2013

Annual report

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Board of Directors report 2013

The Nammo Group performed well in a challenging market. In 2013 the turnover increased by 11.8 percent from last year, and the company continues to be quite profitable. The growth was mainly organic, in addition to the two new acquisitions, Nammo Pocal Inc. and Nammo Palencia S.L. The order stock ended 11 percent higher than the year before, which we consider very positive given the uncertainties in the global economy and in the Nammo key markets. In our business, people are important and Nammo appreciate all the effort the employees have performed in 2013.

General comments

Operating income amounted to NOK 3 703 million, which is 11.8 percent higher than in 2012. The return on sales ended at 13.0 percent (14.0 % in 2012). Operating profit increased by 6.7 percent to NOK 489 million (NOK 459 million) and the profit for the year was NOK 327 million (NOK 319 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. Since Nammo has governmental owners in both Norway and Finland, the Company is following their guidelines whenever needed. Nammo has manufacturing companies in Norway, Sweden, Finland, Germany, Switzerland, Spain and the US and a sales office in Canada and Australia. The corporate headquarter is located at Raufoss, Norway.

Strategy

In times of change, it is crucial for a company like Nammo to be flexible and able to adapt to new environments, be it in the market place or in industrial processes. Nammo's strategy, based on the fundamental values "Dedication, Precision and Care", will focus very much on people, business attitudes, continuous development and growing the core business.

Through 2013 Nammo has kept its good position and presence in the market both financially and product wise, by enlarging the product portfolio as well as its capabilities through strategic acquisitions of Nammo Palencia S.L., Nammo Pocal Inc. and Nammo Vihtavuori Oy. This provides a good basis to continue the development of the business further and to follow the vision "securing the future". The Group will also continue to strengthen its position within R&D, in close cooperation with the customer in order to continuously develop and bring new products and capabilities to the market.

The market trends have changed in the recent years. We are facing budget cuts in our home and key markets while significant growth is foreseen in what is considered new markets. We will continue to keep strong focus on our home and key markets at the same time as we have to follow closely the development and opportunities in the new rising markets. This will be done through well planned marketing efforts as well as establishment of partnerships with local industrial players. Any such entering into new markets will of course be in compliance with the regulations given by the authorities in the countries where we operate.

It is Nammo's core strategy to continue to grow both through organic growth and through acquisitions. Growth through diversification based on core competences is also being considered. After the closing of 2013, Nammo announced the acquisition of Vihtavuori propellant plant from Eurenco.

Operations

The Nordic market

The Nordic market remains a fundamental part of Nammo's position and future development. Nammo has as a main objective to continue to be the preferred supplier to our Nordic armed forces who serves as an important reference when doing business with the allied partners. The Nordic market accounted for 23 percent of the total operating income.

The global market

The Global market has become steadily more important to Nammo since the company was established in 1998. In 2013, the international market accounted for 77 percent of Nammo's operating income.

Sales to the North America region represented 39 percent of the Group's revenues in 2013, and particularly the US continues to represent an important market for Nammo for future growth.

Presence and expected growth in the global market also reflects the importance of the marketing efforts and Nammo's ability to adapt its organization to a new situation.

Development, research and technology

Nammo is involved in development programs encompassing 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. All this is part of Nammo's strategy to continue 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 upgrading existing products, have a shorter duration. Nammo's research and development costs are normally expensed when incurred.

Financial statements

Pursuant to Section 3-3a of the Norwegian Accounting Act, the Board of Directors confirms that the financial statements have been prepared 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 3 703 million in 2013 (3 311), which is 11.8 percent higher than in 2012. The acquisitions of Nammo Pocal and Nammo Palencia are partly the reason for the growth, but also organic development is a part of the growth. Net financial items were negative at NOK 7.3 million in 2013 (5.6). Ordinary result before minority interest was NOK 341 million in 2013 (319).

Cash flow and liquidity

Nammo's net cash flow from operating activities was NOK 399 million in 2013 (482). The decrease is mainly due to changes in stocks, debtors and other dispositions including reduction in prepayments from customers. Net cash flow from investment activities amounted to NOK -323 million in 2013 (-193). Net cash flow from financing activities was NOK -174 million in 2013 (-137). This mainly reflects dividend to the shareholders. Cash and cash equivalents were NOK 243 million on 31 December 2013 (341). Nammo had unutilized credit facilities of NOK 648.6 million, measured at 31 December 2013 exchange rates.

Balance sheet

The total assets of the Nammo Group were NOK 3 666 million at the end of 2013 (3 509). Net working capital excluding cash was NOK 967 million (750), while equity was NOK 1 835 million (1 603). Total liabilities were NOK 1 802 million (1 875) at 31 December 2013 and the equity ratio ended at 50 percent in 2013 (46). Total interest-bearing liabilities to financial institutions amounted to NOK 347 million (303) on 31 December 2013.

Risk factors

Nammo operates in a global market, characterized by rapid shifts in technology needs, products and service ranges and with high competitive pressures. The Group is therefore exposed to a number of risk factors. 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 regarded as an advantage as it spreads the risk over a broad platform of businesses and 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 routines and targets for project management, based on best practices 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. The main risk is related to long term financing of the Group and is handled by Nammo AS. We consider this risk to be limited.

