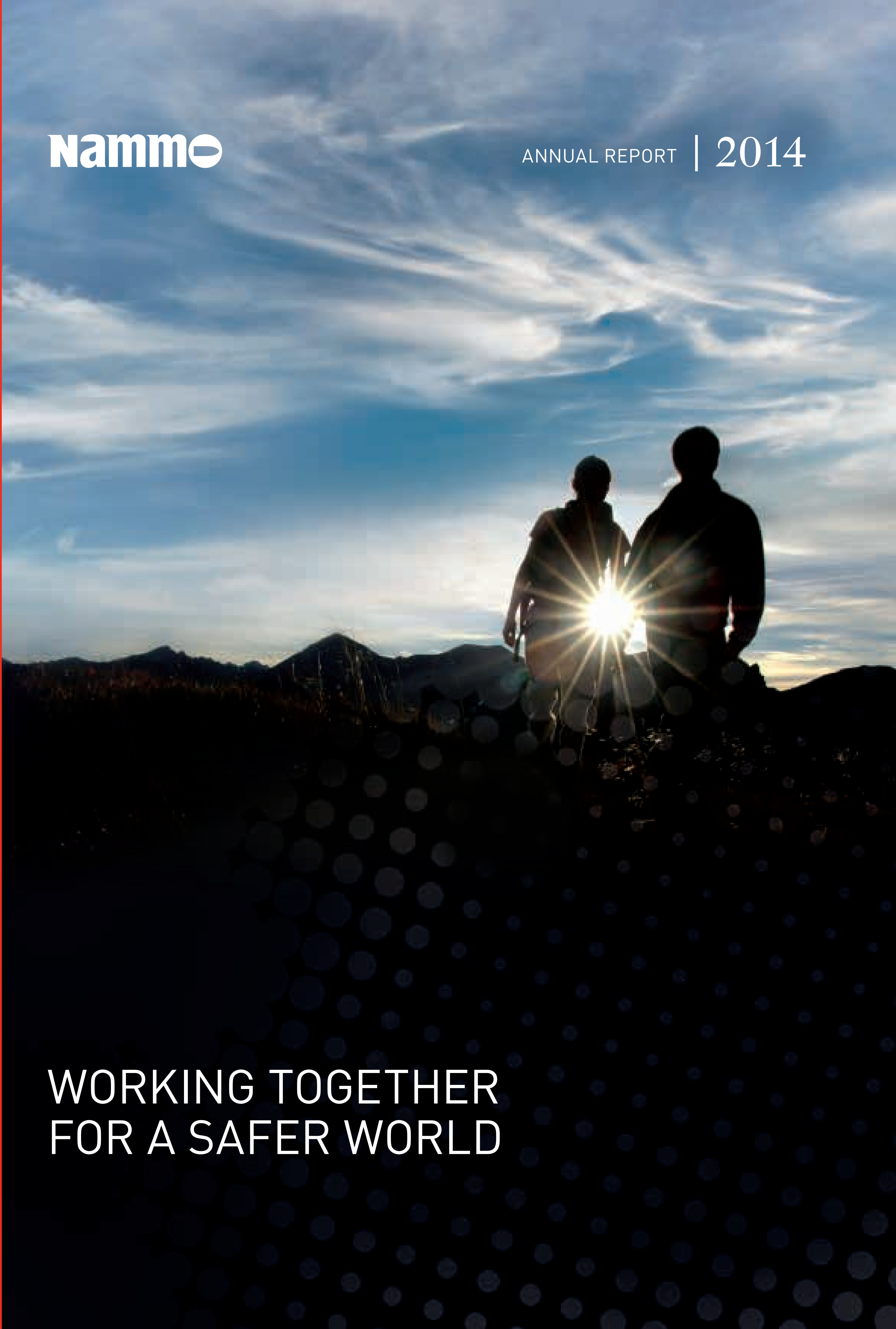
SECURING THE FUTURE

Nammo

ANNUAL REPORT | 2014



WORKING TOGETHER FOR A SAFER WORLD

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BOARD OF DIRECTORS REPORT 2014

THE REVENUE FOR NAMMO GROUP ENDED AT NOK 3 718 MILLION, A SLIGHT INCREASE OF 0.5 PERCENT COMPARED TO 2013.

During 2014, the three newly acquired companies Nammo Pocal Inc., Nammo Palencia S.L. and Nammo Vihtavuori Oy grew the topline with NOK 396 million. The Net Income Before Tax (NIBT) was NOK 277 million compared to NOK 482 million in 2013.

The profit for the year after tax amounted to NOK 204 million (341). The board of directors will, on this basis, propose to the annual general meeting an ordinary dividend of NOK 94.7 million (NOK 164 million). The order stock ended at NOK 3 853 million (3 832) at year-end, which we consider positive given the uncertainties in the global economy and in the Nammo key markets.

GENERAL COMMENTS

In a challenging market in 2014, Nammo continued to produce healthy earnings, but did struggle in some segments and particularly in the US market. At the same time, these underperforming segments seem to have positive potential in the long run. Operating profit decreased by 41 percent to NOK 286 million (NOK 489 million). The main reasons for lower results were related to lower sales in the US and lower demand of small and medium caliber products.

Nammo develops, produces and sells military and sport ammunition, shoulder-launched munition systems, rocket motors and actuators 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 Norway and indirectly in Finland, the company is following general governmental guidelines whenever applicable. Nammo has manufacturing companies in Norway, Sweden, Finland, Germany, Switzerland, Spain and the US and a sales office in Canada and Australia. The corporate headquarters 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 the industrial processes. Nammo's strategy, based on the fundamental values 'Dedication, Precision and Care', will focus very much on people, business attitudes and continuous development and growth of the core business. Through 2014 Nammo has kept its strong position and presence in the market, both financially and in terms of products. This provides a good basis to continue the development of the business further, in line with our vision of 'securing the future'. The group will also continue to strengthen its focus on innovation and its position within R&D. Close cooperation with the customer is necessary in order to continuously develop and bring new products and capabilities to the market.

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

It is Nammo's core strategy to continue to grow both organically and through acquisitions. Growth through diversification based on core competences is also being considered.

OPERATIONS

The Nordic market

The Nordic market remains a fundamental part of Nammo's position and future development. Nammo's main objective is to continue to be the preferred supplier to our Nordic armed forces, who serve as an important reference when doing business with the other customer nations. The Nordic market accounted for 29 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 2014 the international market, outside the Nordics, accounted for 71 percent of Nammo's operating income.

