SECURING THE FUTURE

ANNUAL REPORT | 2015

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BOARD OF DIRECTORS REPORT 2015

NAMMO PERFORMS WELL IN A CHALLENGING MARKET WITH A RECORD-HIGH ORDER BACKLOG AT THE END OF 2015. IN AUGUST, MORTEN BRANDTZÆG TOOK OVER THE POSITION AS CEO IN NAMMO, INTRODUCING PROFITABLE GROWTH AS THE LEAD THEME TO NAMMO'S FUTURE STRATEGY AND LAUNCHED A NEW BUSINESS UNIT STRUCTURE IN THE GROUP. NAMMO IS PREPARED TO SECURE THE FUTURE FOR NAMMO'S EMPLOYEES, CUSTOMERS, OWNERS AND OTHER STAKEHOLDERS.

The net profit for the year after tax amounted to NOK 229 million (NOK 204 million in 2014), which is 12.1 percent higher than last year. Based on this, the board of directors will propose an ordinary dividend of NOK 108.7 million (94.7) at the annual general meeting. The order backlog ended at NOK 5 130 million (3 853) at year-end, which provides a solid base for the future growth of Nammo.

GENERAL COMMENTS

Nammo develops, produces and sells military and commercial ammunition, shoulder-fired systems, rocket motors for space and military 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 spearhead technologies. Since Nammo has governmental owners both in Norway and indirectly in Finland, the company is generally subject to governmental guidelines and governance. Nammo has manufacturing companies in Norway, Sweden, Finland, Germany, Switzerland, Spain and the USA as well as sales offices in Canada, Poland, UAE and Australia. The corporate headquarters is located at Raufoss, Norway.

With its modern and wide product portfolio, Nammo is well positioned in the international market. The main focus of Nammo in this market is growth in selected geographical areas through organic growth of present activities, along with partners and by acquisitions that will strengthen the company's presence in the chosen areas. Nammo has a long and successful collaboration with the Finnish and the Norwegian Armed Forces. This is important to maintain for continued international success.

Operating profit for 2015 ended at NOK 284 million (NOK 286 million), NOK 2 million lower than in 2014. Nammo acquired a large-caliber activity in Finland in 2015, Sastamala, and this has been integrated during 2015. Two new sales offices have been established in 2015: a branch office in the United Arab Emirates and a company in Poland. This is to secure Nammo's future business in these areas.

STRATEGY FOR GROWTH

In times of international change, it is crucial for a company like Nammo to be flexible and capable of adapting to new environments, be it in the market place or in the industrial processes. Nammo's strategy, based on the fundamental values of 'Dedication, Precision and Care', will focus very much on people, business attitudes and continuous product development as well as growth of the core business areas. Through 2015, Nammo has maintained its strong position and presence in the market, both financially and in terms of products. This provides a good basis to further develop the business with a high focus on profitable growth. Nammo's strategy is to continue to grow both organically and through acquisitions. Growth through diversification to new product areas based on present core competences is also being considered.

The market trends have changed in the recent years. Nammo, together with the rest of the defense industry, has been facing cuts in defense budgets in several of our key markets. This trend now seems to be changing. Significant growth is expected in both "old" and new markets as a result of the increased political tensions in several regions of the world. Nammo will continue to focus on our key markets and at the same time closely follow the development of, and opportunities in the new and rising markets. All entries into new markets will be in accordance with the corporate compliance procedures and the laws and regulations of the national authorities in the countries where Nammo operates.

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 – references that are invaluable when doing business with other customer nations. In 2015, the Nordic market accounted for 22 percent of the total revenues.

The global market

The global market has become steadily more important to Nammo since the company was established in 1998 and now counts for 78 percent of total sales.

Sales to the North America represented 37 percent of the group's revenues in 2015, and even with a lower level of sales in local currency, particularly in the US, this region again represents an important market for Nammo's future growth.

Development, research and technology

To stay competitive, Nammo has to have up-to-date products. Nammo is therefore 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 products to work together in a system to increase the overall effectiveness. 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. Significant development projects for new technologies, products, tooling etc., which is estimated to give future positive cash flow, is recognized as R&D costs in the balance sheet. All other research and development costs are 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 assumption of a going concern 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 3 783 million in 2015 (3 718), which is 1.8 percent higher than of 2014. The weaker Norwegian Krone in relation to mainly the Euro, USD and Swedish Krone, had a positive effect on the operating income. Net financial costs were at NOK 9.9 million in 2015 (9.1). Net income after tax was NOK 229 million in 2015 (204).

Cash flow and liquidity

Nammo's net cash flow from operating activities was NOK 26 million in 2015 (277). The lower level is mainly due to the increase in working capital, mainly related to increase in accounts receivable, stocks and other dispositions, which also include exchange differences. Net cash flow from investment activities amounted to NOK -135 million in 2015 (-139), mainly related to purchase of fixed assets. Net cash flow from financing activities amounted to NOK 28 million in 2015 (-17). This mainly reflects dividends to the shareholders and an increase of long-term debt. Cash and cash equivalents were NOK 282 million on 31 December 2015 (362). Nammo had unutilized credit facilities of NOK 288 million, measured at 31 December 2015 exchange rates.