Distribution of dividend

The Board proposes to the General Meeting of Shareholders a dividend payment of NOK 164 million for 2013. Assuming the proposed dividend, the profit in the parent company Nammo AS will be distributed as follows: Dividend: NOK 164 million, other equity NOK 16 million, total NOK 180 million. The proposed dividend represents 91 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 emphasizes 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 has in 2013 completed the revision of the Ethical Code of Conduct. The new version of our Ethical Code of Conduct is committed to the UN Global Compacts 10 principles. A new training program has been launched in March 2013 based on ethical dilemmas. The ambition is to train all employees and any third party acting on behalf of Nammo, in cases within different ethical dilemmas. We believe that by constantly focusing on information, education and training the Nammo employees will understand and live up to the Group's high level of Ethical standard.

2013 was the fifth year that Nammo was reporting according to the Global Reporting Initiative (GRI) standard for sustainable reporting. Nammo is self-declaring, reporting at the B-level. During 2013 Nammo delivered its first company report to the UN Global Compact.

People

Nammo is committed to ensuring diversity in the Group, and equal opportunities for all employees are key elements of the human resources policy. This applies in particular to recruitment, career development, equal pay for equal work and working conditions. Women account for 26.5 percent of the employees, and activities to motivate female university graduates and women with other educational backgrounds 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.

Nammo operates in the explosives industry and handles energetic 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 is 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 actions are taken. Monthly reports are sent to all sites.

Health, environment, safety and security (HESS) audits were last conducted at the sites in 2013. This is an annual procedure performed by the Nammo Group HESS manager.

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 forum event for the employees responsible for these issues. Since 2010, Nammo has been part of the 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 2013. 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 23 accidents resulting in employees being absent from work at Nammo in 2013. 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. Reduction of energy consumption and good energy conservation measures shall have high priority in all factories. The goal is a minimum of one energy saving project at each factory.

Society
Nammo has a strong ambition to be a positive contributor to the development of the local society wherever we have our production facilities. Therefore we have different engagement in activities like sport, science centers and other culture activities with focus on children and youth.

Since 2010, Nammo has been involved in two national sponsorship programs. These engagements are one agreement as sponsor for the national women biathlon team in Norway and one agreement with the Norwegian ski federation as main sponsor for the national women ski-jumping team. The agreement with the Norwegian ski federation also includes a technology-program, Nammo Aerotech. In the Nammo Aerotech technology program Nammo has contributed to the development of ski jumping through increased technological expertise and support in aerodynamics. Nammos ambition with the engagement of the top-sport is to promote Nammo and the Group's civilian ammunition brand, Lapua, as well as building a strong company culture and promote our ambition to empower women.

One of the United Nation initiatives from 2006 was to establish an Arms Trade Treaty, a legally binding instrument on the highest possible common international standards for the transfer of conventional arms. Nammo participated as an industrial observer representing the Norwegian Defense Industry in close cooperation with other European industry representatives. The Industry, the non-governmental organizations and their national Government officials worked closely together in order to finalize a Treaty text realistic to implement within all the UN member countries. When implemented, The Arms Trade Treaty will have an impact on the global defense industry and this is why the participation from the industry was so important, both in order to be part of the discussions as well as to be able to have influence on the final result of the Treaty. On 2 April 2013, the UN General Assembly adopted the landmark Arms Trade Treaty (ATT), regulating the international trade in conventional arms, from small arms to battle tanks, combat aircraft and warships. The treaty will foster peace and security by putting a stop to destabilizing arms flows to conflict regions. It will prevent human rights abusers and violators of the law of war from being supplied with arms.

By the end of 2013 the Treaty has been signed by 116 nations and 9 nations have ratified it.

Outlook for the Nammo Group

Nammo has been growing steadily and the recent acquisitions will strengthen the Groups position further. Nammo also acquired a propellant production company, Nammo Vihtavuori OY in January 2014, which will strengthen Nammo's position in Finland and secure the delivery of propellant to other Nammo products.

There is a general trend of budget cuts in Nammo's main markets. However, the rising opportunities in the new emerging markets seem promising.

It is all up to Nammo to engage, act and organize the company in order to meet the challenges and win in strong competition with its competitors.

Nammo has a solid backlog of orders and is well-positioned in the market due to its flexibility, strong focus on production efficiency and last but not least its high end products.

The Board expresses its appreciation to all employees for their commitment and dedication during the year. The result for 2013 was very good and the Group is in a healthy condition despite of a challenging market.