Sales to the North America region represented 29 percent of the group's revenues in 2014, and even with a lower level of sales, particularly in the US, this region again represents an important market for Nammo's 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 in order 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 3 718 million in 2014 (3 703), which is 0.5 percent higher than in 2013. The acquisitions of Nammo Pocal, Nammo Palencia and Nammo Vihtavuori increased the sales in Nammo, but reduction in some other companies made the total growth low. Net financial costs were at NOK 9.1 million in 2014 (-7.3). Ordinary result before minority interest was NOK 204 million in 2014 (341).

Cash flow and liquidity

Nammo's net cash flow from operating activities was NOK 277 million in 2014 (399). The decrease is mainly due to changes in other depositions and lower results. Net cash flow from investment activities amounted to NOK -139 million in 2014 (-323). Net cash flow from financing activities was NOK -17 million in 2014 (-174). This mainly reflects dividends to the shareholders and a higher level of long-term debt. Cash and cash equivalents were NOK 362 million on 31 December 2014 (243). Nammo had unutilized credit facilities of NOK 443 million, measured at 31 December 2014 exchange rates.

Balance sheet

The total assets of the Nammo Group were NOK 4 011 million at the end of 2014 (3 666). Net working capital, excluding cash, was NOK 1 294 million (967), while equity was NOK 2 069 million (1 835). Total liabilities were NOK 1 905 million (1 802) at 31 December 2014 and the equity ratio ended at 51 percent in 2014 (50). Total interest-bearing liabilities to financial institutions amounted to NOK 560 million (347) at 31 December 2014.

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 these 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 through internal risk matching and hedging in the market, using 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 a 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: The management of liquidity risk 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 share-holders a dividend payment of NOK 94.7 million for 2014. Assuming the proposed dividend, the profit in the parent company Nammo AS will be distributed as follows: dividend NOK 94.7 million, other equity NOK 164.7 million, total NOK 259.4 million. The proposed dividend represents 37 percent of the Nammo AS profit for the year. For the Nammo Group, the proposed dividend represents 50 percent of net profit.

CORPORATE SOCIAL RESPONSIBILITY

Nammo promotes sustainable development through business operations that emphasize strongly environmental, ethical and social considerations. Nammo is committed to ensuring that human and labor rights, environmental considerations and the anti-corruption acts are followed and respected in its business activities and by the group's suppliers. Nammo shall be characterized by its high ethical standards. Nammo has in 2014 completed the revision of the ethical code of conduct and distributed this to all employees. The new version of our ethical code of conduct supports the UN Global Compact's 10 principles. A new training program was launched in March 2013 based on ethical dilemmas. The training was successfully finalized in the beginning of 2015. All divisional management teams, site management and selected occupational groups within the high risk area have completed the training. We believe that developing employee attitude through a strong focus on information, education and training will be the best way to ensure that Nammo employees understand and 'live' the group's high level of ethical standards. Nammo has zero tolerance on any form of corruption.

2014 was the sixth year that Nammo followed the Global Reporting Initiative (GRI) standard for sustainable reporting. Nammo is reporting at the B-level. Transfer to GRI 4 will be done in 2015. During 2014 Nammo delivered its second company report to the UN Global Compact.

People

Nammo has designed a personnel policy to ensure equal opportunities and rights, and to prevent discrimination on the grounds of gender, ethnicity, national origin, skin color, language, religion, philosophy of life or age. This applies in particular to recruitment, career development, equal pay for equal work and working conditions. 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. Women account for 25.8 percent of the employees. However, the number of women in leadership positions is considered to be low. Therefore, 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 has grown significantly through acquisitions in 2013 and 2014. With 3 new companies and more than 350 new employees from 3 different countries as new members of the Nammo Group, the integration of these new companies with our company culture, ethical standards and values has been a prioritized area in 2014.

Nammo operates in the explosives industry and handles energetic materials. Conditions that relate to health, environment, safety and security must have high priority for Nammo's employees, and are constantly on the management agenda. The group's policy is evaluated each year. All accidents or near-accidents involving employees are reported and preventive actions are taken. Monthly reports are sent to all sites.

Health, environment, safety and security audits were last conducted at the sites in 2014. This is an annual procedure performed by the manager of HESS in the Nammo Group. Every year, there are selected focus areas on audits, and in 2014 all sites were compliant. Newly acquired companies have been highly prioritized in connection with audits to make sure that the HESS level is according to Nammo's high standard.

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 areas.

Sick absence among Nammo's employees was at an average of 4.5 percent for 2014. 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 2014. There were no accidents involving explosives in 2014 that caused injury to personnel. The group will continue its preventive work in all areas and maintain a high focus on safe conditions for all employees. In our business, people are important, and Nammo appreciates all the efforts the employees have performed in 2014.

Environment

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

Society

Nammo has a strong ambition to be a positive contributor to the development of the local society wherever we have our production facilities. We therefore engage in areas such as sport, science and culture, with a focus on children and youth.

Since 2010, Nammo has been involved in two national sponsorship programs. These are being a sponsor for the national women's biathlon team and national women's ski jumping team in Norway. This second agreement 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. Nammo's ambition with the biathlon sponsorship is to promote the Nammo brand and the civilian ammunition brand, Lapua. For both sponsorships, the group wants to build a strong company culture and promote the ambition to empower women in the company. In 2014, Nammo renewed both sponsorship agreements with two new years, also including an option for an additional two years. In addition to these two sponsorship programs in Norway, we also have a sponsorship agreement with the national biathlon federation in Finland. During 2014 Nammo also established a sponsorship procedure that will define general rules on how to handle requests for sponsorships, in order to avoid any discrimination or disqualification during the selection.

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 needed to be ratified by 50 countries to be activated. During the UN General Assembly in September 2014, the goal of 50 ratified countries was achieved and the treaty entered into force 90 days later, on 24 December 2014. All countries that ratified the treaty are legally bound to follow it and have to adapt their national law and regulations to the treaty. The Arms Trade Treaty will have an impact on the global defense industry, first and foremost for the countries that need to establish a more regulated export control system. The goal of the treaty is to 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. To follow up the implementation of the treaty, it is important that the defense industry is invited to take part in the future dialogue at the same equal level as the non-governmental organizations.

OUTLOOK FOR THE NAMMO GROUP

Nammo has a broad product range with many specialties and also considerable potential to win new markets. In a challenging market situation, there is every reason to keep competing for new contracts, bring sales to new levels and take advantage of discriminating competence and products. There is still potential for continued organic growth within the Nammo Group.

The acquisition of Nammo Vihtavuori will become an important addition to current business. However, as always when it comes to acquired businesses, integration needs to be done properly. The search for and pursuit of new acquisition targets will also continue.

