roles in the distribution of the toys.

Yearly, Nammo Talley donates time, money and volunteer hours to various nonprofit organizations serving the

United States military. This to show gratitude to the sacrifices these men and women and their families make for the country. The company sponsors many functions and events for the Association of the US Army and other similar organizations.

Nammo supports cancer research. Instead of the annual Christmas gift to the employees, Nammo chose to support cancer research in 2012. The decision was greatly supported by the employees.

Corporate governance

Introduction

Nammo AS is a limited liability company established under Norwegian law, with a governance structure based on Norwegian Limited Liability Companies Act (Aksjeloven) and similar laws in the seven other countries where we operate: Finland, Sweden, Germany, Switzerland, USA, Canada and Australia. Our governance system has been developed through cooperation between the Board of Directors and the Nammo Group management in order to ensure compliance with the relevant laws and regulations. Our governance system is also important to ensure efficient controls for the business processes. The 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 long-term development of the company. Corporate governance encompasses the leadership culture, vision and values, ethical code of conduct, risk management, reporting and control mechanisms.

In 2011 we initiated a project focusing our internal control system and our continuous process for identifying and handling risks in our business. This work continued throughout 2012. Through this project we have formalized a yearly process for risk management and re-enforced the hierarchy and structure of the steering documents such as directives, policies and procedures. We have also reviewed all the existing directives and, if found necessary, updated the structure, format and content of them. Based on the risk assessment, some new steering documents have been introduced and some have been phased out. This project will be finalized and changes implemented during 2013. The risk assessment process and the evaluation of the steering documents is a continuous process throughout the year and the status will be reported to the Board of Directors on a regular basis, minimum once per year.

Corporate directives

The framework for leadership, organization and culture is the foundation of 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 for all parts of our organization. The directives address areas such as strategy and business planning, finance, risk management, organizational and employee development, (health, environment, safety and security), ethics, as well as corporate 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 over financial reporting. Our internal control over financial reporting is a process designed under the supervision of the Group CEO and the Group CFO. The accounting principles applied by the group follow the Norwegian Generally Accepted Accounting Principles (N GAAP).

In the finance area, there are directives for 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 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.

Board of Directors

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

In accordance with the Norwegian Limited Liability Companies Act (Aksjeloven), the Board of Directors exercises the overall governance of the company, including ensuring that appropriate management and control systems are in place.

The Board of Directors supervises the daily management carried out by the Group CEO.

President and CEO

The President and CEO constitute a formal corporate body in accordance with Norwegian Limited Liability Companies act (Aksjeloven). The CEO is responsible for the day-to-day management of the group. The CEO's responsibility 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.



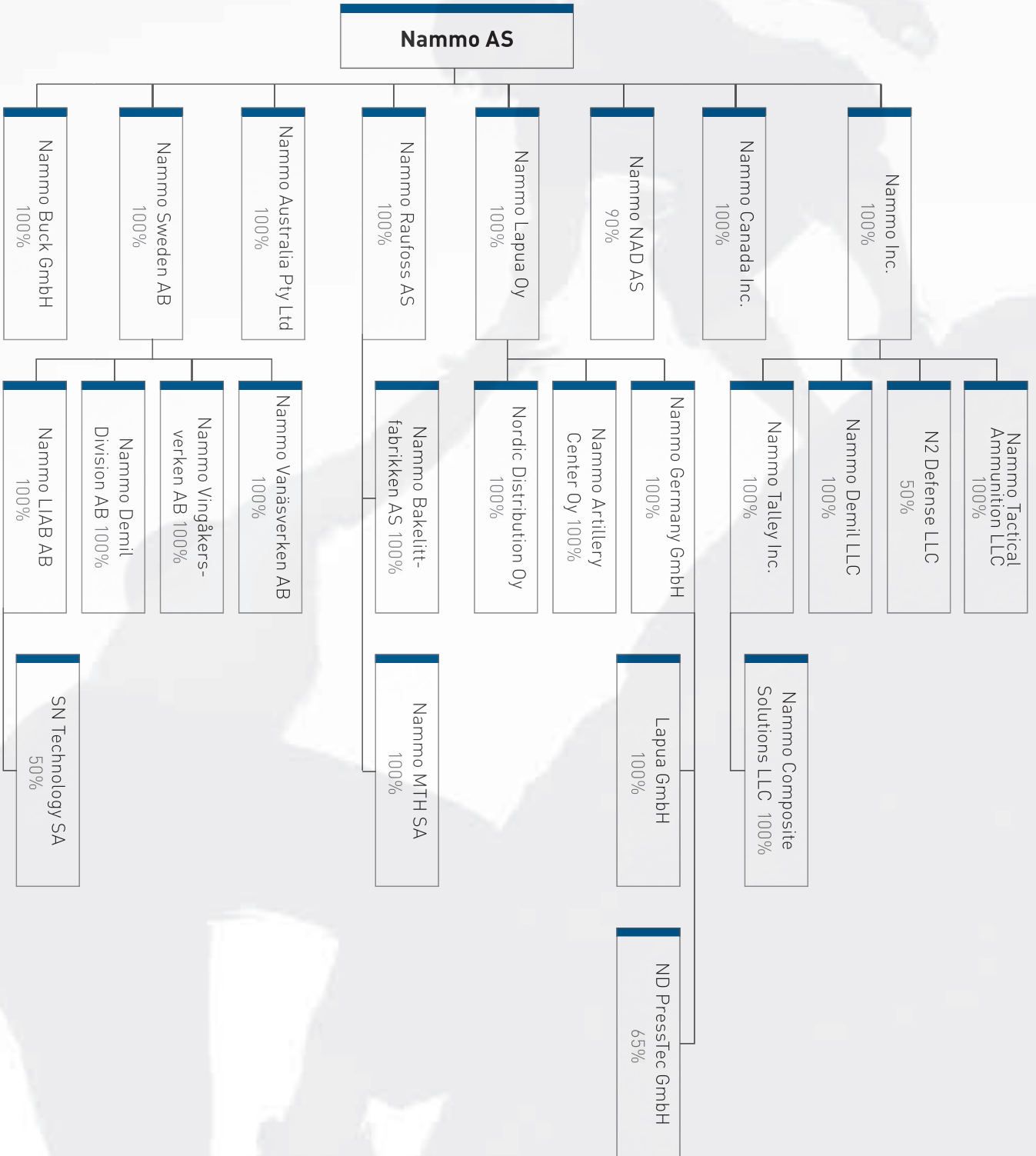
Group Management

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



1st row from left: **Scott Selle**, President, Nammo Talley Inc., **Morten Brandtzæg**, Exec. Vice President, Missile Products Division, **Raimo Helasmäki**, Exec. Vice President, Small Caliber Division, **Edgar Fosheim**, President & CEO, **Reijo Bragberg**, Exec. Vice President, Demil Division, **Bertil Pålsrud**, Senior Vice President, Human Resources.
2nd row from left: **Peter Lerche Raadal**, Senior Vice President, Finance & CFO, **A. Erland Paulsrud**, Vice President Business Development & President Nammo Raufoss AS, **Kjell Kringsjå**, Exec. Vice President, Medium & Large Caliber Division, **Ola Skrivervik**, Senior Vice President, Business Development, **Sissel Solum**, Senior Vice President, Communication.