Vihtavuori, 25 March 2014

Jan Erik Korssjøen, Chairman of the Board	Heikki Ilmari Allonen, Vice Chairman	Tone L. Hofstad Tone Lindberg Hofstad, Board Member
Sirpa-Helena Sormunen, Board Member	Dag J. Opedal Dag J. Opedal, Board Member	Jukka Markus Holkeri, Board Member
Einar Linnerud Einar Linnerud, Board Member	Petri Mikael Kontola, Board Member	Edgar Fossheim, President & CEO

Nammo Group 2013

Consolidated financial statements

Income statement
Nammo Group

(NOK 1 000)	Notes	2013	2012
Operating income	1	**3 702 719**	3 310 899
Operating expenses			
Changes in stock of work in progress and finished goods		(153 116)	(202 742)
Changes in self-manufactured fixed assets		(86)	(665)
Cost of goods sold		1 491 802	1 302 900
Payroll expenses	3, 11	1 092 299	1 057 779
Depreciation of tangible and intangible fixed assets	6	145 677	115 429
Other operating expenses		636 743	579 410
Total operating expenses		**3 213 319**	2 852 111
Operating profit		**489 400**	458 788
Financial income and expenses			
Income from associates and joint ventures - equity method	5	(382)	(1 763)
Interest income		6 018	6 963
Other financial income	4	7 887	12 687
Interest expenses		(3 768)	(4 779)
Other financial expenses	4	(17 079)	(7 515)
Net financial income (expense)		**(7 324)**	5 593
Ordinary result before tax		**482 076**	464 381
Taxes on ordinary result	12	**(140 938)**	(133 933)
Ordinary result		**341 138**	330 448
Minority share		**(13 948)**	(11 696)
Profit (loss) for the year		**327 190**	318 752

Balance sheet
Nammo Group

(NOK 1 000)	Notes	As of 31.12.13	As of 31.12.12	As of 31.12.11
Assets				
Non-current assets				
Intangible assets				
Deferred tax asset	12	9 701	13 783	41 177
Licenses, trademarks and other intangible assets	6	242 487	236 717	276 554
Goodwill	6	95 495	15 311	22 582
Total intangible assets		**347 683**	265 811	340 313
Tangible assets				
Buildings	6	254 812	225 489	199 543
Land	6	28 844	25 272	15 103
Machines and equipment	6	339 524	282 050	246 753
Fixtures and fittings, tools, office machinery, etc.	6	47 795	36 004	36 512
Plant under construction	6	129 833	96 793	84 209
Total tangible assets		**800 808**	665 608	582 120
Financial fixed assets				
Shares in joint controlled companies	5	7 524	7 125	601
Shares in associated companies	5	226	558	675
Other shares and participations	5	8 416	8 451	6 013
Other receivables	7	18 050	18 133	11 298
Total financial fixed assets		**34 216**	34 267	18 587
Total non-current assets		**1 182 707**	965 686	941 020
Current assets				
Stocks				
Stocks of raw materials		403 289	334 880	273 522
Stocks of work in progress		805 099	639 424	523 764
Stocks of finished goods		213 373	225 932	138 850
Total stocks		**1 421 761**	1 200 236	936 136
Receivables				
Accounts receivable	8	673 868	746 561	646 517
Other receivables	7	106 523	189 044	260 551
Advance payments to suppliers		37 533	66 264	13 717
Total receivables		**817 924**	1 001 869	920 785
Cash and cash equivalents	9	**243 117**	341 492	190 225
Total current assets		**2 482 802**	2 543 597	2 047 146
Total assets		**3 665 509**	3 509 283	2 988 166

(NOK 1 000)	Notes	As of 31.12.13	As of 31.12.12	As of 31.12.11
Shareholders' equity and liabilities				
Equity				
Share capital		100 000	100 000	100 000
Premium fund		258 670	258 670	258 670
Other equity		1 476 165	1 244 576	1 121 215
Total equity		**1 834 835**	1 603 246	1 479 885
Minority share		**29 172**	30 559	28 506
Total equity and minority share	10	**1 864 007**	1 633 805	1 508 391
Liabilities				
Non-current liabilities				
Pension liabilities	11	151 990	111 642	122 776
Deferred tax	12	8 718	-	51
Total non-current liabilities		**160 708**	111 642	122 827
Other non-current liabilities				
Liabilities to financial institutions	13	346 510	303 292	306 533
Other non-current liabilities		21 616	8 392	7 936
Total other non-current liabilities		**368 126**	311 684	314 469
Current liabilities				
Allocation for guarantee liabilities		106 225	97 629	87 111
Accounts payable		267 149	211 692	193 781
Income tax payable	12	73 124	58 976	58 068
Public duties		76 155	62 750	60 105
Dividend payable		164 000	159 500	145 000
Prepayments from customers		341 013	621 692	222 934
Other short term liabilities		245 002	239 913	275 480
Total current liabilities		**1 272 668**	1 452 152	1 042 479
Total liabilities		**1 801 502**	1 875 478	1 479 775
Total shareholders' equity and liabilities		**3 665 509**	3 509 283	2 988 166

Vihtavuori, 25 March 2014

Jan Erik Korssjøen, Chairman of the Board

Heikki Ilmari Allonen, Vice Chairman

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Jukka Markus Holkeri, Board Member