Nammo sees potential to grow in new markets such as the Middle East and India. There is, however, a lot of competition, and the key to success is the need for and promotion of Nammo's high performance specialty products, as well as through high quality local partnerships and local presence.

Nammo's continued focus on the key current markets; the Nordic countries, USA, Canada and Australia as well as the key European countries, is continuing. We are also considering means of expanding Nammo's special competence and diversify into new business areas.

The board expresses its appreciation to all employees for their commitment and dedication during the year. The result for 2014 was positive and the group is in a healthy condition in despite of a challenging market.

Gardermoen, 16 March 2015

Heikki Ilmari Allonen, Chairman of the Board

Jan Erik Korssjøen, Vice Chairman

Ingelise Arntsen, Board Member

Sirpa-Helena Sormunen, Board Member

Dag J. Opedal, Board Member

Pasi Niinikoski, Board Member

Einar Linnerud, Board Member

Petri Mikael Kontola, Board Member

Edgar Fossheim, President & CEO

NAMMO GROUP 2014

CONSOLIDATED FINANCIAL STATEMENTS

INCOME STATEMENT

NAMMO GROUP

(NOK 1 000)	Notes	2014	2013
Operating income	1	**3 717 723**	3 702 719
Operating expenses			
Changes in stock of work in progress and finished goods		(191 163)	(153 116)
Changes in self-manufactured fixed assets		(58)	(86)
Cost of goods sold		1 525 847	1 491 802
Payroll expenses	3, 4, 12	1 238 199	1 092 299
Depreciation of tangible and intangible fixed assets	7	145 376	145 677
Other operating expenses		713 307	636 743
Total operating expenses		**3 431 508**	3 213 319
Operating profit		**286 215**	489 400
Financial income and expenses			
Income from associates and joint ventures - equity method	6	(465)	(382)
Interest income		6 076	6 018
Other financial income	5	28 763	7 887
Interest expenses		(10 563)	(3 768)
Other financial expenses	5	(32 884)	(17 079)
Net financial income (expense)		**(9 073)**	(7 324)
Ordinary result before tax		**277 142**	482 076
Taxes on ordinary result	13	**(72 964)**	(140 938)
Ordinary result		**204 178**	341 138
Minority share		**(14 918)**	(13 948)
Profit (loss) for the year		**189 260**	327 190

BALANCE SHEET

NAMMO GROUP

(NOK 1 000)	Notes	As of 31.12.14	As of 31.12.13	As of 31.12.12
Assets				
Non-current assets				
Intangible assets				
Deferred tax asset	13	38 381	9 701	13 783
Licenses, trademarks and other intangible assets	7	261 666	242 487	236 717
Goodwill	7	2 813	95 495	15 311
Total intangible assets		**302 860**	347 683	265 811
Tangible assets				
Buildings	7	266 389	254 812	225 489
Land	7	33 795	28 844	25 272
Machines and equipment	7	392 757	339 524	282 050
Fixtures and fittings, tools, office machinery, etc.	7	53 343	47 795	36 004
Plant under construction	7	132 714	129 833	96 793
Total tangible assets		**878 998**	800 808	665 608
Financial fixed assets				
Shares in joint controlled companies	6	7 172	7 524	7 125
Shares in associated companies	6	235	226	558
Other shares and participations	6	8 284	8 416	8 451
Other receivables	8	15 517	18 050	18 133
Total financial fixed assets		**31 208**	34 216	34 267
Total non-current assets		**1 213 066**	1 182 707	965 686
Current assets				
Stocks				
Stock of raw materials		444 355	403 289	334 880
Stock of work in progress		927 700	805 099	639 424
Stock of finished goods		281 935	213 373	225 932
Total stocks		**1 653 990**	1 421 761	1 200 236
Receivables				
Accounts receivable	9	600 013	673 868	746 561
Other receivables	8	160 573	106 523	189 044
Advance payments to suppliers		21 224	37 533	66 264
Total receivables		**781 810**	817 924	1 001 869
Cash and cash equivalents	10	**362 493**	243 117	341 492
Total current assets		**2 798 293**	2 482 802	2 543 597
Total assets		**4 011 359**	3 665 509	3 509 283

(NOK 1 000)	Notes	As of 31.12.14	As of 31.12.13	As of 31.12.12
Shareholders' equity and liabilities				
Equity				
Share capital		100 000	100 000	100 000
Premium fund		258 670	258 670	258 670
Other equity		1 709 989	1 476 165	1 244 576
Total equity		**2 068 659**	1 834 835	1 603 246
Minority share		**37 980**	29 172	30 559
Total equity and minority share	11	**2 106 639**	1 864 007	1 633 805
Liabilities				
Non-current liabilities				
Pension liabilities	12	152 172	151 990	111 642
Deferred tax	13	9 522	8 718	-
Total non-current liabilities		**161 694**	160 708	111 642
Other non-current liabilities				
Liabilities to financial institutions	14	560 344	346 510	303 292
Other non-current liabilities		40 916	21 616	8 392
Total other non-current liabilities		**601 260**	368 126	311 684
Current liabilities				
Allocation for guarantee liabilities		77 094	106 225	97 629
Accounts payable		217 779	267 149	211 692
Income tax payable	13	48 189	73 124	58 976
Public duties		76 286	76 155	62 750
Dividend payable		94 700	164 000	159 500
Prepayments from customers		340 142	341 013	621 692
Other short term liabilities		287 576	245 002	239 913
Total current liabilities		**1 141 766**	1 272 668	1 452 152
Total liabilities		**1 904 720**	1 801 502	1 875 478
Total shareholders' equity and liabilities		**4 011 359**	3 665 509	3 509 283

Gardermoen, 16 March 2015

Heikki Ilmari Allonen, Chairman of the Board

Jan Erik Korssjøen, Vice Chairman

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Pasi Niinikoski, Board Member