Balance sheet

The total assets of the Nammo Group were NOK 4 641 million at the end of 2015 (4 011). Net working capital, excluding cash, was NOK 1 453 million (1 116), while equity was NOK 2 329 million (2 069). Total liabilities were NOK 2 271 million (1 905) at 31 December 2015 and the equity ratio ended at 50 percent in 2015 (51). Total interest-bearing liabilities to financial institutions amounted to NOK 752 million (560) at 31 December 2015.

RISK FACTORS

Nammo operates in a global market characterized by unexpected and rapid shifts in political stability, technology, products, exchange rates and other risks factors. 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 six operating business units, each within 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 business areas 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 procedures designed to minimize the overall operational risk.

Financial risks

Nammo has established guidelines for financial risk management at both the corporate and business unit 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 to secure the calculated earnings on contracts and thereby reduce exposure to fluctuations. Nammo also has a currency risk related 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 affect Nammo's operating costs, and can 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 low. Credit risk is evaluated annually, and currently the risk associated with outstanding accounts receivable is considered low.

Interest rate risk: Interest rate risk for the Nammo Group is monitored and continuously assessed during the year. The main risk is related to long-term financing of the Group and is handled by corporate. We consider this to be a limited risk.

Reputational risk

Nammo's main market is the defense market. In general, this market is regarded as one of the most challenging markets to be in from a business ethical point of view. Nammo is very much aware of this risk, and try to mitigate this by constantly working with being up-to-date on ethical compliance procedures and organizational awareness programs. In addition, Nammo adheres strictly to the rules and regulations of the national authorities in the countries where the company has operations.

DISTRIBUTION OF DIVIDEND

The board proposes to the general meeting of share-holders a dividend payment of NOK 108.7 million for 2015. Assuming the proposed dividend, the profit in the parent company Nammo AS will be distributed as follows: dividend NOK 108.7 million, other equity NOK 152.0 million, and total NOK 260.7 million. The proposed dividend represents 42 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 strongly emphasize environmental, ethical and social considerations. Nammo is committed to ensuring that human and labour rights, environmental considerations and the anti-corruption acts are followed and respected in its business activities and by the group's suppliers. Nammo shall becharacterized by its high ethical standards.

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

Ethics and anti-corruption

The Ethical Code of Conduct of Nammo describes the company's business practices and the requirements regarding expected behaviour related to anti-corruption, conflict of interests, harassment and non-discriminatory behaviour. It is a requirement for all employees and all others acting on behalf of Nammo to comply with our Ethical Code of Conduct.

During 2015, Nammo implemented an anti-corruption manual and training has been conducted with a focus on proactive fraud detection and anticorruption. Nammo believes that by developing employee attitudes through a strong focus on information, education and training is the best way to ensure that Nammo employees understand and 'live' the group's high level of ethical standards. Nammo has zero tolerance concerning any form of corruption.

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 colour, language, religion, philosophy of life and/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 rules and regulations of national security authorities in the respective countries. The working environment at Nammo is considered good. Women account for 24.5 percent of the employees. Activities to motivate female university graduates and women with other educational backgrounds to join the company will continue to be an important endeavour in the future. The number of women in leadership positions is considered to be low. Therefore specific actions to promote and develop internal female candidates for management positions will be implemented.

Health, Environment, Safety & Security (HESS)

Nammo operates in the explosives industry and handles energetic materials. Conditions relating to health, environment, safety and security must always 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 conducted at the sites in 2015. This is an annual procedure performed by the manager of HESS in the Nammo Group. All sites individually set their annual HESS targets and implement a plan with a focus on ensuring improvements. Every year, the audit includes selected focus areas, and in 2015, all sites were compliant. Newly acquired companies have been prioritized in connection with audits to make sure that the HESS level is in conformity with 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 HESS-forum for the employees responsible for these areas.

Sick absence among Nammo's employees averaged 4.6 percent for 2015 (4.5). Reasons to the higher level than last year are being studied; preventive actions are being implemented and will be closely monitored in 2016. 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 32 accidents resulting in employees being absent from work at Nammo in 2015. There were two accidents involving explosives in 2015 that caused injury to personnel. One of these was a very serious accident, and an internal investigation has been conducted. Corrective actions to avoid accidents like this happening again have been taken. The group will continue its preventive work in all areas and will maintain a keen focus on safe work conditions for all employees.

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 the business activities are conducted in compliance with similar environmental standards. There are some environmental challenges in following up historically polluted areas at two of Nammo's sites. This is considered to be under control and is being followed up through internal plans for improvements and in close cooperation with national authorities.

Society

Nammo has a strong ambition to be a positive contributor to the development of the local communities wherever the facilities are located. The company therefore engages in areas of local sponsorships such as sport, science and culture, with a focus on children and adolescents.

Nammo continues to be a sponsor of the two national sport teams within women's ski jumping and women's biathlon in Norway. The sponsor agreement with the ski jumping team also includes a technology program – Nammo Aerotech. In the Nammo Aerotech technology program, Nammo has contributed to the development of ski jumping through in-depth technological expertise and support in aerodynamics. This work has gained success as the trainers and coaches manage to take full advantage of the program and transfer its data to the jumpers. Nammo's ambition with the biathlon sponsorship is to promote the Nammo brand and the civilian ammunition brand, Lapua. Both sponsorships reflect Nammo's ambition to build a strong company culture and promote the internal focus on empowering women in the company. Nammo also has a sponsorship agreement with the national biathlon federation in Finland.