Einar Linnerud, Board Member

Petri Mikael Kontola, Board Member

Edgar Fossheim, President & CEO

Cash flow
Nammo Group

(NOK 1 000)	2013	2012	2011
Cash flow from operational activities			
Result before tax	482 076	464 381	435 074
Tax payments	(115 385)	(116 575)	(111 098)
Profit and loss on sale of fixed assets	222	2 295	(85)
Ordinary depreciations	145 677	115 429	125 837
Changes in stocks	(22 913)	(289 555)	(119 995)
Changes regarding debtors	111 332	(114 296)	(185 299)
Changes regarding creditors	33 617	23 603	16 116
Changes in other dispositions	(235 511)	396 236	(122 403)
Net cash flow from operational activities (a)	**399 115**	481 518	38 147
Cash flow from investment activites			
Payments received from sale of fixed assets	-	1 101	241
Purchase of fixed assets	(249 461)	(191 906)	(139 426)
Purchase of other long-term investments	(73 928)	(2 445)	(606)
Net cash flow from investment activities (b)	**(323 389)**	(193 250)	(139 791)
Cash flow from financing activities			
Payments received regarding new long term loans	89 613	16 700	7 093
Installments on long-term loans	(85 115)	(852)	(920)
Received dividend	16	-	-
Paid dividend	(178 615)	(152 849)	(147 159)
Net cash flow from financing activities (c)	**(174 101)**	(137 001)	(140 986)
Net changes in cash and bank accounts (a+b+c)	(98 375)	151 267	(242 630)
Cash and bank accounts as of 01.01.	341 492	190 225	432 855
Cash and bank accounts as of 31.12.	**243 117**	341 492	190 225

Total unused cash credits as of December 2013 is NOK 648.6 million. See note 13.

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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 Regnskapsstiftelse), plus a risk premium. Qualified actuaries perform the calculations.

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

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

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

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

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

Cash and cash equivalents
Cash and cash equivalents include cash and bank deposits.

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

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

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

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

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

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

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

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

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

Notes to the accounts
Nammo Group

1. OPERATIONAL INCOME FOR THE NAMMO GROUP

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

Turnover from Nammo subsidiaries per country

(NOK 1 000)	**2013**
Norway	1 321 616
Sweden	771 161
USA	620 115
Germany	581 776
Finland	367 953
Spain	39 908
Switzerland	190
Total	**3 702 719**

Turnover per geographical location of customers

(NOK 1 000)	**2013**
Norway	428 732
Sweden	245 319
Great Britain	194 420
Finland	190 491
Germany	182 237
Italy	94 509
France	68 966
Poland	56 075
Belgium	52 728
Spain	44 550
Denmark	25 289
Switzerland	19 475
Netherlands	10 971
Other European countries	81 541
USA	1 156 502
Canada	272 769
Australia	99 889
Other countries	478 256
Total	**3 702 719**

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 2013:

(Amounts in currency 1 000)

Transaction type	Buy/sell (-)	AUD	CAD	DKK	CHF	EUR	GBP	SEK	USD
FX Forward	Buy	811	800	1 320	787	9 173	-	52 316	11 632
	Sell(-)	-	-	-	-	(42 934)	(12 749)	(9 631)	(73 378)
FX SWAP	Buy	-	-	1 065	-	1 970	-	2 938	61
	Sell(-)	-	-	-	-	-	-	(1 469)	(44 481)

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

Transaction type	Buy/sell	Year 2014	Year 2015	Year 2016	Later
FX Forward	Buy	83%	15%	2%	-
	Sell	81%	2%	12%	5%
FX SWAP	Buy	49%	51%	-	-
	Sell	52%	43%	5%	-

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)	**2013**	2012
Salaries	855 521	818 379
Employment taxes	90 140	87 966
Pension costs	44 083	55 017
Other personnel costs	102 555	96 417
Total	**1 092 299**	1 057 779
Average number of man years	**1 954**	1 922

Remuneration to CEO and Board of Directors

(NOK)	Function	Salary and other remuneration	Prepaid pension	Bonus	Total
Edgar Fossheim	President and CEO	3 770 208	1 501 080	1 160 433	6 431 721
Nammo AS Board	Board of Directors	1 306 559	-	-	1 306 559

Loan to the CEO has a balance of NOK 483 332 as of 31.12.2013. The loan is due in 5 years and the interest rate was 0.75% p.a. in 2013.

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 2013 amounted to NOK 1 501 080.

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

Auditor's fee

All numbers are presented exclusive VAT.

(NOK 1 000)	**2013**
Auditors fee	3 349
Fees for other assurance work, including IFRS	231
Tax advisory services	875
Other services	1 332
Total	**5 787**

4. FINANCIAL ITEMS

(NOK 1 000)	**2013**	2012
Gain on exchange	7 251	12 641
Other financial income	636	46
Total other financial income	**7 887**	**12 687**
Loss on exchange	(15 886)	(6 643)
Other financial expenses	(1 193)	(872)
Total other financial expenses	**(17 079)**	**(7 515)**

5. SHARES IN OTHER COMPANIES

(NOK 1 000)	Company's share capital	Number of shares owned	Nominal value	Booked value NOK	Ownership
Joint controlled companies:					
SN Technologies SA, Meyrin, Switzerland	CHF 200 000	100	CHF 100 000	7 481	50%
N2 Defense, USA	USD 120 000			43	50%
Total				**7 524**	
Associated companies:					
DrawTech Oy, Finland	EUR 36 000	533	-	226	33%
Total				**226**	
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				2 500	14%
Others				205	-
Total				**8 416**	