Einar Linnerud, Board Member

Petri Mikael Kontola, Board Member

Edgar Fossheim, President & CEO

CASH FLOW

NAMMO GROUP

(NOK 1 000)	2014	2013	2012
Cash flow from operational activities			
Result before tax	277 142	482 076	464 381
Tax payments	(124 761)	(115 385)	(116 575)
Profit and loss on sale of fixed assets	1 659	222	2 295
Ordinary depreciations	145 376	145 677	115 429
Changes in stocks	(86 187)	(22 913)	(289 555)
Changes regarding debtors	107 297	111 332	(114 296)
Changes regarding creditors	(67 448)	33 617	23 603
Changes in other dispositions	23 466	(235 511)	396 236
Net cash flow from operational activities (a)	**276 544**	399 115	481 518
Cash flow from investment activities			
Payments received from sale of fixed assets	1 629	-	1 101
Purchase of fixed assets	(137 151)	(249 461)	(191 906)
Purchase of other long-term investments	(3 929)	(73 928)	(2 445)
Net cash flow from investment activities (b)	**(139 451)**	(323 389)	(193 250)
Cash flow from financing activities			
Payments received regarding new long term loans	169 067	89 613	16 700
Installments on long-term loans	(14 028)	(85 115)	(852)
Received dividend	17	16	-
Paid dividend	(172 773)	(178 615)	(152 849)
Net cash flow from financing activities (c)	**(17 717)**	(174 101)	(137 001)
Net changes in cash and bank accounts (a+b+c)	119 376	(98 375)	151 267
Cash and bank accounts as of 01.01.	243 117	341 492	190 225
Cash and bank accounts as of 31.12.	**362 493**	243 117	341 492

Total unused cash credits as of December 2014 is NOK 443.4 million. See note 14.

INDEX TO THE ACCOUNTING NOTES

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 percent 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 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 percent and 50 percent 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 percent 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.

Sales from Nammo subsidiaries per country

(NOK 1 000)	2014
Norway	1 359 502
Germany	669 863
Sweden	585 300
Finland	473 734
USA	387 712
Spain	239 624
Switzerland	1 988
Total	**3 717 723**

Sales per geographical location of customers

(NOK 1 000)	2014
Norway	525 939
Sweden	307 278
Finland	233 655
Great Britain	232 344
Germany	229 553
Spain	175 940
France	92 822
Poland	91 817
Belgium	56 590
Italy	38 591
Switzerland	17 485
Denmark	16 925
Netherlands	12 927
Other European countries	261 470
USA	1 022 604
Canada	70 074
Australia	113 031
Other countries	218 678
Total	**3 717 723**

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 2014:

(Amounts in currency 1 000)

Transaction type	Buy/Sell (-)	CAD	CHF	EUR	GBP	SEK	USD
FX Forward	Buy	885	6 469	23 590	-	3 800	24 622
	Sell (-)	-	-	(25 376)	(8 566)	-	(102 003)
FX SWAP	Buy	-	1 450	452	-	-	18 886
	Sell (-)	-	-	(14 081)	-	-	(71 355)

Maturity FX Forwards and FX SWAPs - percentage allocation based on nominal value in NOK:

Transaction type	Buy/sell	Year 2015	Year 2016	Year 2017	Later
FX Forward	Buy	90%	2%	5%	3%
	Sell	97%	2%	-	1%
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 SWAPs 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. BOARD OF DIRECTORS' STATEMENT ON MANAGEMENT REMUNERATION

The board proposes that the following guidelines be applied for 2015, up until the annual general meeting in 2016.

The main principles of the remuneration policy for the CEO and executive management

The principles that apply to remuneration of executive management are adopted by the board. Each year, the board of directors assesses the CEO's remuneration and other compensation conditions. The CEO determines the compensation for all other members of corporate management, in line with that given by the board. Management remuneration at Nammo and group companies is based on the following main principles:

- Management remuneration shall be competitive but not leading. It shall support a general moderation with regards to its development - the company aspires to attract and retain skilled leaders
- It shall motivate, i.e., be structured to motivate managers to strive to achieve constant improvements in operations and company results
- The remuneration system shall be understandable and acceptable both inside and outside of Nammo
- It shall be flexible and open to adjustments when requirements change
- The system shall encourage cooperation

Compensation to corporate management will reflect their responsibility for the management, performance and sustainable development of Nammo, taking into account the size and complexity of the business. The arrangements shall otherwise be transparent and in line with principles for good corporate governance. Other companies in the group shall comply with the main principles of the senior executive remuneration policy. A key goal is to coordinate the remuneration policy and the schemes used for variable benefits throughout the group.

Elements of management remuneration – fixed salary and variable benefits

The basis for wage setting is the aggregate level of a manager's regular salary and variable benefits. The fixed salary comprises a basic salary plus benefits in kind and post-employment benefit plans. Variable benefits consist of performance-based salary. Regular and relevant surveys are made to ensure that overall compensation packages are competitive, but not leading.

Basic salary

The basic salary should normally be the main element of the managers' remuneration. It is generally evaluated once a year.

Benefits in kind

Key management personnel will normally be offered benefits in kind that are common for comparable positions, e.g., free telephone service, free broadband service, and newspapers. Company car/car arrangement and parking may occur. No particular limitations have been placed on the type of benefits in kind that can be agreed.

Pension plans

Nammo shall have pension schemes that are in line with the market of the home country. New employees shall be connected to existing schemes. These plans meet the government's guidelines for pension schemes for senior management or similar arrangements in the country where the top manager is employed. In Norway, employees have a defined benefit pension scheme, financed through a group pension scheme with Storebrand, limited to 12G, with a coverage of 60 percent of salary. The CEO also receives an agreed pre-paid compensation for pension, calculated at 56 percent of salary.

Performance-based salary

Beyond the main principle of a fixed salary, there may be an opportunity to provide other forms of variable remuneration in cases where this is deemed appropriate. Bonuses can be used to a limited extent and by special agreement. Employees in Nammo AS will follow the guidelines regarding salary and other benefits provided by Nammo Raufoss AS. These guidelines adhere to the limits set by the Norwegian government regarding the sizes and levels of variable pay, for instance the bonus may not exceed six months' salary.

The performance-based salary provides no basis for pension and is annually assessed by the board of directors and/or the CEO to ensure that it works as intended and any required adjustments are made.

Severance package arrangements

The CEO has a separate agreement for retirement at the age of 66. If the board asks the CEO to resign his position before this age, he is entitled to a maximum of 24 months compensation. After retirement at the age of 66, the CEO will receive 60 percent of his salary for one year. No other senior executives are entitled to pay after termination of employment beyond the regular dismissal period.

Statement for the fiscal year 2014

The executive compensation policy for the fiscal year 2014 has been implemented in accordance with the above-mentioned information and guidelines discussed at Nammo's annual general meeting in 2014. Following the ordinary wage settlement on 1 July 2014, the CEO's basic salary was increased by 3.3 percent (3.5 percent in 2013). In addition, the performance-based salary outlined above, has resulted in payments accounted for that are described below in note 4. Nammo has not made or amended any agreements for compensation with material impact on the company or its shareholders in the previous financial year.