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 ratifying countries was reached, and the treaty entered into force 90 days later, on 24 December 2014. Norway, as one of the signatory countries, sent in their first annual report in December 2015 defining the state's export and import. All countries that ratified the treaty are legally bound to follow it and have to harmonize their national law and regulations with the provisions of the treaty. The Arms Trade Treaty will have an impact on the global defense industry, primarily 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 be invited to take part in the future dialogue on an equal level with non-governmental organizations. Nammo has been in close contact with the Norwegian Red Cross concerning the ATT during 2015.

OUTLOOK FOR THE NAMMO GROUP

Nammo has secured a solid position in its market segments and with its significant order backlog; the company is well prepared for profitable growth which will secure the future for all of Nammo's stakeholders. Nammo has to remain on the cutting edge with its products to compete for new contracts, bring sales to new levels and take advantage of discriminating competence and products. There is a clear potential for organic growth within the Nammo Group in 2016. This is also assumed to be reflected positively in the profitability of the group.

When it comes to the acquired businesses, Nammo will continue its effort to integrate the new companies into the Nammo family. The search for and pursuit of new acquisition targets will also continue.

Nammo's focus will be profitable growth in existing markets, in addition to its potential to grow in new markets. The key to success is the need for Nammo's high performance speciality products, as well as local partnerships and local presence.

The new business unit structure established by the end of the year was effective as of 1 January 2016 and will strengthen the focus on our customers and ensure a stronger utilization of synergies within the Group.

The board expresses its appreciation to all employees for their commitment and dedication during the year. The result for 2015 was positive and the group is healthy and robust and optimistic about the future.

Ullensaker, 11 March 2016

Dag J. Opedal

Jan Erik Korssjøen, Chairman of the Board

Heikki Ilmari Allonen, Vice Chairman

Dag J. Opedal, Board Member

Ingelise Arntsen

Ingelise Arntsen, Board Member

Pasi Niinikoski, Board Member

Sirpa-Helena Sormunen, Board Member

Marianne Stensrud.

Marianne Stensrud, Board Member

Astrid Berg Ardesjö, Board Member

Morten Brandtzæg, President & CEO

NAMMO GROUP 2015

CONSOLIDATED FINANCIAL STATEMENTS

INCOME STATEMENT

NAMMO GROUP

(NOK 1 000)	Notes	2015	2014
Operating income	1	**3 783 004**	3 717 723
Operating expenses			
Changes in stock of work in progress and finished goods		(84 303)	(12 871)
Changes in self-manufactured fixed assets		(707)	(58)
Cost of goods sold		1 321 675	1 347 555
Payroll expenses	3, 4, 12	1 348 949	1 238 199
Depreciation of tangible and intangible fixed assets	7	145 582	145 376
Other operating expenses		767 908	713 307
Total operating expenses		**3 499 104**	3 431 508
Operating profit		**283 900**	286 215
Financial income and expenses			
Income from associates and joint ventures - equity method	6	(360)	(465)
Interest income		8 048	6 076
Other financial income	5	39 490	28 763
Interest expenses		(12 582)	(10 563)
Other financial expenses	5	(44 481)	(32 884)
Net financial income (expense)		**(9 885)**	(9 073)
Ordinary result before tax		**274 015**	277 142
Taxes on ordinary result	13	**(45 152)**	(72 964)
Ordinary result		**228 863**	204 178
Minority share		**(11 614)**	(14 918)
Profit (loss) for the year		**217 249**	189 260

BALANCE SHEET

NAMMO GROUP

(NOK 1 000)	Notes	As of 31.12.15	As of 31.12.14
Assets			
Non-current assets			
Intangible assets			
Deferred tax asset	13	87 653	38 381
Licenses, trademarks and other intangible assets	7	275 962	261 666
Research and development		216 875	178 292
Goodwill	7	21 816	2 813
Total intangible assets		**602 306**	481 152
Tangible assets			
Buildings	7	296 291	266 389
Land	7	34 679	33 795
Machines and equipment	7	433 580	392 757
Fixtures and fittings, tools, office machinery, etc.	7	63 315	53 343
Plant under construction	7	133 015	132 714
Total tangible assets		**960 880**	878 998
Financial fixed assets			
Shares in joint controlled companies	6	7 431	7 172
Shares in associated companies	6	-	235
Other shares and participations	6	8 251	8 284
Other receivables	8	14 402	15 517
Total financial fixed assets		**30 084**	31 208
Total non-current assets		**1 593 270**	1 391 358
Current assets			
Stocks			
Stock of raw materials		559 438	444 355
Stock of work in progress		797 104	749 408
Stock of finished goods		318 542	281 935
Total stocks		**1 675 084**	1 475 698
Receivables			
Accounts receivable	9	770 260	600 013
Other receivables	8	223 003	160 573
Advance payments to suppliers		97 780	21 224
Total receivables		**1 091 043**	781 810
Cash and cash equivalents	10	**281 754**	362 493
Total current assets		**3 047 881**	2 620 001
Total assets		**4 641 151**	4 011 359