Company organizational structure



Board of Directors report 2012

2012 was another good year for Nammo. The Group's market position was strengthened. Turnover increased by 4.6 percent and profit increased by 10 percent. New orders ended at the same level as the year before, which we see as a positive signal in a year of considerable uncertainty in the global economy.

General comments

Operating income amounted to NOK 3 311 million, which is 4.6 percent higher than in 2011. The return on sales ended at 14.0 percent (13.7 % in 2011). Operating profit increased by 7.5 percent to NOK 459 million (NOK 427 million) and the profit for the year was NOK 319 million (NOK 290 million).

Nammo develops, produces and sell military and sport ammunition, shoulder launched weapon systems, rocket motors for military and space applications, and is a leading provider of global services for environmentally friendly demilitarization. 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 the US and a sales office in Canada and Australia. The corporate headquarter is located at Raufoss, Norway.

Strategy

The Nammo vision is "Securing the future". For Nammo this is about building a sustainable business both for the customers and the employees, with a strong focus on safety and security. The vision serves as a guideline for all everyday activities to develop Nammo in line with the company's strategy. Nammo's values are "Dedication, Precision and Care". The values describe the company culture and are the basis for building trust and linking the organization together.

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. Nammo's long-term strategy has been to develop the company's position and presence in the international market.

This strategy has been successful and show continuously increasing results.

Through 2012, Nammo continued to strengthen its position in the markets where the company has already established a presence. Nammo remains a strong, dedicated and focused supplier for customers internationally and has in parallel maintained its strong position in the Nordic countries.

Nammo has also given priority to carrying through systematic improvements in operations and cost-reducing measures, and has gradually succeeded in strengthening its financial position.

Operations

The Nordic market

The Nordic market remains a very important part of Nammo's future development. Maintaining a strong position in the home markets is first and foremost the local and national industries role and responsibility to secure national supplies and secondly the excellent reference from which to compete in international markets is incontestable a strong benefit. In 2012, the Nordic market accounted for 28 percent of Nammo's operating income.

The international market

The international market has become steadily more important to Nammo since the company was established in 1998. In 2012, the international market accounted for 72 percent of Nammo's operating income.

Sales to the US and Canada represented 31 percent of the Group's revenues in 2012. Sales generated from Nammo's companies in the US represented 19 percent of the total revenue. The US has taken a leading role in development and qualification by implementing new technology within its

armed forces. The US will therefore continue to represent an important market for Nammo for future growth.

Development, research and technology

Nammo is involved in development programs involving advanced technology solutions for national and international markets. Nammo also takes part in many network-related activities that allow separate systems to work together to increase effectiveness, while continuing to invest in new technologies to maintain and enhance competitiveness. Some of Nammo's development programs for new products have a time frame extending over several years. Other programs, typically to develop new versions of existing products, have a shorter duration. Nammo's research and development costs are normally expensed when they are 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 on the going concern principle 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 Generally Accepted Accounting Principles (N GAAP). 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 3 311 million in 2012 (3 165), which is 4.6 percent higher than in 2011. The operational growth is even higher taking into account the weaker USD and EUR against NOK during 2012 compared to 2011. Net financial items were positive at NOK 5.6 million

in 2012 (8.0). Profit for the year was NOK 319 million in 2012 (290).

Cash flow and liquidity

Nammo's net cash flow from operating activities was NOK 482 million in 2012 (38). The increase is mainly due to higher prepayments from customers. Net cash flow from investment activities amounted to NOK -193 million in 2012 (-140). Net cash flow from financing activities was NOK -137 million in 2012 (-141). This mainly reflects dividend to the shareholders. Cash and cash equivalents were NOK 341 million on 31 December 2012 (190). Nammo had unutilized credit facilities of NOK 226.3 million, measured at 31 December 2012 exchange rates.

Balance sheet

The total assets of the Nammo Group were NOK 3 509 million at the end of 2012 (2 988). Net working capital excluding cash was NOK 750 million (814), while equity was NOK 1 603 million (1 480). Total liabilities were NOK 1 875 million (1 480) at 31 December 2012 and the equity ratio ended at 46 percent in 2012 (50). Total interest-bearing liabilities to financial institutions amounted to NOK 303 million (307) on 31 December 2012.

Risk factors

Nammo operates in a global market, characterized by rapid technological shifts in product and service ranges 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 to manage or minimize them as much as possible. Risk management is therefore an integral part of strategic and operative business management, with the aim of supporting both strategic and financial goals.

Market risk

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

Operational risk

The Group's value creation mainly consists of products and systems of high technological complexity. Efficient project management is an important success factor for reducing operational risk. Nammo has established targets for project management, based on best practice in the industry. Other working methods and qualifying procedures implemented by the company are designed to minimize the overall operational risk.

Financial risks

Nammo has established guidelines for financial risk management at both corporate and divisional levels. The following have been identified as the key financial risk areas for the Nammo Group:

Currency risk: Nammo's customer base is global and currency fluctuations have a major impact on the Group's financial statements. In light of this, currency risk is continuously monitored and through internal risk matching and hedging in the market through financial instruments. 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. Nammo also has currency risk on balance sheet items in foreign currencies due to exchange rate fluctuations. The risk is to equity in subsidiaries and joint ventures reported in foreign currencies. Translation risk is partly reduced through hedge accounting of long term debt.

Commodity price risk: price volatility related to copper, steel and other raw materials can directly impact on Nammo's operating costs, and can also have an effect on the Group's reported operating results. Nammo reduces the risk by

consistently monitoring commodity hedges for all the significant purchase transactions of metals that it is possible to hedge in the market.

Liquidity risk: liquidity risk management means maintaining sufficient cash and cash equivalents, and having funding available through adequate 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 national defense ministries and major companies in the defense industry in NATO and EU countries. The inherent credit risk is thus considered to be low. Credit risk is evaluated annually, and currently the risk associated with outstanding accounts receivable is considered to be low.

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

Distribution of dividend

The Board proposes to the General Meeting of Shareholders a dividend payment of NOK 159.5 million for 2012. Assuming the proposed dividend, the profit in the parent company Nammo AS will be distributed as follows:

Dividend	NOK 159.5 million
Other equity	NOK 27.5 million
Total	NOK 187.0 million

The proposed dividend represents 85 percent of the Nammo AS profit for the year. For the Nammo Group, the proposed dividend represents 50 percent of profit.