4. EMPLOYEE /MANAGEMENT REMUNERATION AND AUDITOR'S FEES

(NOK 1 000)	2014	2013
Salaries	961 360	855 521
Employment taxes	93 324	90 140
Pension costs	75 000	44 083
Other personnel costs	108 515	102 555
Total	**1 238 199**	1 092 299
Average number of man years	**2 160**	1 954

Remuneration CEO, board of directors and Norwegian corporate management members

(NOK)	Function	Salary	Bonus	Other compensation	Prepaid pensions	Total
Edgar Fossheim	President and CEO	3 099 776	1 267 942	567 502	1 552 319	6 487 539
Ola Skrivervik	SVP Business Development	1 465 214	307 500	135 738	-	1 908 451
Peter Lerche Raadal	CFO	1 380 060	305 000	97 123	-	1 782 183
Bertil Pålsrud	SVP Human Resources	1 355 397	262 500	171 651	-	1 789 548
Sissel Solum	SVP Communications	1 107 268	260 000	102 530	-	1 469 798
A. Erland Paulsrud	SVP Technology	1 413 770	135 000	123 373	-	1 672 143
Kjell Kringsjå	EVP MLCD	1 801 019	498 917	162 716	-	2 462 652
Morten Brandtzæg	EVP MPD	1 706 278	527 375	196 855	-	2 430 508
Nammo AS Board of directors	Board members	1 451 418	-	-	-	1 451 418

All Norwegian corporate management members are included in a collective defined benefit pension plan in Norway.

Loan to the CEO has a balance of NOK 424 994 as of 31 December 2014. The loan is due in 8.5 years and the interest rate was 0.75 percent p.a. in 2014.

Auditor's fee

(NOK 1 000)	2014
Auditor's fee	3 995
Fees for other assurance work, including IFRS	283
Tax advisory services	1 388
Other services	1 084
Total	**6 750**

5. FINANCIAL ITEMS

(NOK 1 000)	2014	2013
Gain on exchange	27 711	7 251
Other financial income	4 052	636
Total other financial income	**28 763**	7 887

Loss on exchange	(30 179)	(15 886)
Other financial expenses	(2 705)	(1 193)
Total other financial expenses	**(32 884)**	(17 079)

6. 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	7 120	50%
N2 Defense, USA	USD 120 000			52	50%
Total				**7 172**	
Associated companies:					
DrawTech Oy, Finland	EUR 36 000	533	-	235	33%
Total				**235**	
Other shares and participations:					
Raufoss Industripark III AS, Raufoss, Norway				4 209	25%
Komm-In AS, Norway				2 500	14%
Sintef Raufoss Manufacturing AS, Raufoss, Norway				1 302	14%
Others				273	-
Total				**8 284**	

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

7. FIXED AND INTANGIBLE ASSETS

(NOK 1 000)	Patents, trade-marks and other intangible assets	Goodwill	Buildings	Land	Machinery and equipment	Fittings, tools, office machinery, etc	Plants under construction	Total assets
Acquisition cost as of 01.01.14	427 900	265 250	514 169	29 721	1 285 693	217 405	114 374	2 854 512
Acquired companies	-	(119 083)	46 330	4 175	108 637	39 770	-	79 829
Additions during the year	287	-	23 004	-	100 738	12 846	10 940	147 815
Disposals during the year	-	(731)	-	-	(12 530)	(3 238)	(2 141)	(18 640)
Exchange difference acq. cost	88 136	45 279	27 102	1 185	45 440	12 914	12 613	232 669
Acquisition cost 31.12.14	516 323	190 715	610 605	35 081	1 527 978	279 697	135 786	3 296 185
Accumulated depreciations 31.12.14	(254 657)	(187 902)	(344 216)	(1 286)	(1 135 221)	(226 354)	(3 072)	(2 152 710)
Book value as of 31.12.13	**261 666**	**2 813**	**266 389**	**33 795**	**392 757**	**53 343**	**132 714**	**1 143 477**
Depreciations this year	**29 882**	**(7 186)**	**29 028**	**322**	**79 677**	**13 653**	**-**	**145 376**
Annual leasing cost of assets not recognized in balance sheet	-	-	57 997	233	13 498	5 123	-	76 851
Economic life time (years)	1–25	5–10	10–50	-	5–20	3–10	-	-
Depreciation plan	Linear	linear	linear	linear	linear	linear	-	-

Goodwill depreciated over more than five years is goodwill originating from a company with products strongly rooted with the customers and a strong market position, which is expected to last materially longer than five years.

8. 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.

9. RECEIVABLES AND LOSSES ON BAD DEBTS

(NOK 1 000)	2014	2013
Accounts receivables	604 681	673 952
Provision for bad debt	(4 668)	(84)
Book value of accounts receivables	**600 013**	673 868

10. CASH RESERVE

(NOK 1 000)	2014	2013
Cash and cash equivalents	362 493	243 117
Unused cash credits	443 438	648 595
Net cash reserve	**805 931**	891 712

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

Finland: Nammo Lapua Oy and Nammo Vihtavuori Oy
Germany: Nammo Schönebeck GmbH, Nammo Buck GmbH and Nammo Germany GmbH
Norway: Nammo AS, Nammo Raufoss AS, Nammo Bakelittfabrikken AS and Nammo NAD AS
Sweden: Hansson Pyrotech AB, Nammo Demil Division AB, Nammo LIAB AB, Nammo Sweden AB, Nammo Vingåkersverken AB and Nammo Vanäsverken AB
USA: Nammo Inc., Nammo Talley Inc., Nammo Composite Solutions LLC., Nammo Tactical Ammunition LLC. and Nammo Pocal Inc.
Spain: Nammo Palencia S.L.

11. EQUITY – CHANGES IN EQUITY

(NOK 1 000)	Share capital	Premium fund	Other equity	Minority share	Total
Equity as of 01.01.14	100 000	258 670	1 383 199	35 077	1 776 946
Exchange differences opening balance	-	-	92 966	(5 905)	87 061
Equity as of 01.01.14	**100 000**	**258 670**	**1 476 165**	**29 172**	**1 864 007**
Profit for the year	-	-	189 260	-	189 260
Proposed dividend to shareholders [1]	-	-	(94 700)	-	(94 700)
Change in minority share this year	-	-	1 478	13 166	14 644
Other items	-	-	47 556	1 464	49 020
Exchange differences for the period	-	-	92 557	(5 822)	86 735
Exchange differences on profit for the year	-	-	(2 327)	-	(2 327)
Total equity as of 31.12.14	**100 000**	**258 670**	**1 709 989**	**37 980**	**2 106 639**

[1] Board of director's proposal to the general meeting of shareholders.