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	Fittings, tools,office machinery, etc	Plants under construction	Total assets
Acquisition cost as of 01.01.13	396 736	159 730	436 954	25 536	1 091 240	179 965	96 961	2 386 954
Additions during the year	8 073	90 404	50 478	2 764	148 033	22 315	27 446	349 513
Disposals during the year	(15 735)	-	(564)	-	(9 087)	(1 403)	(3 194)	(29 983)
Exchange difference acq. cost	37 651	13 808	27 301	1 421	41 393	16 357	8 788	146 719
Acquisition cost 31.12.13	426 725	263 942	514 169	29 721	1 271 579	217 234	129 833	2 853 203
Accumulated depreciations 31.12.13	(184 238)	(168 447)	(259 357)	(877)	(932 055)	(169 439)	-	(1 714 411)
Book value as of 31.12.13	**242 487**	**95 495**	**254 812**	**28 844**	**339 524**	**47 795**	**129 833**	**1 138 790**
Depreciations this year	**23 347**	**11 685**	**26 558**	**294**	**71 578**	**12 215**	**-**	**145 677**
Annual leasing cost of assets not recognized in balance sheet	-	-	49 950	-	10 384	4 213	-	64 547
Economic life time (years)	1 – 25	5 – 7,5	10 - 50	-	5 - 20	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, VAT receivables and other receivables.

8. RECEIVABLES AND LOSSES ON BAD DEBTS

(NOK 1 000)	**2013**	2012
Accounts receivables	673 952	747 069
Provision for bad debt	(84)	(508)
Book value of accounts receivables	**673 868**	746 561

9. CASH RESERVE

(NOK 1 000)	**2013**	2012
Cash and cash equivalents	243 117	341 492
Unused cash credits	648 595	226 259
Net cash reserve	**891 712**	567 751

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 Inc., Nammo Talley Inc., Nammo Composite Solutions LLC. and Nammo Tactical Ammunition LLC.
In Spain: Nammo Palencia S.L.

10. EQUITY – CHANGES IN EQUITY

(NOK 1 000)	Share capital	Premium fund	Other equity	Minority share	Total
Equity as of 01.01.13	100 000	258 670	1 320 100	40 648	1 719 418
Exchange differences opening balance	-	-	(80 921)	(4 692)	(85 613)
Correction for errors previous years	-	-	(36 436)	-	(36 436)
Equity as of 01.01.13 including errors previous years	**100 000**	**258 670**	**1 202 743**	**35 956**	**1 597 369**
Profit for the year	-	-	327 190	-	327 190
Proposed dividend to shareholders [1]	-	-	(184 537)	-	(184 537)
Change in minority share this year	-	-	20 537	(5 571)	14 966
Correction of errors previous years	-	-	11 189	-	11 189
Other items	-	-	1 326	-	1 326
Exchange differences for the period	-	-	85 507	(1 213)	84 294
Exchange differences on profit for the year	-	-	12 210	-	12 210
Total equity as of 31.12.13	**100 000**	**258 670**	**1 476 165**	**29 172**	**1 864 007**

[1] Board of Directors proposal to the General Meeting of shareholders.

11. PENSION LIABILITY – PENSION COST

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 2013 was NOK 152 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 cost

(NOK 1 000)	**2013**	2012
Service costs	8 876	19 901
Amortization of net actuarial losses (gains)	1 177	5 532
Interest costs	10 803	10 846
Expected return on plan assets	(8 590)	(10 931)
Pension cost related to defined contribution plans	28 415	27 073
Settlement pension plans	2 802	2 596
Net periodic pension cost	**44 083**	55 017

Pension liability

(NOK 1 000)	**2013**	2012
Defined benefit obligation incl. social security tax	499 052	310 505
- Fair value of plan assets	(265 297)	(172 391)
Net pension obligation	233 755	138 114
Items not recorded in the profit and loss:		
Unrecognized net actuarial loss (gain)	(81 765)	(26 472)
Net amount recognized in the balance sheet	**151 990**	111 642

12. TAX

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)	**2013**	2012	Change
Temporary differences:			
Fixed assets	142 973	99 140	(35 511)
Accounts receivable	2 714	4 051	1 337
Stock of goods	89 895	71 771	(13 226)
Pension liabilities	(28 160)	(7 536)	20 624
Guarantee liabilities	(103 248)	(94 803)	8 445
Other temporary differences	1 443	2 156	713
Adjustments for consolidation items	(56 182)	(75 949)	(19 767)
Temporary differences	**49 435**	(1 170)	(37 385)
Carried forward losses for tax purposes	(43 617)	(94 026)	
Total temporary differences	**(5 818)**	(95 196)	
Gross deferred tax / deferred tax assets (-)	(6 694)	(29 449)	
Adjustments for consolidation items	5 711	15 666	
Net deferred tax liability / deferred tax asset (-)	**(983)**	(13 783)	
Classified as deferred tax asset	**9 701**	13 783	
Deferred tax liability in the balance sheet	**8 718**	-	

Payable income taxes

(NOK 1 000)	**2013**
Net income before tax	482 076
Changes in temporary differences	(37 385)
Exchange differences temporary differences	(18 013)
Permanent differences	7 378
Use of carried forward losses	(15 581)
Taxable income	418 475
Payable income tax	**122 355**

Tax expense in profit and loss

(NOK 1 000)	**2013**
Payable tax on this year's result	122 355
Adjustments prior years	6
Payable tax in this year's tax cost	**122 361**
Change in deferred tax / deferred tax asset	17 287
Other items	1 290
Tax expense in the P&L	**140 938**