Corporate social responsibility

Nammo promotes sustainable development through business operations that emphasize environmental, ethical and social considerations. Nammo is committed to ensuring that human and labor rights, environmental considerations and the anti-corruption act are respected in its business activities and by the Group's suppliers. Nammo shall be characterized by its 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 ethics. In 2012 the Group completed an e-learning program in ethics. Health, environment, safety and security audits were last conducted at the sites in 2012. This is the fourth year that Nammo is reporting according to the Global Reporting Initiative (GRI) standard for sustainable reporting. Nammo is self-declaring, reporting at the B-level. During 2012 Nammo went from supporting to be committed to UN Global Compact's ten principles and will deliver its first company report in 2013.

People

Nammo operates in the explosives industry and handles high-energy materials. Conditions that relate to health, environment, safety and security therefore have higher priority than all other business objectives and goals. This is a high priority for Nammo's employees, and constantly on the management agenda. The Group's policy is evaluated each year. All accidents or serious, near-accidents involving employees are reported and preventive action is taken. Monthly reports are sent to all sites.

Nammo is committed to ensuring 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 29.2 percent of the employees, and activities to motivate female university graduates and other women 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, the recruitment of personnel must be performed in accordance with the national security authorities in the respective countries. The working environment at Nammo is considered to be good.

Each year all sites in Nammo have their own education and training schedules related to health, environment, safety and security. Once a year, Nammo arranges a seminar for all employees involved in these issues. In 2010, Nammo took part in an EU-Excert partnership program and will continue

this work to establish a transferable certificate of explosives competence. This will be recognized inside and outside the EU.

Sick leave among Nammo's employees was at an average of 4.2 percent for 2012 (4.5). 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 26 accidents resulting in employees being absent from work at Nammo in 2012. The Group will continue its preventive work in all areas and maintain a particular focus on conditions for employees.

Environment

Nammo has a direct impact on the 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 with preventive medical examinations.

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.

Society

In 2010, Nammo entered into a 4-year sponsorship agreement with the Norwegian Biathlon Association, promoting the Lapua brand through the women's national team. Through this sponsorship opportunity, Nammo is 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 agreement also includes the establishment of a Lapua scholarship for talented young athletes.

Nammo is the main sponsor for the women's national ski jump team based on the sponsorship agreement signed with the Norwegian Ski Federation. The agreement has two goals. The first is a technology project named Nammo AeroTech

in which Nammo has contributed to the development of ski jumping through increased technological expertise and support in aerodynamics. The project looks promising and performs according to time schedule. Secondly, Nammo will sponsor the women's national ski jump team on their way towards participation in their first Olympics in Sochi 2014.

These two Norwegian national sponsorships are important steps in promoting Nammo and the Lapua brand in Norway and internationally. Nammo's internal ambition with the two sponsorships has been part of the program to recruit more women to the company and to strengthen the Nammo culture through the internal improvement program, the "One Nammo" project.

The United Nations started an initiative in 2006 to establish an Arms Trade Treaty – a legally binding instrument on the highest possible common international standards for the transfer of conventional arms. Nammo has participated as an industrial observer representing the Norwegian Defense Industry in cooperation with the Norwegian Government officials. The Arms Trade Treaty may affect all defense industries if it is concluded. This is why we believe it is so important that the industry show responsibility and takes an interest in participating in and following the discussions of the Treaty. The Treaty aimed to finalize the negotiations

in July 2012 but was postponed to March 2013. Nammo will continue to support the UN process and advise when necessary both industry and government if needed until the final negotiations has been completed.

Outlook for the Nammo Group

Nammo has in the recent years built up strong market positions which are expected to be maintained. There are several large and long-term delivery programs in the implementation phase, which constitutes good prospects for earnings. Our business is working on specific new opportunities for sales and development of missiles, ammunition and shoulder fired weapon systems. The Group is in position to take part in the F35 program by proposing a new generation multirole fighter ammunition.

Nammo is well-positioned in the defense market. The Group has a solid backlog of orders, and there are good conditions for the operation although the uncertainty in the global economy is still considerable.

The Board expresses its appreciation to all employees for their commitment and individual service during the year. This has contributed to our good results for 2012 in increasingly challenging market conditions.

Gardermoen, 20 March 2013

Heikki Allonen, Chairman of the Board

Tone Lindberg Hofstad, Board Member

Einar Linnerud, Board Member

Eldbjørg Løwer, Vice Chairman

Astrid Berg Ardesjö, Board Member

Dag J. Opedal, Board Member

Sirpa-Helena Sormunen, Board Member

Edgar Fosshem, President & CEO

Board of Directors



Heikki Allonen
Chairman of the Board



Eldbjørg Løwer
Vice Chairman



Tone Lindberg Hofstad
Board Member



Sirpa-Helena Sormunen
Board Member



Dag J. Opedal
Board Member



Einar Linnerud
*Board Member**



Astrid Berg Ardesjö
*Board Member**



Petri Kontola
*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 2012

Consolidated financial statements

“

It's great to work with partners you rely on. Nammo makes me confident. I trust their work and know that their products are the best on the market.

– Tora Berger, Biathlon World Champion, Norway

Why Nammo?

“

We love working with Nammo because they quickly address our needs and are always available to work on new concepts and ideas. They are more an extension of our team than just a supplier.

– Cody Tretschok, Raytheon Missile Systems, USA

– A trusted partner

Income statement

Nammo Group

(NOK 1 000)	Notes	2012	2011
Operating income	1	3 310 899	3 165 463
Operating expenses			
Changes in stock of work in progress and finished goods		(202 742)	(123 757)
Changes in self-manufactured fixed assets		(665)	(561)
Cost of goods sold		1 302 900	1 233 376
Payroll expenses	3, 11	1 057 779	989 800
Depreciation of tangible and intangible fixed assets	6	115 429	125 837
Other operating expenses		579 410	514 117
Total operating expenses		2 852 111	2 738 812
Operating profit		458 788	426 651
Financial income and expenses			
Income from associates and joint ventures - equity method	5	(1 763)	335
Interest income		6 963	10 267
Other financial income	4	12 687	9 981
Interest expenses		(4 779)	(8 525)
Other financial expenses	4	(7 515)	(3 635)
Net financial income (expense)		5 593	8 423
Ordinary result before tax		464 381	435 074
Taxes on ordinary result	12	(133 933)	(132 740)
Ordinary result		330 448	302 334
Minority share		(11 696)	(12 455)
Profit (loss) for the year		318 752	289 879