12. 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 2014 was NOK 152 million, which is derived from the companies in Norway, Sweden, Germany and Finland. 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)	2014	2013
Service costs	41 569	8 876
Amortization of net actuarial losses (gains)	7 602	1 177
Interest costs	3 732	10 803
Expected return on plan assets	(9 260)	(8 590)
Pension cost related to defined contribution plans	27 957	28 415
Settlement pension plans	3 400	2 802
Net periodic pension costs	**75 000**	44 083

Pension liability

(NOK 1 000)	2014	2013
Defined benefit obligation incl. social security tax	571 407	499 052
- Fair value of plan assets	(302 237)	(265 297)
Net pension obligation	269 170	233 755
Items not recorded in the profit and loss:		
Unrecognized net actuarial loss (gain)	(116 998)	(81 765)
Net amount recognized in the balance sheet	**152 172**	151 990

13. 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)	2014	2013	Change
Temporary differences:			
Fixed assets	174 758	142 973	(31 785)
Accounts receivable	(416)	2 714	3 130
Stock of goods	72 214	89 895	17 681
Pension liabilities	(21 166)	(28 160)	(6 994)
Guarantee liabilities	(72 573)	(103 248)	(30 675)
Other temporary differences	12 684	1 443	(11 241)
Adjustments for consolidation items	(74 571)	(56 182)	18 389
Temporary differences	**90 930**	49 435	(41 495)
Carried forward losses for tax purposes	(121 315)	(43 617)	
Total temporary differences	**(30 385)**	5 818	
Gross deferred tax/deferred tax assets (-)	(35 834)	(6 694)	
Deferred tax assets not recognized in the balance sheet	6 975	5 711	
Net deferred taxt liability/deferred tax asset (-)	**(28 859)**	(983)	
Classified as deferred tax asset	**38 381**	9 701	
Deferred tax liability in the balance sheet	**9 522**	8 718	

Payable income taxes

(NOK 1 000)	2014
Net income before tax	277 142
Changes in temporary differences	(41 495)
Exchange differences temporary differences	(25 574)
Permanent differences	14 056
Use of carried forward losses	(11 474)
Taxable income	212 655
Payable income tax	**94 427**

Tax expense in profit and loss

(NOK 1 000)	2014
Payable tax on this year's result	94 427
Adjustments in prior years	(1 667)
Payable tax in this year's tax cost	**92 760**
Change in deferred tax/deferred tax asset	(4 745)
Other items	(15 051)
Tax expense in the P&L	**72 964**

Payable tax in the balance sheet

(NOK 1 000)	2014
Payable taxes	107 696
Prepaid taxes	(59 632)
Other items	125
Payable tax in balance sheet	**48 189**

14. INTEREST BEARING LOANS AND GUARANTEES

(NOK 1 000)	2014	2013
Loan from credit institutions	560 344	346 510
Total interest bearing loans	**560 344**	346 510

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 2014 is NOK 530.9 million. The facility will terminate in 2018. At 31 December 2014 Nammo AS has total unused cash credits of NOK 443.4 million.

Guarantees not recognized in the balance sheet as of 31 December 2014 is NOK 220.6 million.

NAMMO AS 2014

FINANCIAL STATEMENTS

INCOME STATEMENT

NAMMO AS

(NOK 1 000)	Notes	2014	2013
Operating income	1	**65 833**	61 415
Operating expenses			
Payroll expenses	2	27 624	26 682
Depreciation of tangible and intangible fixed assets	4	1 507	1 427
Other operating expenses		62 072	56 559
Total operating expenses		**91 203**	84 668
Operating profit		**(25 370)**	(23 253)
Financial income and expenses			
Received group contribution		100 000	100 000
Interest income	3	20 055	13 616
Other financial income	3	282 844	149 560
Interest expense	3	(3 983)	(1 241)
Other financial expenses	3	(75 967)	(30 330)
Net financial income (expenses)		**322 949**	231 605
Ordinary result before tax		**297 579**	208 352
Taxes on ordinary result	11	**(38 211)**	(28 649)
Profit (loss) for the year		**259 368**	179 703
The board's proposal for allocation of the profit			
Dividend		94 700	164 000
Other equity		164 668	15 703
Total		**259 368**	179 703

BALANCE SHEET

NAMMO AS

(NOK 1 000)	Notes	As of 31.12.14	As of 31.12.13	As of 31.12.12
Assets				
Non-current assets				
Tangible assets				
Buildings	4	-	113	282
Machines and equipment	4	749	1 040	693
Fixtures and fittings, office machines, etc.	4	1 594	1 973	2 915
Fixed assets under construction	4	841	-	-
Total tangible assets		**3 184**	3 126	3 890
Financial assets				
Investments in subsidiaries	5	595 331	594 333	594 333
Investments in other shares and participations	5	95	95	95
Loans to group companies		749 039	665 639	361 505
Pension assets	10	1 683	1 122	298
Other receivables		3 335	4 303	3 030
Total fixed assets		**1 349 483**	1 265 492	959 261
Total non-current assets		**1 352 667**	1 268 618	963 151
Current assets				
Receivables				
Accounts receivables	6	1 399	846	10
Receivables from group companies		91 720	77 400	85 793
Receivable group contributions		100 000	100 000	100 000
Prepayments to vendors		5 983	3 824	638
Other receivables		4 750	5 232	4 233
Total receivables		**203 852**	187 302	190 674
Cash and cash equivalents	7, 13	**232 430**	166 398	280 395
Total current assets		**436 282**	353 700	471 069
Total assets		**1 788 949**	1 622 318	1 434 220

(NOK 1 000)	Notes	As of 31.12.14	As of 31.12.13	As of 31.12.12
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	526 526	361 858	346 134
Total earned equity		**526 526**	361 858	346 134
Total equity		**885 196**	720 528	704 804
Liabilities				
Non-current liabilities				
Deferred tax	11	15 064	185	46
Total non-current liabilities		**15 064**	185	46
Other non-current liabilities				
Liabilities to financial institutions	12	530 894	312 242	279 405
Total other non-current liabilities		**530 894**	312 242	279 405
Current liabilities				
Prepayments from customers		-	-	2 557
Accounts payable		4 149	4 797	5 499
Payables to group companies	13	225 271	381 279	250 171
Income tax payable	11	23 332	28 510	21 871
Public duties payable		2 182	2 176	2 127
Dividend payable to shareholders		94 700	164 000	159 500
Other current liabilities		8 161	8 601	8 240
Total current liabilities		**357 795**	589 363	449 965
Total liabilities		**903 753**	901 790	729 416
Total shareholders' equity and liabilities		**1 788 949**	1 622 318	1 434 220