Payable tax in the balance sheet

(NOK 1 000)	**2013**
Payable taxes	122 336
Prepaid taxes	(64 948)
Other items	15 736
Payable tax in balance sheet	**73 124**

13. INTEREST BEARING LOANS AND GUARANTEES

(NOK 1 000)	**2013**	2012
Loan from credit institutions	346 510	303 292
Total interest bearing loans	**346 510**	**303 292**

Loan from credit institutions is mainly a credit facility of NOK 700 million which was set up in 2013. Draw on this facility as of 31 December 2013 is NOK 312 million. The facility will terminate in 2018. At 31 December 2013 Nammo AS has total unused cash credits of NOK 648.6 million.

Guarantees not recognized in the balance sheet as of 31 December 2013 is NOK 394.8 million.

Nammo AS 2013

Financial statements

Income statement
Nammo AS

(NOK 1 000)	Notes	2013	2012
Operating income	1	**61 415**	58 731
Operating expenses			
Payroll expenses	2	26 682	25 406
Depreciation of tangible and intangible fixed assets	4	1 427	1 424
Other operating expenses		56 559	54 689
Total operating expenses		**84 668**	81 519
Operating profit		**(23 253)**	(22 788)
Financial income and expenses			
Received group contribution		100 000	100 000
Interest income	3	13 616	10 655
Other financial income	3	149 560	148 730
Interest expense	3	(1 241)	(1 671)
Other financial expenses	3	(30 330)	(25 619)
Net financial income (expenses)		**231 605**	232 095
Ordinary result before tax		**208 352**	209 307
Taxes on ordinary result	11	**(28 649)**	(22 262)
Profit (loss) for the year		**179 703**	187 045
The Board's proposal for allocation of the profit			
Dividend		164 000	159 500
Other equity		15 703	27 545
Total		**179 703**	187 045

Balance sheet
Nammo AS

(NOK 1 000)	Notes	As of 31.12.13	As of 31.12.12	As of 31.12.11
Assets				
Non-current assets				
Intangible assets				
Deferred tax asset	11	-	-	345
Total intangible assets		**-**	-	345
Tangible assets				
Buildings	4	113	282	451
Machines and equipment	4	1 040	693	1 006
Fixtures and fittings, office machines, etc.	4	1 973	2 915	3 857
Total tangible assets		**3 126**	3 890	5 314
Financial fixed assets				
Investments in subsidiaries	5	594 333	594 333	594 333
Investments in other shares and participations	5	95	95	95
Loans to group companies		665 639	361 505	419 878
Pension assets	10	1 122	298	-
Other receivables		4 303	3 030	2 968
Total fixed assets		**1 265 492**	959 261	1 017 274
Total non-current assets		**1 268 618**	963 151	1 022 933
Current assets				
Receivables				
Accounts receivables	6	846	10	1 183
Receivables from group companies		77 400	85 793	82 538
Receivables group contributions		100 000	100 000	100 000
Prepayments to vendors		3 824	638	-
Other receivables		5 232	4 233	5 592
Total receivables		**187 302**	190 674	189 313
Cash and cash equivalents	7, 13	**166 398**	280 395	121 807
Total current assets		**353 700**	471 069	311 120
Total assets		**1 622 318**	1 434 220	1 334 053

(NOK 1 000)	Notes	As of 31.12.13	As of 31.12.12	As of 31.12.11
Shareholders' equity and liabilities				
Equity				
Share capital	8, 9	100 000	100 000	100 000
Premium fund	9	258 670	258 670	258 670
Total paid in capital		**358 670**	358 670	358 670
Other equity	9	361 858	346 134	318 591
Total earned equity		**361 858**	346 134	318 591
Total equity		**720 528**	704 804	677 261
Liabilities				
Non-current liabilities				
Pension liabilities	10	-	-	1 252
Deferred tax	11	185	46	-
Total non-current liabilities		**185**	46	1 252
Other non-current liabilities				
Liabilities to financial institutions	12	312 242	279 405	297 670
Total other non-current liabilities		**312 242**	279 405	297 670
Current liabilities				
Prepayments from customers		-	2 557	2 557
Accounts payable		4 797	5 499	4 285
Payables to group companies	13	381 279	250 171	167 079
Income tax payable	11	28 510	21 871	29 565
Public duties payable		2 176	2 127	2 066
Dividend payable to shareholders		164 000	159 500	145 000
Other current liabilities		8 601	8 240	7 318
Total current liabilities		**589 363**	449 965	357 870
Total liabilities		**901 790**	729 416	656 792
Total shareholders equity and liabilities		**1 622 318**	1 434 220	1 334 053