Balance sheet

Nammo Group

(NOK 1 000)	Notes	As of 31.12.12	As of 31.12.11	As of 31.12.10
Assets				
Non-current assets				
Intangible assets				
Deferred tax asset	12	13 783	41 177	51 766
Licenses, trademarks and other intangible assets	6	236 717	276 554	294 943
Goodwill	6	15 311	22 582	32 180
Total intangible assets		265 811	340 313	378 889
Tangible assets				
Buildings	6	225 489	199 543	198 961
Land	6	25 272	15 103	15 095
Machines and equipment	6	282 050	246 753	264 618
Fixtures and fittings, tools, office machinery, etc.	6	36 004	36 512	31 576
Plant under construction	6	96 793	84 209	19 304
Total tangible assets		665 608	582 120	529 554
Financial fixed assets				
Shares in joint controlled companies	5	7 125	601	601
Shares in associated companies	5	558	675	344
Other shares and participations	5	8 451	6 013	6 023
Other receivables	7	18 133	11 298	13 646
Total financial fixed assets		34 267	18 587	20 614
Total non-current assets		965 686	941 020	929 057
Current assets				
Stocks				
Stocks of raw materials		334 880	273 522	271 829
Stocks of work in progress		639 424	523 764	410 010
Stocks of finished goods		225 932	138 850	130 540
Total stocks		1 200 236	936 136	812 379
Receivables				
Accounts receivable	8	746 561	646 517	452 717
Other receivables	7	189 044	260 551	266 847
Advance payments to suppliers		66 264	13 717	11 815
Total receivables		1 001 869	920 785	731 379
Cash and cash equivalents	9	341 492	190 225	432 855
Total current assets		2 543 597	2 047 146	1 976 613
Total assets		3 509 283	2 988 166	2 905 670

(NOK 1 000)	Notes	As of 31.12.12	As of 31.12.11	As of 31.12.10
Shareholders' equity and liabilities				
Equity				
Share capital		100 000	100 000	100 000
Premium fund		258 670	258 670	258 670
Other equity		1 244 576	1 121 215	945 916
Total equity		1 603 246	1 479 885	1 304 586
Minority share		30 559	28 506	26 259
Total equity and minority share	10	1 633 805	1 508 391	1 330 845
Liabilities				
Non-current liabilities				
Pension liabilities	11	111 642	122 776	116 821
Deferred tax	12	-	51	76
Total non-current liabilities		111 642	122 827	116 897
Other non-current liabilities				
Liabilities to financial institutions	13	303 292	306 533	298 575
Other non-current liabilities		8 392	7 936	7 615
Total other non-current liabilities		311 684	314 469	306 190
Current liabilities				
Allocation for guarantee liabilities		97 629	87 111	98 335
Accounts payable		211 692	193 781	177 819
Income tax payable	12	58 976	58 068	64 661
Public duties		62 750	60 105	116 306
Dividend payable		159 500	145 000	140 300
Prepayments from customers		621 692	222 934	290 787
Other short term liabilities		239 913	275 480	263 530
Total current liabilities		1 452 152	1 042 479	1 151 738
Total liabilities		1 875 478	1 479 775	1 574 825
Total shareholders' equity and liabilities		3 509 283	2 988 166	2 905 670

Gardermoen, 20 March 2013

Heikki Allonen, Chairman of the Board

Eldbjørg Løwer, Vice Chairman

Dag J. Opedal, Board Member

Tone Lindberg Hofstad, Board Member

Sirpa-Helena Sormunen, Board Member

Einar Linnerud, Board Member

Astrid Berg Ardesjö, Board Member

Edgar Fosshøim, President & CEO

Cash flow

Nammo Group

(NOK 1 000)	2012	2011	2010
Cash flow from operational activities			
Result before tax	464 381	435 074	433 222
Tax payments	(116 575)	(111 098)	(133 602)
Profit and loss on sale of fixed assets	2 295	(85)	-
Ordinary depreciations	115 429	125 837	130 959
Changes in stocks	(289 555)	(119 995)	(6 031)
Changes regarding debtors	(114 296)	(185 299)	106 575
Changes regarding creditors	23 603	16 116	(10 170)
Changes in other dispositions	396 236	(122 403)	15 396
Net cash flow from operational activities (a)	481 518	38 147	536 349
Cash flow from investement activites			
Payments received from sale of fixed assets	1 101	241	1 163
Purchase of fixed assets	(191 906)	(139 426)	(86 875)
Payments received from sale of other long-term investments	-	-	-
Purchase of other long-term investments	(2 445)	(606)	(5 416)
Net cash flow from investment activities (b)	(193 250)	(139 791)	(91 128)
Cash flow from financing activities			
Payments received regarding new long term loans	16 700	7 093	-
Installments on long-term loans	(852)	(920)	(170 203)
Net payment of interest	-	-	-
Paid dividend	(152 849)	(147 159)	(133 800)
Net cash flow from financing activities (c)	(137 001)	(140 986)	(304 003)
Net changes in cash and bank accounts (a+b+c)	151 267	(242 630)	141 218
Cash and bank accounts as of 01.01.	190 225	432 855	291 637
Cash and bank accounts as of 31.12.	341 492	190 225	432 855

Total unused cash credits as of December 2012 is NOK 226.3 million. See note 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 17, are recognized at their fair values at the acquisition date. The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of 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 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 Regnskapstiftelse), 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 saleor 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, USA and Australia.

Turnover from Nammo subsidiaries per country

(NOK 1 000)	2012
Norway	1 262 694
Sweden	692 932
USA	618 578
Germany	466 972
Finland	269 562
Switzerland	161
Total	3 310 899

Turnover per geographical location of customers

(NOK 1 000)	2012
USA	912 032
Norway	433 687
Sweden	341 663
Other countries	348 961
Germany	272 175
Great Britain	260 407
Finland	151 298
Canada	105 530
France	85 580
Other European countries	82 451
Poland	71 343
Belgium	57 149
Switzerland	48 485
Denmark	41 592
Italy	39 865
Netherlands	38 618
Spain	20 063
Total	3 310 899

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 2012:

(Amounts in currency 1 000)

Transaction type	Buy/Sell(-)	CAD	CHF	EUR	GBP	SEK	USD
FX Forward	Buy	123	258	10 629	-	3 557	22 046
	Sell(-)	-	(341)	(37 106)	(2 244)	-	(100 769)
FX SWAP	Buy	-	-	1 280	-	1 782	1 096
	Sell(-)	-	-	(759)	(175)	(3 564)	(12 262)

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

Transaction type	Buy/sell	Year 2013	Year 2014
FX Forward	Buy	90%	10%
	Sell	95%	5%
FX SWAP	Buy	100%	-
	Sell	100%	-

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

In some cases the underlying transaction does not happen at the maturity date of the hedging instrument. In these cases FX 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

(NOK 1 000)	2012	2011
Salaries	818 379	754 855
Employment taxes	87 966	78 398
Pension costs	55 017	61 210
Other personnel costs	96 417	95 337
Total	1 057 779	989 800
Average number of man years	1 922	1 876

Remuneration to CEO and Board of Directors

(NOK)	Function	Salary and other remuneration	Prepaid pension	Bonus	Total
Edgar Fosshem	President and CEO	3 536 132	1 445 850	1 123 598	6 105 580
Nammo AS Board	Board of Directors	1 307 978	-	-	1 307 978

Loan to the CEO has a balance of NOK 183 308 as of 31.12.2012. The loan is due in 2 years and the interest rate is 0.75% p.a. in 2012.