(NOK 1 000)	Notes	As of 31.12.15	As of 31.12.14
Shareholders' equity and liabilities			
Equity			
Share capital		100 000	100 000
Premium fund		258 670	258 670
Other equity		1 969 871	1 709 989
Total equity		**2 328 541**	2 068 659
Minority share	15	**41 198**	37 980
Total equity and minority share	11	**2 369 739**	2 106 639
Liabilities			
Non-current liabilities			
Pension liabilities	12	158 054	152 172
Deferred tax	13	9 946	9 522
Other provisions		779	-
Total non-current liabilities		**168 779**	161 694
Other non-current liabilities			
Liabilities to financial institutions	14	752 367	560 344
Other non-current liabilities		37 560	40 916
Total other non-current liabilities		**789 927**	601 260
Current liabilities			
Allocation for guarantee liabilities		80 974	77 094
Accounts payable		234 826	217 779
Income tax payable	13	52 538	48 189
Public duties		88 036	76 286
Dividend payable		108 700	94 700
Prepayments from customers		483 728	340 142
Other short term liabilities		263 904	287 576
Total current liabilities		**1 312 706**	1 141 766
Total liabilities		**2 271 412**	1 904 720
Total shareholders' equity and liabilities		**4 641 151**	4 011 359

Ullensaker, 11 March 2016

Jan Erik Korssjøen, Chairman of the Board
Heikki Ilmari Allonen, Vice Chairman
Dag J. Opedal, Board Member

Ingelise Arntsen, Board Member
Pasi Niinikoski, Board Member
Sirpa-Helena Sormunen, Board Member

Marianne Stensrud, Board Member
Astrid Berg Ardesjö, Board Member
Morten Brandtzæg, President & CEO

CASH FLOW

NAMMO GROUP

(NOK 1 000)	2015	2014
Cash flow from operational activities		
Result before tax	274 015	277 142
Tax payments	(50 975)	(124 761)
Gain and loss on sale of fixed assets	(478)	1 659
Ordinary depreciations	145 582	145 376
Changes in stocks	(97 832)	(86 187)
Changes regarding debtors	(128 176)	107 297
Changes regarding creditors	3 585	(67 448)
Changes in other dispositions	(119 719)	23 466
Net cash flow from operational activities (a)	**26 002**	276 544
Cash flow from investment activities		
Payments received from sale of fixed assets	938	1 629
Purchase of fixed assets	(135 861)	(137 151)
Purchase of other long-term investments	(108)	(3 929)
Net cash flow from investment activities (b)	**(135 031)**	(139 451)
Cash flow from financing activities		
Payments received regarding new long term loans	142 195	169 067
Installments on long-term loans	(9 835)	(14 028)
Received dividend	18	17
Paid dividend	(104 088)	(172 773)
Net cash flow from financing activities (c)	**28 290**	(17 717)
Net changes in cash and bank accounts (a+b+c)	(80 739)	119 376
Cash and bank accounts as of 01.01.	362 493	243 117
Cash and bank accounts as of 31.12.	**281 754**	362 493

Total unused cash credits as of 31 December 2015 is NOK 288.1 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.

Significant development projects for new technologies, products, tooling etc., which is estimated to give future positive cash flow, is recognized as R&D costs in the balance sheet. All other research and 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 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, Poland, Canada, USA and Australia.

Sales from Nammo subsidiaries per country

(NOK 1 000)	2015
Norway	1 216 258
USA	651 482
Germany	650 485
Finland	559 537
Sweden	484 176
Spain	220 404
Switzerland	662
Total	**3 783 004**

Sales per geographical location of customers

(NOK 1 000)	2015
Norway	339 475
Finland	306 181
Sweden	204 601
Other Europe	1 229 423
North America	1 383 969
Asia	260 913
Other countries	58 442
Total	**3 783 004**

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 2015:

(Amounts in currency 1 000)

Transaction type	Buy/Sell (-)	CAD	CHF	EUR	GBP	SEK	USD
FX Forward	Buy	1 442	6 000	23 227	-	13 684	12 299
	Sell(-)	-	-	(18 679)	(375)	-	(47 241)
FX SWAP	Buy	-	3 475	13 696	-	22 300	12 143
	Sell(-)	-	-	(37 053)	(4 578)	-	(54 803)

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

Transaction type	Buy/sell	Year 2016	Year 2017	Year 2018	Later
FX Forward	Buy	91%	6%	-	3%
	Sell	88%	10%	2%	-
FX SWAP	Buy	76%	24%	-	-
	Sell	96%	3%	1%	-

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 the following guidelines to be applied for 2016, up until the annual general meeting in 2017. In January 2016, the board of directors established a Compensation Committee which consists of three board members, whereof one is an employee representative and one member shall be appointed as the chairman of the committee.