Gardermoen, 16 March 2015

Heikki Ilmari Allonen, Chairman of the Board

Jan Erik Korssjøen, Vice Chairman

Ingelise Arntsen, Board Member

Sirpa-Helena Sormunen, Board Member

Dag J. Opedal, Board Member

Pasi Niinikoski, Board Member

Einar Linnerud, Board Member

Petri Mikael Kontola, Board Member

Edgar Fossheim, President & CEO

CASH FLOW

NAMMO AS

(NOK 1 000)	2014	2013	2012
Cash flow from operational activities			
Result before tax	297 579	208 352	209 307
Tax payments	(28 510)	(21 854)	(29 565)
Gain on sale of fixed assets	-	(87)	-
Ordinary depreciation	1 507	1 427	1 424
Changes in accounts receivable	(14 873)	7 557	(2 082)
Changes in accounts payable	2 491	(1 386)	(34 457)
Pension cost less paid pension premium	(560)	(823)	(1 551)
Changes in loans to group and joint controlled companies	(83 400)	(304 134)	58 373
Changes in other dispositions	(363 822)	(47 422)	(127 634)
Net cash flow from operational activities (a)	**(189 588)**	(158 370)	73 815
Cash flow from investment activities			
Payments from sold fixed assets	-	460	-
Investments in financial fixed assets	(998)	-	-
Investments in fixed assets	(1 565)	(1 036)	-
Net cash flow from investment activities (b)	**(2 563)**	(576)	-
Cash flow from financing activities			
Payments from new long-term loans	165 733	81 332	-
Installments on long-term loans	-	(83 343)	-
Received dividend	156 450	106 460	129 773
Received group contribution	100 000	100 000	100 000
Paid dividend	(164 000)	(159 500)	(145 000)
Net cash flow from financing activities (c)	**258 183**	44 949	84 773
Net changes in cash and bank accounts (a+b+c)	66 032	(113 997)	158 588
Cash and bank accounts as of 01.01.	166 398	280 395	121 807
Cash and bank accounts as of 31.12.	**232 430**	166 398	280 395

Unused credit facilities is NOK 443.4 million. See note 12.

INDEX TO THE ACCOUNTING NOTES

ACCOUNTING POLICIES

NAMMO AS

GENERAL

Nammo AS is a public limited company (Aksjeselskap). The Nammo AS head-quarters 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.

Development costs are expensed when incurred. 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 percent 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)	2014	2013
Management service fee to group companies	65 407	60 598
Other operating income	426	817
Total	**65 833**	61 415

2. SALARIES AND SOCIAL COST

(NOK 1 000)	2014	2013
Salaries	22 060	21 879
Employment taxes	3 143	3 110
Pension costs	1 940	1 182
Other social costs	481	511
Total	**27 624**	26 682

Average number of man-years	13	13

Auditor's fee

(NOK 1 000) All numbers are presented exclusive VAT	2014
Auditors fee	461
Tax advisory services	271
Other services	206
Total	**938**

3. FINANCIAL ITEMS

(NOK 1 000)	2014	2013
Interest income from group companies	17 872	11 745
Other interest income	2 183	1 871
Total interest income	**20 055**	13 616
Gain on exchange	126 394	43 092
Dividend from group companies	156 450	106 460
Other financial income	-	8
Total other financial income	**282 844**	149 560
Other interest cost	(3 983)	(1 241)
Total interest cost	**(3 983)**	(1 241)
Loss on exchange	(74 611)	(29 655)
Other financial expenses	(1 356)	(675)
Total other financial expenses	**(75 967)**	(30 330)

4. FIXED AND INTANGIBLE ASSETS

(NOK 1 000)	Buildings	Machines and equipment	Fixtures, fittings and office equipment	Assets under construction	Total
Acquisition cost as of 01.01.14	845	1 584	4 709	-	7 138
Additions during the year	-	1	723	841	1 565
Acquisition cost as of 31.12.14	845	1 585	5 432	841	8 703
Accumulated depreciations	(845)	(836)	(3 838)		(5 519)
Book value as of 31.12.14	**-**	**749**	**1 594**	**841**	**3 184**
Ordinary depreciations for the year	**113**	**292**	**1 102**		**1 507**
Annual leasing cost on assets not in the balance sheet	303	16	25		344
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	8 136	100%
Total				**595 331**	

Other shares and participations:		
Toten Golf AS, Reinsvoll	95	
Total	**95**	

6. ACCOUNTS RECEIVABLE

(NOK 1 000)	2014	2013
Accounts receivable	**1 399**	846

Accounts receivable are booked at nominal value. There has been no loss on accounts receivable in 2014.

7. CASH RESERVE

This amount includes bank balances of group companies that participate in the international cash pool of NOK 216.6 million. See note 13.

8. SHARE CAPITAL

As of 31 December 2014 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. December 2014

(NOK 1 000)	Number of share-holders	Number of shares	Ownership/ vote
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 01.01.14	100 000	258 670	361 858	-	720 528
Net result	-	-	-	259 368	259 368
Allocation of the net result *)	-	-	259 368	(259 368)	-
Dividend *)	-	-	(94 700)	-	(94 700)
Other items	-	-	-	-	-
Equity as of 31.12.14	**100 000**	**258 670**	**526 526**	**-**	**885 196**

*) Board of directors proposal for the general meeting

10. 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 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 2014 with the following assumptions:

Yield from pension funds	3.80%
Interest rate used to discount future cash flows	3.00%
Annual salary increase	3.25%
Annual increase in G	3.00%
Annual change in pension	0.10%

Pension cost

(NOK 1 000)	2014	2013
Service costs	1 869	960
Amortization of net actuarial losses (gains)	367	113
Interest costs	211	581
Expected return on plan assets	(507)	(472)
Net pension costs	**1 940**	1 182

Pension liabilities

(NOK 1 000)	2014	2013
Defined benefit obligation incl. payroll tax	22 524	18 329
- Fair value of plan assets	(16 853)	(14 213)
Gross pension liability	5 671	4 116
Items not recognized in the profit and loss:		
Unrecognized net actuarial loss (gain)	(7 354)	(5 238)
Net amount recognized in the balance sheet	**(1 683)**	(1 122)

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)	2014	2013
Net income before tax	297 579	208 352
Permanent differences	(156 055)	(106 011)
Changes in temporary differences	(55 106)	(520)
Taxable income	**86 418**	101 821

Specification of the tax cost in the profit and loss:

Tax payable	23 332	28 519
Changes in deferred tax	14 879	139
This year's tax cost	**38 211**	28 649

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)	31.12.14	31.12.13
Tangible fixed assets	(963)	(437)
Financial fixed asset	55 071	-
Pension liability/asset	1 683	1 122
Net temporary differences as basis for deferred tax/tax asset (-) calculation	**55 791**	685
Deferred tax/deferred tax asset (-) at 28%	**15 064**	185

12. INTEREST BEARING LOANS AND GUARANTEES

(NOK 1 000)	2014	2013
Loans from banks	**530 894**	312 242

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 2014 is NOK 530.9 million. The facility will terminate in 2018. At 31 December 2014 Nammo AS has total unused cash credits of NOK 443.4 million.