The CEO is included in Nammo AS's collective pension scheme, limited to 12G. In addition the CEO receives a prepaid compensation for pension, which for 2012 amounted to NOK 1 445 850.

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

Auditor's fee

All numbers are presented exclusive VAT.

(NOK 1 000)	2012
Auditors fee	3 408
Fees for other assurance work, including IFRS	132
Tax advisory services	591
Other services	1 115
Total	5 246

4. FINANCIAL ITEMS

(NOK 1 000)	2012	2011
Gain on exchange	12 641	8 572
Other financial income	46	1 409
Total other financial income	12 687	9 981
Loss on exchange	(6 643)	(3 581)
Other financial expenses	(872)	(54)
Total other financial expenses	(7 515)	(3 635)

5. SHARES IN OTHER COMPANIES

	Company's share capital	Number of shares owned	Nominal value	Booked value NOK	Owner- ship
(NOK 1 000)					
Joint controlled companies:					
SN Technologies SA, Meyrin, Switzerland	CHF 200 000	100	CHF 100 000	7 086	50%
N2 Defense, USA	USD 120 000			39	50%
Total				7 125	
Associated companies:					
DrawTech Oy, Finland	EUR 36 000	533	-	558	33%
Total				558	
Other shares and participations:					
Sintef Raufoss Manufacturing AS, Raufoss, Norway				1 302	14%
Raufoss Industripark III AS, Raufoss, Norway				4 209	25%
Lean Lab, Gjøvik, Norway				200	12%
Komm-In AS, Norway				2 503	14%
Others				237	-
Total				8 451	

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)	Patents, trademark and other intangible assets		Goodwill	Buildings	Land	Machinery and equipment	Fixtures, fittings, tools, office machinery, etc	Plants under construction	Total assets
Acquisition cost as of 01.01.12	424 861	168 308	385 214	24 863	1 025 077	172 219	84 208	2 284 750	
Additions during the year	1 266	4 214	61 323	1 101	93 066	13 195	15 751	189 916	
Disposals during the year	(6)	-	-	-	(14 034)	(446)	(59)	(14 545)	
Exchange difference acq. cost	(29 385)	(8 592)	(9 459)	(427)	(12 869)	(5 003)	(3 107)	(68 842)	
Acquisition cost 31.12.12	396 736	163 930	437 078	25 537	1 091 240	179 965	96 793	2 391 279	
Accumulated depreciations 31.12.12	(160 019)	(148 619)	(211 589)	(265)	(809 190)	(143 961)	-	(1 473 643)	
Book value as of 31.12.12	236 717	15 311	225 489	25 272	282 050	36 004	96 793	917 636	
Depreciations this year	22 559	10 591	18 502	265	52 169	11 343	-	115 429	
Annual leasing cost of assets not recognized in balance sheet	-	-	46 762	-	10 073	4 137	-	60 972	
Economic life time (years)	1 – 25	5	10 - 50	-	5 - 15	3 - 10	-	-	
Depreciation plan	Linear	linear	linear	linear	linear	linear	-	-	

7. OTHER RECEIVABLES (CURRENT AND NON-CURRENT)

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)	2012	2011
Accounts receivables	747 069	647 450
Provision for bad debt	(508)	(933)
Book value of accounts receivables	746 561	646 517

9. CASH RESERVE

(NOK 1 000)	2012	2011
Cash and cash equivalents	341 492	190 225
Unused cash credits	226 259	287 300
Net cash reserve	567 751	477 525

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, Nammo Raufoss AS and Nammo NAD AS.

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

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

10. EQUITY – CHANGES IN EQUITY

(NOK 1 000)	Share capital	Premium fund	Other equity	Minority share	Total
Equity as of 01.01.12	100 000	258 670	1 172 867	31 728	1 563 265
Exchange differences opening balance			(51 652)	(3 222)	(54 874)
Equity as of 01.01.12 including exchange differences	100 000	258 670	1 121 215	28 506	1 508 391
Profit for the year	-	-	318 752	-	318 752
Proposed dividend to shareholders ¹⁾	-	-	(159 500)	-	(159 500)
Change in minority share this year	-	-	7 978	3 523	11 501
Correction of errors previous years	-	-	5 485	-	5 485
Other items	-	-	(16 079)	-	(16 079)
Exchange differences for the period	-	-	(30 787)	(1 470)	(32 257)
Exchange differences on profit for the year	-	-	(2 488)	-	(2 488)
Total equity as of 31.12.12	100 000	258 670	1 244 576	30 559	1 633 805

¹⁾ 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 2012 was NOK 111.6 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)	2012	2011
Service costs	19 901	37 730
Amortization of net actuarial losses (gains)	5 532	3 952
Interest costs	10 846	10 913
Expected return on plan assets	(10 931)	(10 529)
Pension cost related to defined contribution plans	27 073	19 144
Settlement pension plans	2 596	-
Net periodic pension costs	55 017	61 210

Pension liability

(NOK 1 000)	2012	2011
Defined benefit obligation incl. social security tax	310 505	392 308
- Fair value of plan assets	(172 391)	(219 515)
Net pension obligation	138 114	172 793
Items not recorded in the profit and loss:		
Unrecognized net actuarial loss (gain)	(26 472)	(50 017)
Net amount recognized in the balance sheet	111 642	122 776

12. TAX CALCULATIONS

Deferred tax liability / deferred tax asset (-)

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

(NOK 1 000)	2012	2011	Change
Temporary differences:			
Fixed assets	99 140	52 353	(46 787)
Accounts receivable	4 051	-	(4 051)
Stock of goods	71 771	39 629	(32 142)
Pension liabilities	(7 536)	(20 938)	(13 402)
Guarantee liabilities	(94 803)	(82 911)	11 892
Other temporary differences	2 156	2 856	700
Adjustments for consolidation items	(75 949)	(83 499)	(7 550)
Temporary differences	(1 170)	(92 510)	(91 340)
Carried forward losses for tax purposes	(94 026)	(109 389)	
Total temporary differences	(95 196)	(201 899)	
Gross deferred tax / deferred tax assets (-)	(29 449)	(56 708)	
Adjustments for consolidation items	15 666	15 582	
Net deferred tax liability / deferred tax asset (-)	(13 783)	(41 126)	
Classified as deferred tax asset	13 783	41 177	
Deferred tax liability in the balance sheet	0	51	

Deferred tax in the balance sheet 2011 refers to business combinations.