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 including the structure of the top management compensation schemes. The CEO determines the compensation for all other members of corporate management, following the guidelines 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 be structured to attract and motivate managers to strive to achieve constant improvements in operations and company results.
- The remuneration system shall be understandable, transparent 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 always be transparent and in line with principles for good corporate governance. All companies where Nammo is in control, shall comply with the main principles of the senior executive remuneration policy. A key goal is to coordinate the remuneration policy 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

Benefits

Key management personnel will normally be offered benefits in kind that are common for comparable positions. 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 enrolled into 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 maximum coverage of 60 percent of salary at time of retirement. The group CEO is participating in the same system.

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 an agreement for retirement at the age of 65. If the board asks the CEO to resign from his position before this age, he is entitled to a maximum of 12 months compensation. After retirement at the age of 65, the CEO will receive 60 percent of his base salary for two years. No other senior executives are entitled to pay after termination of employment beyond the regular dismissal period.

Statement for the fiscal year 2015

The executive compensation policy for the fiscal year 2015 has been implemented in accordance with the above-mentioned information and guidelines discussed at Nammo's annual general meeting in 2015. The salary of the new CEO appointed in August 2015 was set by the board of directors in line with the principles in the remuneration policy. In addition, the performance-based salary outlined above, has resulted in payments as 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. Remuneration to the group CEO and other executives are shown in note 4 below.

4. EMPLOYEE /MANAGEMENT REMUNERATION AND AUDITOR'S FEES

(NOK 1 000)	2015	2014
Salaries	1 052 561	961 360
Employment taxes	98 918	93 324
Pension costs	85 464	75 000
Other personnel costs	112 006	108 515
Total	**1 348 949**	1 238 199
Average number of man years	**2 088**	2 160

Remuneration CEO, board of directors and corporate management

(NOK)	Function	Salary	Bonus	Other compensation	Prepaid pensions	Total
Morten Brandtzæg	CEO from August 2015 EVP MPD from January to August	2 317 498	975 625	264 706	-	3 557 829
Edgar Fossheim	CEO from January to August	2 923 584	1 654 137	394 044	1 599 639	6 571 404
Kjell Kringsjå	SVP Bus. Development from April 2015 EVP MLCD from January to March	1 822 181	568 709	229 711	-	2 620 601
Frank Møller	EVP MPD from August 2015	520 834	-	65 508	-	586 342
Peter Lerche Raadal	CFO	1 431 444	395 000	91 461	-	1 917 905
Bertil Pålsrud	SVP Human Resources	1 392 090	362 500	198 896	-	1 953 486
Sissel Solum	SVP Communications	1 148 902	360 000	93 941	-	1 602 843
A. Erland Paulsrud	SVP Technology	1 463 683	182 500	173 794	-	1 819 977
Nammo AS Board of directors	Board members	1 532 883	-	-	-	1 532 883

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 218 725 as of 31 December 2015. The loan is due in 6 years and the interest rate was 0.75 percent p.a. in 2015.

Auditor's fee

All numbers are presented exclusive VAT.

(NOK 1 000)	2015
Auditors fee	4 576
Fees for other assurance work, including IFRS	151
Tax advisory services	1 124
Other services	1 306
Total	**7 157**

5. FINANCIAL ITEMS

(NOK 1 000)	2015	2014
Gain on exchange	39 059	27 711
Other financial income	431	4 052
Total other financial income	**39 490**	28 763
Loss on exchange	(42 119)	(30 179)
Other financial expenses	(2 362)	(2 705)
Total other financial expenses	**(44 481)**	(32 884)

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	7 431	50%
Total				**7 431**	
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				240	-
Total				**8 251**	

Joint controlled 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 01.01.15	516 314	187 798	610 604	35 081	1 543 899	279 829	132 316	3 305 841
Additions during the year	146	-	33 465	-	84 631	24 397	1 049	143 688
Disposals during the year	-	-	-	-	(9 904)	(2 301)	-	(12 205)
Exchange difference acq. cost	89 797	40 617	43 642	1 656	75 418	21 552	15 319	288 001
Acquisition cost 31.12.15	606 257	228 415	687 711	36 737	1 694 044	323 477	148 684	3 725 325
Accumulated depreciations 31.12.15	(330 295)	(206 599)	(391 420)	(2 058)	(1 260 464)	(260 162)	(15 669)	(2 466 667)
Book value as of 31.12.15	**275 962**	**21 816**	**296 291**	**34 679**	**433 580**	**63 315**	**133 015**	**1 258 658**
Depreciations this year	**30 881**	**(7 356)**	**22 494**	**675**	**81 565**	**17 323**	**-**	**145 582**
Annual leasing cost of assets not recognized in balance sheet	-	-	74 550	181	11 324	5 018	-	91 073
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)	2015	2014
Accounts receivables	775 693	604 681
Provision for bad debt	(5 433)	(4 668)
Book value of accounts receivables	**770 260**	600 013

10. CASH RESERVE

(NOK 1 000)	2015	2014
Cash and cash equivalents	281 754	362 493
Unused cash credits	288 090	443 438
Net cash reserve	**569 844**	805 931

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 01.01.15	100 000	258 670	1 416 574	49 707	1 824 951
Exchange differences opening balance	-	-	293 415	(11 727)	281 688
Equity as of 01.01.15	**100 000**	**258 670**	**1 709 989**	**37 980**	**2 106 639**
Profit for the year	-	-	217 249	11 614	228 863
Proposed dividend to shareholders 1)	-	-	(108 700)	-	(108 700)
Other items	-	-	54 011	(10 100)	43 911
Exchange differences	-	-	97 322	1 704	99 026
Total equity as of 31.12.15	**100 000**	**258 670**	**1 969 871**	**41 198**	**2 369 739**