Guarantees not in the balance sheet as of 31 December 2014 are NOK 220.3 million.

13. CREDIT FACILITY

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

Finland: Nammo Lapua Oy and Nammo Vihtavuori Oy
Germany: Nammo Schönebeck GmbH, Nammo Buck GmbH and Nammo Germany GmbH
Norway: Nammo AS, Nammo Raufoss AS, Nammo Bakelittfabrikken AS and Nammo NAD AS
Sweden: Hansson Pyrotech AB, Nammo Demil Division AB, Nammo LIAB AB, Nammo Sweden AB, Nammo Vingåkersverken AB and Nammo Vanäsverken AB
USA: Nammo Inc., Nammo Talley Inc., Nammo Composite Solutions LLC., Nammo Tactical Ammunition LLC. and Nammo Pocal Inc
Spain: Nammo Palencia S.L.

Nammo AS subsidiaries' balance on the cash pool is included in payables to group companies. This amounts to NOK 216.6 million. See note 7.

AUDITORS REPORT

FOR 2014

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Torggata 22
N-2302 Hamar

Telephone +47 04063
Internet www.kpmg.no
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 259 368 000, and the consolidated financial statements of Nammo AS and its subsidiaries, showing a profit of NOK 189 260 000. The parent company's and the consolidated financial statements comprise balance sheet as at 31 December 2014, 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 2014, 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.

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

Statsautoriserte revisorer - medlemmer av Den norske Revisorforening.

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Tynset
Tønsberg
Ålesund

Independent auditor's report 2014
Nammo AS

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, 16. March 2015
KPMG AS

Stein Erik Lund
State Authorized Public Accountant

[Translation has been made for information purposes only]

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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 to formalize a Nammo management system. The goal is to document how the Nammo Group is managed 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 is finalized and changes will be implemented during 2015. 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 the Nammo management 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, IT, HESS 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

The Nammo management system is 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. 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 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

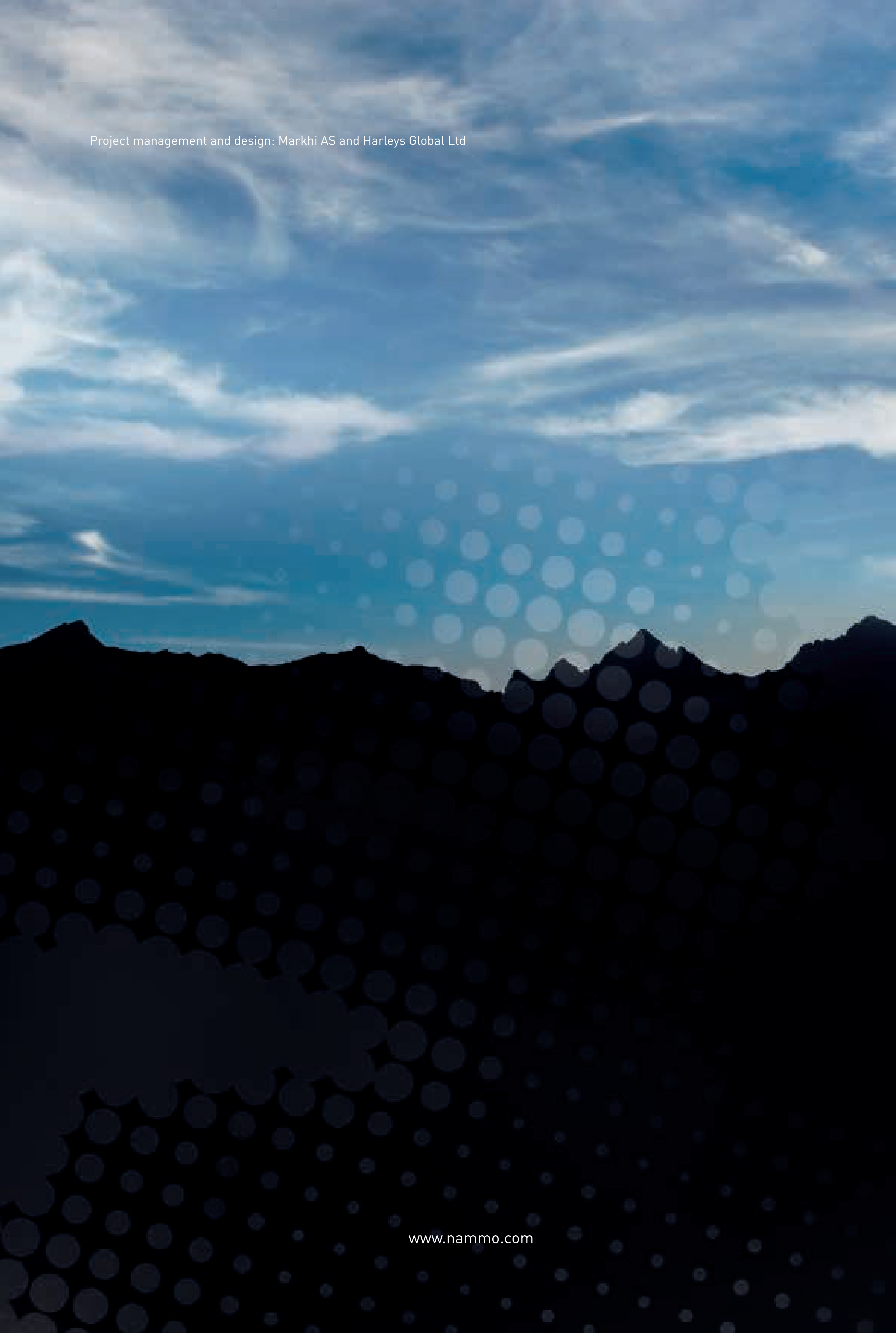
The board of directors of Nammo AS shall consist of six to eight directors in accordance with the shareholders' agreement: three from each owner, and two directors representing the employees. The employees may also nominate one additional observer, so that all the employees from Norway, Sweden and Finland 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-today 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 and Harleys Global Ltd

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SECURING THE FUTURE