Payable income taxes

(NOK 1 000)	2012
Net income before tax	464 381
Changes in temporary differences	(91 340)
Exchange differences temporary differences	9 684
Permanent differences	20 111
Use of carried forward losses	(10 844)
Taxable income	391 992
Payable income tax	112 587

Tax expense in profit and loss	
(NOK 1 000)	2012
Payable tax on this year's result	112 587
Adjustments prior years	(279)
Payable tax in this year's tax cost	112 308
Change in deferred tax / deferred tax asset	24 713
Other items	(3 088)
Tax expense in the P&L	133 933
Payable tax in the balance sheet	
(NOK 1 000)	2012
Payable taxes	111 493
Prepaid taxes	(50 645)
Other items	(1 872)
Payable tax in balance sheet	58 976

13. INTEREST BEARING LOANS AND GUARANTEES

(NOK 1 000)	2012	2011
Loan from credit institutions	303 292	306 533
Total interest bearing loans	303 292	306 533

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 December 2012, the facility is at NOK 300 million. The facility will terminate at the end of March 2014.

In addition, Nammo has unused cash credits totaling NOK 226.3 million.

Guarantees not recognized in the balance sheet as of 31.12.2012 is NOK 417.7 million.

Nammo AS 2012

Financial statements

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Nammo is a long-time and reliable supplier and partner for the Finnish Defence Forces. Nammo has the ability to respond to the changing demands of the FDF and to develop products that match the demands of the FDF.

– Colonel Ilkka Lemmetty, Chief of Materiel Division, Army Command

Why
Nammo?

“

The best ammunition for small and big bore.
The team is always listening and helping me.
Those are the reasons that I shoot only Lapua.

– Josselin Henry, unbeatable 600/600 record holder,
Team Lapua, France

– A trusted partner

Income statement

Nammo AS

(NOK 1 000)	Notes	2012	2011
Operating income		58 731	54 731
Operating expenses			
Payroll expenses	1	25 406	23 142
Depreciation of tangible and intangible fixed assets	3	1 424	1 311
Other operating expenses		54 689	50 196
Total operating expenses		81 519	74 649
Operating profit		(22 788)	(19 918)
Financial income and expenses			
Received group contribution		100 000	100 000
Interest income	2	10 655	12 393
Other financial income	2	148 730	165 160
Interest expense	2	(1 671)	(2 973)
Other financial expenses	2	(25 619)	(2 247)
Net financial income (expenses)		232 095	272 333
Ordinary result before tax		209 307	252 415
Taxes on ordinary result	10	(22 262)	(29 668)
Profit (loss) for the year		187 045	222 747
The Board's proposal for allocation of the profit			
Dividend		159 500	145 000
Other equity		27 545	77 747
Total		187 045	222 747

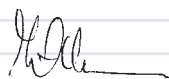
Balance sheet

Nammo AS

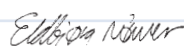
(NOK 1 000)	Notes	As of 31.12.12	As of 31.12.11	As of 31.12.10
Assets				
Non-current assets				
Intangible assets				
Deferred tax asset	10	-	345	448
Total intangible assets		-	345	448
Tangible assets				
Buildings	3	282	451	619
Machines and equipment	3	693	1 006	-
Fixtures and fittings, office machines, etc.	3	2 915	3 857	1 124
Fixed assets under construction	3	-	-	4 059
Total tangible assets		3 890	5 314	5 802
Financial fixed assets				
Investments in subsidiaries	4	594 333	594 333	594 333
Investments in other shares and participations	4	95	95	95
Loans to group companies		361 505	419 878	410 703
Pension assets	9	298	-	-
Other receivables		3 030	2 968	2 797
Total fixed assets		959 261	1 017 274	1 007 928
Total non-current assets		963 151	1 022 933	1 014 178
Current assets				
Receivables				
Accounts receivables	5	10	1 183	1 324
Receivables from group companies		85 793	82 538	101 431
Receivables group contributions		100 000	100 000	100 000
Prepayments to vendors		638	-	-
Other receivables		4 233	5 592	5 208
Total receivables		190 674	189 313	207 963
Cash and cash equivalents	6	280 395	121 807	449 669
Total current assets		471 069	311 120	657 632
Total assets		1 434 220	1 334 053	1 671 810

(NOK 1 000)	Notes	As of 31.12.12	As of 31.12.11	As of 31.12.10
Shareholders' equity and liabilities				
Equity				
Share capital	7, 8	100 000	100 000	100 000
Premium fund	8	258 670	258 670	258 670
Total paid in capital		358 670	358 670	358 670
Other equity	8	346 134	318 591	240 844
Total earned equity		346 134	318 591	240 844
Total equity		704 804	677 261	599 514
Liabilities				
Non-current liabilities				
Pension liabilities	9	-	1 252	1 177
Deferred tax	10	46	-	-
Total non-current liabilities		46	1 252	1 177
Other non-current liabilities				
Liabilities to financial institutions	11	279 405	297 670	295 832
Total other non-current liabilities		279 405	297 670	295 832
Current liabilities				
Prepayments from customers		2 557	2 557	30 389
Accounts payable		5 499	4 285	3 957
Payables to group companies		250 171	167 079	560 563
Income tax payable	10	21 871	29 565	30 693
Public duties payable		2 127	2 066	3 674
Dividend payable to shareholders		159 500	145 000	140 300
Other current liabilities		8 240	7 318	5 711
Total current liabilities		449 965	357 870	775 287
Total liabilities		729 416	656 792	1 072 296
Total shareholders equity and liabilities		1 434 220	1 334 053	1 671 810

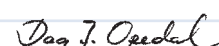
Gardermoen, 20 March 2013



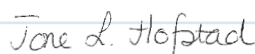
Heikki Allonen, Chairman of the Board



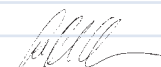
Eldbjørg Løwer, Vice Chairman



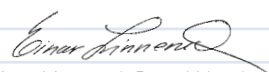
Dag J. Opedal, Board Member



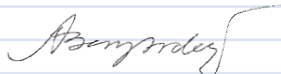
Tone Lindberg Hofstad, Board Member



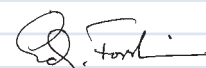
Sirpa-Helena Sormunen, Board Member



Einar Linnerud, Board Member



Astrid Berg Ardesjö, Board Member



Edgar Fosshelm, President & CEO

Cash flow

Nammo AS

(NOK 1 000)	2012	2011	2010
Cash flow from operational activities			
Result before tax	209 307	252 415	248 772
Tax payments	(29 565)	(30 693)	(24 113)
Ordinary depreciation	1 424	1 311	547
Changes in accounts receivable	(2 082)	19 034	(21 305)
Changes in accounts payable	(34 457)	(8 936)	43 315
Pension cost less paid pension premium	(1 551)	75	(3 622)
Changes in loans to group and joint control companies	58 373	(9 174)	(4 261)
Changes in other depositions	2 139	(510 771)	165 036
Net cash flow from operational activities (a)	203 588	(286 739)	404 369
Cash flow from investment activities			
Payments from sold fixed assets	-	-	530
Investments in fixed assets	-	(823)	(1 018)
Investments in other assets	-	-	(3 200)
Net cash flow from investment activities (b)	-	(823)	(3 688)
Cash flow from financing activities			
Installments on long-term loans	-	-	(170 203)
Net payment of interest	-	-	21 489
Received group contribution	100 000	100 000	100 000
Paid dividend	(145 000)	(140 300)	(133 800)
Net cash flow from financing activities (c)	(45 000)	(40 300)	(182 514)
Net changes in cash and bank accounts (a+b+c)	158 588	(327 862)	218 167
Cash and bank accounts as of 01.01.	121 807	449 669	231 502
Cash and bank accounts as of 31.12.	280 395	121 807	449 669