[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 2015 was NOK 158 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)	2015	2014
Service costs	47 126	41 569
Amortization of net actuarial losses (gains)	7 561	7 602
Interest costs	2 241	3 732
Expected return on plan assets	(8 871)	(9 260)
Pension cost related to defined contribution plans	34 519	27 957
Settlement pension plans	2 888	3 400
Net periodic pension costs	**85 464**	75 000

Pension liability

(NOK 1 000)	2015	2014
Defined benefit obligation incl. social security tax	630 211	571 407
- Fair value of plan assets	(336 063)	(302 237)
Net pension obligation	294 148	269 170
Items not recorded in the profit and loss:		
Unrecognized net actuarial loss (gain)	(136 094)	(116 998)
Net amount recognized in the balance sheet	**158 054**	152 172

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)	2015	2014	Change
Temporary differences:			
Fixed assets	218 681	174 758	(43 923)
Accounts receivable	4 367	(416)	(4 783)
Stock of goods	87 947	72 214	(15 733)
Pension liabilities	(17 751)	(21 166)	(3 415)
Guarantee liabilities	(82 871)	(72 573)	10 298
Other temporary differences	65 006	12 684	(52 322)
Adjustments for consolidation items	(80 365)	(74 571)	5 794
Temporary differences	**195 014**	90 930	(104 084)

Carried forward losses for tax purposes	(360 125)	(121 315)
Total temporary differences	**(165 111)**	(30 385)
Gross deferred tax / deferred tax assets (-)	(80 421)	(35 834)
Deferred tax assets not recognized in the balance sheet	2 712	6 975
Net deferred tax liability/deferred tax asset (-)	**(77 709)**	(28 859)
Classified as deferred tax asset	**87 653**	38 381
Deferred tax liability in the balance sheet	**9 946**	9 522

Payable income taxes

(NOK 1 000)	2015
Net income before tax	274 015
Changes in temporary differences	(104 084)
Exchange differences temporary differences	(9 509)
Permanent differences	(8 244)
Use of carried forward losses	(25 464)
Taxable income	126 714
Payable income tax	**89 181**

Tax expense in profit and loss

(NOK 1 000)	2015
Payable tax on this year's result	89 181
Adjustments prior years	578
Payable tax in this year's tax cost	89 759
Change in deferred tax / deferred tax asset	(5 084)
Other items	(39 523)
Tax expense in the P&L	**45 152**

Payable tax in the balance sheet

(NOK 1 000)	2015
Payable taxes	94 063
Prepaid taxes	(53 268)
Other items	11 743
Payable tax in balance sheet	**52 538**

14. INTEREST BEARING LOANS AND GUARANTEES

(NOK 1 000)	2015	2014
Loan from credit institutions	752 367	560 344
Total interest bearing loans	**752 367**	560 344

Loan from credit institutions is a credit facility of NOK 700 million which was set up in 2013. This facility is fully utilized as of 31 December 2015. The facility will terminate in 2018. At 31 December 2015 Nammo AS has total unused cash credits of NOK 288.1 million.

Guarantees not recognized in the balance sheet as of 31 December 2015 is NOK 299 million.

15. MINORITY IN ND PRESSTEC GMBH

The 35 percent minority shareholders in ND PressTec GmbH have exercised a contractual right to require that Nammo Germany GmbH acquire the minority shareholders' entire shareholding in ND PressTec GmbH. The transaction has been subject to external valuation, and is essentially based on that the share purchase price shall be equivalent to the pro rata share of the fair market value the company. Subject to audit of certain cash & debt items, the purchase price for the 35 percent minority shareholding was determined on 11 February 2016 to amount to EUR 17.5 million. It is expected that the transaction will be completed before the end of March 2016, which means that ND PressTec GmbH then become a wholly owned subsidiary of Nammo Germany GmbH. The settlement includes that ND Presstec GmbH will not make any distributions to the minority shareholders after dividends were last paid on 31 March 2015.

NAMMO AS
2015

FINANCIAL STATEMENTS

INCOME STATEMENT

NAMMO AS

(NOK 1 000)	Notes	2015	2014
Operating income	1	**70 070**	65 833
Operating expenses			
Payroll expenses	2	31 499	27 624
Depreciation of tangible and intangible fixed assets	4	1 392	1 507
Other operating expenses		60 531	62 072
Total operating expenses		**93 422**	91 203
Operating profit		**(23 352)**	(25 370)
Financial income and expenses			
Received group contribution		90 000	100 000
Interest income	3	20 957	20 055
Other financial income	3	269 692	282 844
Interest expense	3	(6 559)	(3 983)
Other financial expenses	3	(51 940)	(75 967)
Net financial income (expenses)		**322 150**	322 949
Ordinary result before tax		**298 798**	297 579
Taxes on ordinary result	11	**(38 062)**	(38 211)
Profit (loss) for the year		**260 736**	259 368
The board's proposal for allocation of the profit			
Dividend		108 700	94 700
Other equity		152 036	164 668
Total		**260 736**	259 368