Vihtavuori, 25 March 2014

Jan Erik Korssjøen, Chairman of the Board

Heikki Ilmari Allonen, Vice Chairman

Tone L. Hofstad

Tone Lindberg Hofstad, Board Member

Sirpa-Helena Sormunen, Board Member

Dag J. Opedal

Dag J. Opedal, Board Member

Jukka Markus Holkeri, Board Member

Einar Linnerud

Einar Linnerud, Board Member

Petri Mikael Kontola, Board Member

Edgar Fossheim, President & CEO

Cash flow
Nammo AS

(NOK 1 000)	2013	2012	2011
Cash flow from operational activities			
Result before tax	208 352	209 307	252 415
Tax payments	(21 854)	(29 565)	(30 693)
Gain on sale of fixed assets	(87)	-	-
Ordinary depreciation	1 427	1 424	1 311
Changes in accounts receivable	7 557	(2 082)	19 034
Changes in accounts payable	(1 386)	(34 457)	(8 936)
Pension cost less paid pension premium	(823)	(1 551)	75
Changes in loans to group and joint controlled companies	(304 134)	58 373	(9 174)
Changes in other dispositions	(47 422)	(127 634)	(662 940)
Net cash flow from operational activities (a)	**(158 370)**	73 815	(438 908)
Cash flow from investment activities			
Payments from sold fixed assets	460	-	-
Investments in fixed assets	(1 036)	-	(823)
Net cash flow from investment activities (b)	**(576)**	-	(823)
Cash flow from financing activities			
Payments from new long-term loans	81 332	-	-
Installments on long-term loans	(83 343)	-	-
Received dividend	106 460	129 773	152 169
Received group contribution	100 000	100 000	100 000
Paid dividend	(159 500)	(145 000)	(140 300)
Net cash flow from financing activities (c)	**44 949**	84 773	111 869
Net changes in cash and bank accounts (a+b+c)	(113 997)	158 588	(327 862)
Cash and bank accounts as of 01.01.	280 395	121 807	449 669
Cash and bank accounts as of 31.12.	**166 398**	280 395	121 807

Unused credit facilities is NOK 648.6 million. See note 12.

Index to the accounting notes

Accounting policies Nammo AS

General
Nammo AS is a public limited company (Aksje-selskap). 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. RELATED PARTY TRANSACTIONS AND OPERATING INCOME

Sales and purchase transactions with group companies are conducted in compliance with normal commercial terms and the arm's length principle. Significant agreements with related parties are concluded in writing.

Operating income:

(NOK 1 000)	**2013**	2012
Management service fee to group companies	60 598	58 271
Other operating income	817	460
Total	**61 415**	58 731

2. SALARIES AND SOCIAL COST

(NOK 1 000)	**2013**	2012
Salaries	21 879	20 639
Employment taxes	3 110	2 924
Pension costs	1 182	1 028
Other social costs	511	815
Total	**26 682**	25 406
Average number of man-years	**13**	12

Auditor's fee

(NOK 1 000) – all numbers are presented exclusive VAT	**2013**
Auditors fee	412
Fees for other attestation services	-
Tax advisory services	11
Other services	1 168
Total	**1 591**

3. FINANCIAL ITEMS

(NOK 1 000)	**2013**	2012
Interest income from Group companies	11 745	8 812
Other interest income	1 871	1 843
Total interest income	**13 616**	10 655
Gain on exchange	43 092	18 957
Dividend from Group companies	106 460	129 773
Other financial income	8	-
Total other financial income	**149 560**	148 730
Other interest cost	(1 241)	(1 671)
Total interest cost	**(1 241)**	(1 671)
Loss on exchange	(29 655)	(25 619)
Other financial expenses	(675)	-
Total other financial expenses	**(30 330)**	(25 619)

4. FIXED AND INTANGIBLE ASSETS

(NOK 1 000)	Buildings	Machines and equipment	Fixtures, fittings and office equipment	Total
Acquisition cost as of 01.01.13	845	1 566	4 709	7 120
Additions during the year	-	1 036	-	1 036
Disposals during the year	-	(1 018)	-	(1 018)
Acquisition cost as of 31.12.13	845	1 584	4 709	7 138
Accumulated depreciations	(732)	(544)	(2 736)	(4 012)
Book value as of 31.12.13	**113**	**1 040**	**1 973**	**3 126**
Ordinary depreciations for the year	**169**	**316**	**942**	**1 427**
Annual leasing cost on assets not in the balance sheet306	306	-	36	342
Economic life time (years)	5 years	3-5 years	3 - 10 years	
Depreciation plan	linear	linear	linear	

5. SHARES IN OTHER COMPANIES

(NOK 1 000)

Name of the company	Company's share capital	Number of shares owned	Nominal value	Booked value	Ownership
Group companies:					
Nammo Raufoss AS, Raufoss	NOK 150 000 000	150 000	150 000	175 000	100%
Nammo Sweden AB, Lindesberg	SEK 10 000 000	100 000	10 000	59 961	100%
Nammo Lapua Oy, Lapua	EUR 4 793 000	285 000	-	105 006	100%
Nammo Buck GmbH, Pinnow	EUR 26 000	1	26	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**	

6. ACCOUNTS RECEIVABLE

(NOK 1 000)	**2013**	2012
Accounts receivable	**846**	10

Accounts receivable are booked at nominal value. There has been no loss on accounts receivable in 2013.

7. CASH RESERVE

This amount includes bank balances of Group companies that participate in the international cash pool of NOK 376 million. See note 13.

8. SHARE CAPITAL

As of 31.12.2013 Nammo AS's share capital is NOK 100 million, split on 1 000 000 shares of NOK 100 each.