Unused credit facilities is NOK 226.3 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)	2012	2011
Salaries	20 639	19 091
Employment taxes	2 924	2 494
Pension costs	1 028	1 013
Other social costs	815	544
Total	25 406	23 142
Average number of man-years	12	12

Auditor's fee

(NOK 1 000) - All numbers are presented exclusive VAT	2012
Auditors fee	448
Fees for other attestation services	43
Tax advisory services	46
Other services	297
Total	834

2. FINANCIAL ITEMS

(NOK 1 000)	2012	2011
Interest income from Group companies	8 812	9 863
Other interest income	1 843	2 530
Total interest income	10 655	12 393
Gain on exchange	18 957	11 994
Dividend from Group companies	129 773	152 169
Other financial income	-	997
Total other financial income	148 730	165 160
Other interest cost	(1 671)	(2 973)
Total interest cost	(1 671)	(2 973)
Loss on exchange	(25 618)	(2 142)
Other financial expenses	-	(105)
Total other financial expenses	(25 618)	(2 247)

3. FIXED AND INTANGIBLE ASSETS

(NOK 1 000)	Buildings	Machines and equipment	Fixtures, fittings and office equipment	Total
		equipment	equipment	
Acquisition cost as of 01.01.12	845	1 566	4 709	7 120
Additions during the year	-	-	-	-
Disposals during the year	-	-	-	-
Acquisition cost as of 31.12.12	845	1 566	4 709	7 120
Accumulated depreciations	(563)	(873)	(1 794)	(3 230)
Book value as of 31.12.12	282	693	2 915	3 890
Ordinary depreciations for the year	169	313	942	1 424
Annual leasing cost on assets not in the balance sheet	303	28	43	374
Economic life time (years)	5 years	3-5 years	3 - 10 years	
Depreciation plan	linear	linear	linear	

4. SHARES IN OTHER COMPANIES

(NOK 1 000)	Company's share capital	Number of shares	Nominal value	Booked value	Ownership
		owned		value	
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%
Total				594 333	
Other shares and participations:					
Toten Golf AS, Reinsvoll				95	
Total				95	

5. ACCOUNTS RECEIVABLE

(NOK 1 000)	2012	2011
Accounts receivable	10	1 183

Accounts receivable are booked at nominal value. There has been no loss on accounts receivable in 2012.

6. CASH RESERVE

This amount includes bank balances of Group companies that participate in the international cash pool of NOK 244 million. See note 12.

7. SHARE CAPITAL

As of 31.12.2012 Nammo AS's share capital is NOK 100 million, split on 1 000 000 shares of NOK 100 each.

Nammo AS shareholders as of 31.12.2012

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

8. EQUITY

(NOK 1 000)	Share capital	Share premium reserve	Other equity	Net result	Total
Equity as of 01.01.12	100 000	258 670	318 591	-	677 261
Net result	-	-	-	187 045	187 045
Allocation of the net result ^{†1}	-	-	187 045	(187 045)	-
Dividend ^{†1}	-	-	(159 500)	-	(159 500)
Equity as of 31.12.12	100 000	258 670	346 134	-	704 804

^{†1} 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 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 2011 with the following assumptions:

Yield from pension funds	4.20%
Interest rate used to discount future cash flows	3.60%
Annual salary increase	3.25%
Annual increase in G	3.00%
Annual change in pension	0.00%

Pension cost		
(NOK 1 000)	2012	2011
Service costs	992	946
Amortization of net actuarial losses (gains)	55	40
Interest costs	526	528
Expected return on plan assets	(545)	(501)
Net pension costs	1 028	1 013
Pension liabilities		
(NOK 1 000)	2012	2011
Defined benefit obligation incl. payroll tax	13 348	13 810
- Fair value of plan assets	(12 405)	(10 414)
Gross pension liability	943	3 396
Items not recognized in the profit and loss:		
Unrecognized net actuarial loss (gain)	(1 241)	(2 144)
Net amount recognized in the balance sheet	(298)	1 252

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)	2012	2011
Net income before tax	209 307	252 415
Permanent differences	(129 804)	(146 455)
Changes in temporary differences	(1 394)	(369)
Taxable income	78 109	105 591

Specification of the tax cost in the profit and loss:

Tax payable	21 871	29 565
Changes in deferred tax	391	103
This year's tax cost	22 262	29 668

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.

Deferred tax calculation

(NOK 1 000)	31.12.12	31.12.11
Fixed assets	(133)	23
Pension liability/asset(-)	298	(1 252)
Net temporary differences as basis for deferred tax /tax asset(-) calculation	165	(1 229)
Deferred tax/deferred tax asset(-) at 28%	46	(345)

11. INTEREST BEARING LOANS AND GUARANTEES

	2012	2011
Loans from banks	279 405	297 670

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 300 million in December 2012. The facility will terminate at the end of March 2014.

In addition, Nammo AS has unused cash credits of NOK 226.3 million.

Guarantees not in the balance sheet as of 31.12.2012 are NOK 417.5 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, Nammo Raufoss AS and Nammo NAD AS.

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

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

Nammo AS subsidiaries' balance on the cash pool is included in payables to group companies.

This amounts to NOK 244 million. See note 6.

Auditors report for 2012



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Enterprise 935 174 627 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 187 045 000, and the consolidated financial statements of Nammo AS and its subsidiaries, showing a profit of NOK 318 752 000. The parent company's and the consolidated financial statements comprise balance sheet as at 31 December 2012, 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 accounting standards and practices generally accepted 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 are prepared in accordance with the law and regulations and 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 2012, and of their financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Offices in:

Oslo	Haugesund	Sandnessjøen
Alta	Kragerø	Stavanger
Arendal	Kristiansand	Stord
Bergen	Larvik	Straume
Bodo	Mo i Rana	Tromsø
Eivertun	Molde	Trondheim
Finnsnes	Narvik	Tønsberg
Grimstad	Roros	Ålesund
Hamar	Sandefjord	

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

Statsautoriserede revisorer - medlemmer av Den norske Revisorforening.