BALANCE SHEET

NAMMO AS

(NOK 1 000)	Notes	As of 31.12.15	As of 31.12.14
Assets			
Non-current assets			
Tangible assets			
Buildings	4	58	-
Machines and equipment	4	21	749
Fixtures and fittings, office machines, etc.	4	411	1 594
Fixed assets under construction	4	1 072	841
Total tangible assets		**1 562**	3 184
Financial assets			
Investments in subsidiaries	5	595 439	595 331
Investments in other shares and participations	5	-	95
Loans to group companies		834 173	749 039
Pension assets	10	1 214	1 683
Other receivables		3 213	3 335
Total fixed assets		**1 434 039**	1 349 483
Total non-current assets		**1 435 601**	1 352 667
Current assets			
Receivables			
Accounts receivables	6	516	1 399
Receivables from group companies	13	335 706	91 720
Receivable group contributions		90 000	100 000
Prepayments to vendors		7 152	5 983
Other receivables		8 130	4 750
Total receivables		**441 504**	203 852
Cash and cash equivalents	7, 13	**67 513**	232 430
Total current assets		**509 017**	436 282
Total assets		**1 944 618**	1 788 949

(NOK 1 000)	Notes	As of 31.12.15	As of 31.12.14
Shareholders' equity and liabilities			
Equity			
Share capital	8, 9	100 000	100 000
Premium fund	9	258 670	258 670
Total paid in capital		**358 670**	358 670
Other equity	9	678 561	526 526
Total earned equity		**678 561**	526 526
Total equity		**1 037 231**	885 196
Liabilities			
Non-current liabilities			
Deferred tax	11	26 730	15 064
Total non-current liabilities		**26 730**	15 064
Other non-current liabilities			
Liabilities to financial institutions	12	723 298	530 894
Total other non-current liabilities		**723 298**	530 894
Current liabilities			
Accounts payable		7 975	4 149
Payables to group companies		3 022	225 271
Income tax payable	11	26 396	23 332
Public duties payable		3 327	2 182
Dividend payable to shareholders		108 700	94 700
Other current liabilities		7 939	8 161
Total current liabilities		**157 359**	357 795
Total liabilities		**907 387**	903 753
Total shareholders' equity and liabilities		**1 944 618**	1 788 949

Ullensaker, 11 March 2016

Jan Erik Korssjøen, Chairman of the Board
Heikki Ilmari Allonen, Vice Chairman
Dag J. Opedal, Board Member
Ingelise Arntsen, Board Member
Pasi Niinikoski, Board Member
Sirpa-Helena Sormunen, Board Member
Marianne Stensrud, Board Member
Astrid Berg Ardesjö, Board Member
Morten Brandtzæg, President & CEO

CASH FLOW

NAMMO AS

(NOK 1 000)	2015	2014
Cash flow from operational activities		
Result before tax	298 798	297 579
Tax payments	(23 332)	(28 510)
Ordinary depreciation	1 392	1 507
Changes in accounts receivable	(3 357)	(14 873)
Changes in accounts payable	(1 783)	2 491
Pension cost less paid pension premium	468	(560)
Changes in loans to group companies	(85 134)	(83 400)
Changes in other dispositions	(641 569)	(363 822)
Net cash flow from operational activities (a)	**(454 517)**	(189 588)
Cash flow from investment activities		
Investments in financial fixed assets	(108)	(998)
Investments in fixed assets	(289)	(1 565)
Net cash flow from investment activities (b)	**(397)**	(2 563)
Cash flow from financing activities		
Payments from new long-term loans	134 479	165 733
Received dividend	150 218	156 450
Received group contribution	100 000	100 000
Paid dividend	(94 700)	(164 000)
Net cash flow from financing activities (c)	**289 997**	258 183
Net changes in cash and bank accounts (a+b+c)	(164 917)	66 032
Cash and bank accounts as of 01.01.	232 430	166 398
Cash and bank accounts as of 31.12.	**67 513**	232 430

Unused credit facilities is NOK 288.1 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 headquarters are located in Raufoss, Norway.

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

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

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

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

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

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

GOVERNMENT GRANTS
Government grants are recognized in the consolidated financial statement when the Nammo AS has reasonable assurance that it will receive them and comply with conditions attached to them.

Government grants that compensate Nammo AS for expenses are recognized in the income statement as the expenses are incurred. Government grants that compensate Nammo AS for the cost of an asset are recognized as a reduction to the total investment, and thus also to the future depreciations of the asset.