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

9. EQUITY

(NOK 1 000)	Share capital	Share premium reserve	Other equity	Net result	Total
Equity as of 01.01.13	100 000	258 670	346 134	-	704 804
Net result	-	-	-	179 703	179 703
Allocation of the net result *)	-	-	179 703	(179 703)	-
Dividend *)	-	-	(164 000)	-	(164 000)
Other items	-	-	21	-	21
Equity as of 31.12.13	**100 000**	**258 670**	**361 858**	**-**	**720 528**

*) Board of Directors proposal for the General Meeting

10. PENSION LIABILITY – PENSION COST

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 13 active members. Nammo AS is a member of the LO/NHO AFP-plan. The old plan is closed and the corresponding pension liability deriving from the plan is de-recognized in the balance sheet. The pension liability in the new AFP-plan is not possible to estimate reliably at year end; therefore, this pension liability is not recognized in the balance sheet.

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

The actuarial calculation was performed in December 2013 with the following assumptions:

Yield from pension funds	4.40%
Interest rate used to discount future cash flows	4.10%
Annual salary increase	3.75%
Annual increase in G	3.50%
Annual change in pension	0.60%

Pension cost

(NOK 1 000)	**2013**	2012
Service costs	960	992
Amortization of net actuarial losses (gains)	113	55
Interest costs	581	526
Expected return on plan assets	(472)	(545)
Net pension costs	**1 182**	1 028

Pension liabilities

(NOK 1 000)	**2013**	2012
Defined benefit obligation incl. payroll tax	18 329	13 348
- Fair value of plan assets	(14 213)	(12 405)
Gross pension liability	**4 116**	943
Items not recognized in the profit and loss:		
Unrecognized net actuarial loss (gain)	(5 238)	(1 241)
Net amount recognized in the balance sheet	**(1 122)**	(298)

11. TAX

11.1. This year's tax cost

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

(NOK 1 000)	**2013**	2012
Net income before tax	208 352	209 307
Permanent differences	(106 011)	(129 804)
Changes in temporary differences	(520)	(1 394)
Taxable income	**101 821**	78 109

Specification of the tax cost in the profit and loss:

Tax payable	28 510	21 871
Changes in deferred tax	139	391
This year's tax cost	**28 649**	22 262

11.2. Deferred taxes

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

Deferred tax calculation

(NOK 1 000)	**31.12.13**	31.12.12
Fixed assets	(437)	(133)
Pension liability/asset	1 122	298
Net temporary differences as basis for deferred tax /tax asset(-) calculation	**685**	165
Deferred tax/deferred tax asset(-) at 28%	**185**	46

12. INTEREST BEARING LOANS AND GUARANTEES

	2013	2012
Loan from credit institution	**312 242**	279 405

Loan from credit institutions is a credit facility of NOK 700 million which was set up in 2013. Draw on this facility as of 31 December 2013 is NOK 312 million. The facility will terminate in 2018. At 31 December 2013 Nammo AS has total unused cash credits of NOK 648.6 million.

Guarantees not in the balance sheet as of 31 December 2013 are NOK 394.5 million.

13. 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
In Spain: Nammo Palencia S.L.

Nammo AS subsidiaries' balance on the cash pool is included in payables to group companies. This amounts to NOK 376 million. See note 7.

Auditors report
for 2013

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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 179 703 000, and the consolidated financial statements of Nammo AS and its subsidiaries, showing a profit of NOK 327 190 000. The parent company's and the consolidated financial statements comprise balance sheet as at 31 December 2013, 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 2013, 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.

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, 25 March 2014
KPMG AS

Thore Kleppen
State Authorized Public Accountant

[Translation has been made for information purposes only]

Corporate governance

Introduction

Nammo AS is a limited liability company established under Norwegian law, with a governance structure based on Norwegian Limited Liability Companies Act (Aksjeloven) and similar laws in the eight other countries where we operate: Finland, Sweden, Germany, Switzerland, Spain, 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.

Over the last couple of years we have worked with a project focusing our internal control system and our continuous process for identifying and handling risks in our business. 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, procedures and instructions. 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 2014. 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, HESS (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 budgeting and forecasting, financial reporting and treasury management. As an integral part of the directives in the financial area, we have implemented an accounting manual that regulates the accounting treatments for all material accounting processes 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 Ministry of Trade, Industry and Fisheries. The Annual General Meeting is normally held in the second quarter each year. The Shareholders' Agreement outlines the number of representatives on the Board of Directors for each of the owners, and guidelines for the election of the Chairman of the Board.

The Annual General Meeting approves the annual report based on the Norwegian requirements and financial statements, including the dividend proposed by the Board of Directors and recommended by the Group management. The General Meeting also 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 is outlined in the shareholders' agreement. The CEO governs the operation through the internally established corporate directives described above, current corporate policies, management meetings and business reviews. Management meetings are held about eight times a year and are called by the CEO. The Executive Vice Presidents and Senior Vice Presidents on the CEO's staff also participate. These meetings focus on monitoring the status of operations and key performance indicators. The market situation and business development issues are also addressed, as well as health, environment, safety and security indicators and human resource issues. The Group CEO conducts quarterly individual business review meetings with the 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.

Project management and design: Markhi AS