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 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, 20 March 2013
KPMG AS

Thore Kleppen
State Authorized Public Accountant

[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. As of 2013, Nammo will report on progress. 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:

Human rights	2, 5-6, 10, 16-19, 22, 26-27, 33
<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.
Labor standards	2, 5, 17-19, 22, 33
<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.
Environment	5-6, 11-13, 22
<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.
Anti-corruption	2, 5, 18, 22
<i>Principle 10:</i>	Businesses should work against corruption in all its forms, including extortion and bribery.



This is the fourth year that Nammo is reporting according to the Global Reporting Initiative (GRI) standard for sustainable reporting. GRI is a networkbased 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. Nammo is self-declaring, reporting at the B-level.

The table below presents those GRI indicators that, in our opinion, are the most relevant for us to report in a corporate context. The table indicates where relevant information about the various indicators can be found in the report whether it is fully or partly disclosed according to the GRI guidance

GRI element/ indicator		Comments and page references
Strategy and analysis		
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, 31-32
Organizational profile		
2.1	Name of the organization.	Front cover, inside cover.
2.2	Primary brands, products and/or services.	Inside cover, 5-9
2.3	Operational structure of the organization, including main Divisions, operating companies, subsidiaries and joint ventures.	4-9, 28, 29, 70
2.4	Location of organization's headquarters	Inside cover, 29, 70
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, 29, 43, 45, 58, 70
2.6	Nature of ownership and legal form.	Inside cover, 26-27, 29
2.7	Markets served.	Inside cover, 4-9, 30-31, 43
2.8	Scale of the reporting organization.	Inside cover, 4-9
2.9	Significant changes in size, structure or ownership.	3, 30
2.10	Awards received in the reporting period.	18
Report parameters		
Report profile		
3.1	Reporting period.	2012
3.2	Date of most recent previous report. Nammo Annual Report	2011
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 Officer.
Report scope and boundary		
3.5	Process for defining report content.	10, 41-42, 55-56, 65
3.6	Boundary of the report.	10, 41-42, 55-56
3.7	State any specific limitations on the scope or boundary of the report.	10, 41-42, 55-56

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, 41-42, 55-56
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, 41-42, 55-56
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.
	GRI content index	
3.12	Table identifying the location of the standard disclosures in the report.	65-69
	Assurance	
3.13	Policy and current practice with regard to seeking external assurance for the report.	62-63, external assurance not practiced for CSR.
	Governance, commitments, and engagement	
	Governance	
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.	4, 26-29, 35
4.2	Indicate whether the chair of the highest governance body is also an executive officer.	26-27
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.	19, 26-27, 35
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	26-27, 35
4.5	Linkage between compensation for members of the highest governance body, senior managers and executives and the organization's performance.	26-27, 44
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	26-27
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.	26-27
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.	Inside cover, 16-18, 22, 26-27
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.	26-27
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social performance.	26-27
	Commitments to external initiatives	
4.11	Explanation of whether and how the precautionary approach or principles is addressed by the organization.	10-25
4.12	Externally developed economic, environmental and social charters, principles or other initiatives to which the organization subscribes or endorses.	10, 18, 22, 64, 65
4.13	Memberships in associations and/or national/international advocacy organizations.	22
	Stakeholder engagement	
4.14	List of stakeholder groups engaged by the organization.	22-23
4.15	Basis for identification and selection of stakeholders with whom to engage.	22-23
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	16-25
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.	6, 16-25

GRI element/ indicator		Comments and page references
	Environmental	
	Disclosure on management approach	2, 11-14, 26-27, 33
	Materials	
EN1	Materials used by weight or volume.	Not reported.
EN2	Percentage of materials used that are recycled input materials.	Not reported.
	Energy	
EN3	Direct energy consumption by primary energy source.	12
EN4	Indirect energy consumption by primary source.	Not reported.
EN5	Energy saved due to conservation and efficiency improvements	11-12
	Water	
EN8	Total water withdrawal by source.	12
	Biodiversity	
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.
	Emissions, effluents and waste	
EN16	Total direct and indirect greenhouse gas emissions by weight.	Not reported..
EN17	Other relevant indirect greenhouse gas emissions by weight.	Not relevant.
EN18	Initiative to reduce greenhouse gas emissions and reductions achieved	12
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.	13
EN23	Total number and volume of significant spills.	No significant spills.
	Products and services	
EN26	Initiatives to mitigate environmental impacts of products and services and extent of impact mitigation.	5, 6
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	Not relevant.
	Compliance	
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	No fines reported.
	Human rights	
	Disclosure on management approach	2, 10, 16-19, 26-27, 33
	Investment and procurement practices	
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.	2, 18, 33
	Non-discrimination	
HR4	Total number of incidents of discrimination and corrective actions taken.	No incidents reported.
	Freedom of association and collective bargaining	
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.
	Child labor	
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
	Forced and compulsory labor	
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.
	Assessment	
HR10	Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments.	Not reported.
	Remediation	
HR11	Number of grievances related to human rights filed, addressed and resolved through formal grievance mechanisms.	No grievances reported
	Labor practices and decent work	
	Disclosure on management approach	2, 10, 16-19, 26-27, 33-34
	Employment	
LA1	Total workforce by employment type, employment contract and region broken down by gender.	Inside cover, 16-19
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.
	Labor/management relations	
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.	Following national laws and regulations.
	Occupational health and safety	
LA7	Rates of injuries, occupational diseases, lost days, absenteeism and number of workrelated fatalities by region and by gender.	17-18, 33
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.
	Training and education	
LA10	Average hours of training per year per employee by gender and by employee category.	Not reported.
	Diversity and equal opportunities	
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.	19
	Equal remuneration for women and men	
LA14	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operations.	17, 33
	Society	
	Disclosure on management approach	2, 10, 21-25, 26-27, 33-34
	Local community	
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.	13
	Corruption	
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.	2, 18
S04	Actions taken in response to incidents of corruption.	No incidents reported.
	Public policy	
S05	Public policy positions and participation in public policy development and lobbying.	5, 22

GRI element/ indicator		Comments and page references
	Anti-competitive behavior	
S07	Total number of legal actions for anti-competitive behavior, anti-trust and monopoly practices and their outcomes.	No incidents reported.
	Compliance	
S08	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	No incidents reported.
	Product responsibility	
	Disclosure on management approach	2, 26-27, 31
	Customer health and safety	
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.	5, 6
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.
	Product and service labeling	
PR3	Type of product and service information required by procedures and percentage of significant products and services subject to such information requirements.	According to national laws and regulations.
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.
	Marketing communications	
PR6	Programs for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship.	According to national laws and regulations. 14
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.
	Customer privacy	
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	No incidents reported.
	Compliance	
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.
	Economic	
	Disclosure on management approach	2, 26-27, 30-34
	Economic performance	
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, 32, 37-61
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.	47, 59-60
EC4	Significant financial assistance received from government.	3
	Market presence	
EC6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation.	13
EC7	Procedures for local hiring and proportion of senior management hired from the local community at the locations of significant operation.	Not reported.
	Indirect economic impacts	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement.	3, 6
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	3, 18-19

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