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

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

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

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

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

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

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)	2015	2014
Management service fee to group companies	70 070	65 407
Other operating income	-	426
Total	**70 070**	65 833

2. SALARIES AND SOCIAL COST

(NOK 1 000)	2015	2014
Salaries	23 738	22 060
Employment taxes	3 904	3 143
Pension costs	2 241	1 940
Other social costs	1 616	481
Total	**31 499**	27 624
Average number of man-years	**13**	13

Auditor's fee

(NOK 1 000) All numbers are presented exclusive VAT	2015
Auditors fee	412
Tax advisory services	11
Other services	1 168
Total	**1 591**

3. FINANCIAL ITEMS

(NOK 1 000)	**2015**	2014
Interest income from group companies	17 112	17 872
Other interest income	3 845	2 183
Total interest income	**20 957**	20 055
Gain on exchange	119 467	126 394
Dividend from group companies	150 218	156 450
Other financial income	7	-
Total other financial income	**269 692**	282 844
Other interest cost	(6 559)	(3 983)
Total interest cost	**(6 559)**	(3 983)
Loss on exchange	(51 332)	(74 611)
Other financial expenses	(608)	(1 356)
Total other financial expenses	**(51 940)**	(75 967)

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 01.01.15	845	1 585	5 432	841	8 703
Additions during the year	58	-	-	231	289
Disposals during the year	-	(1 037)	-	-	(1 037)
Acquisition cost as of 31.12.15	903	548	5 432	1 072	7 955
Accumulated depreciations 31.12.15	(845)	(527)	(5 021)	-	(6 393)
Book value as of 31.12.15	**58**	**21**	**411**	**1 072**	**1 562**
Ordinary depreciations for the year	**-**	**209**	**1 183**	**-**	**1 392**
Annual leasing cost on assets not in the balance sheet	575	-	38	-	613
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
Subsidiaries:					
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	7 247	100%
Nammo Incorporated, Virginia	USD 38 380 000	-	-	239 981	100%
Nammo NAD AS, Løkken Verk	NOK 4 782 000	23 910	2 391	8 136	100%
Nammo Polska SP. Z. O. O	PLN 50 000	1 000	50	108	100%
Total				**595 439**	

6. ACCOUNTS RECEIVABLE

(NOK 1 000)	2015	2014
Accounts receivables	**516**	1 399

Accounts receivable are booked at nominal value. There has been no loss on accounts receivable in 2015.

7. CASH RESERVE

This amount is reduced with the draw that the group companies has in the international cash pool of NOK 239.7 million. This is classified as receivables from group companies. Refer to note 13.

8. SHARE CAPITAL

As of 31 December 2015 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 2015

(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 01.01.15	100 000	258 670	526 526	-	885 196
Net result	-	-	-	260 736	260 736
Allocation of the net result *)	-	-	260 736	(260 736)	-
Dividend *)	-	-	(108 700)	-	(108 700)
Other items	-	-	-	-	-
Equity as of 31.12.15	**100 000**	**258 670**	**678 561**	**-**	**1 037 231**

*) 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 2015 with the following assumptions:

Yield from pension funds	4.40%
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)	2015	2014
Service costs	2 100	1 869
Amortization of net actuarial losses (gains)	530	367
Interest costs	121	211
Expected return on plan assets	(510)	(507)
Net pension costs	**2 241**	1 940

Pension liabilities

(NOK 1 000)	2015	2014
Defined benefit obligation incl. payroll tax	30 293	22 524
- Fair value of plan assets	(22 960)	(16 853)
Gross pension liability	7 333	5 671
Items not recognized in the profit and loss:		
Unrecognized net actuarial loss (gain)	(8 547)	(7 354)
Net amount recognized in the balance sheet	**(1 214)**	(1 683)

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)	2015	2014
Net income before tax	298 798	297 579
Permanent differences	(142 086)	(156 055)
Changes in temporary differences	(51 128)	(55 106)
Taxable income	**105 584**	86 418

Specification of the tax cost in the profit and loss:

Tax payable	26 396	23 332
Changes in deferred tax	11 666	14 879
This year's tax cost	**38 062**	38 211

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)	31.12.15	31.12.14
Tangible fixed assets	(1 731)	(963)
Financial fixed asset	107 736	55 071
Accounts receivables	(300)	-
Pension liability/asset	1 214	1 683
Net temporary differences as basis for deferred tax /tax asset(-) calculation	**106 919**	55 791
Deferred tax/deferred tax asset (-) at 25%	**26 730**	15 064

12. INTEREST BEARING LOANS AND GUARANTEES

(NOK 1 000)	2015	2014
Loans from banks	**723 298**	530 894

Loan from credit institutions is a credit facility of NOK 700 million which was set up in 2013. This facility is fully utilized as of 31 December 2015. The facility will terminate in 2018. At 31 December 2015 Nammo AS has total unused cash credits of NOK 288.1 million.

Guarantees not in the balance sheet as of 31 December 2015 are NOK 297.6 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 receivables from group companies. This amounts to NOK 239.7 million. See note 7.

AUDITORS REPORT

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To the Annual Shareholders' meeting in Nammo AS

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Nammo AS, which comprise the financial statements of the parent company Nammo AS, showing a profit of NOK 260 736 000, and the consolidated financial statements of Nammo AS and its subsidiaries, showing a profit of NOK 217 249 000. The parent company's and the consolidated financial statements comprise balance sheet as at 31 December 2015, 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

Independent auditor's report 2015
Nammo AS

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 2015, and of their financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Report on Other Legal and Regulatory Requirements

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

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

Hamar, 12 March 2016
KPMG AS

Stein Erik Lund
State Authorized Public Accountant

[Translation has been made for information purposes only]

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CORPORATE GOVERNANCE

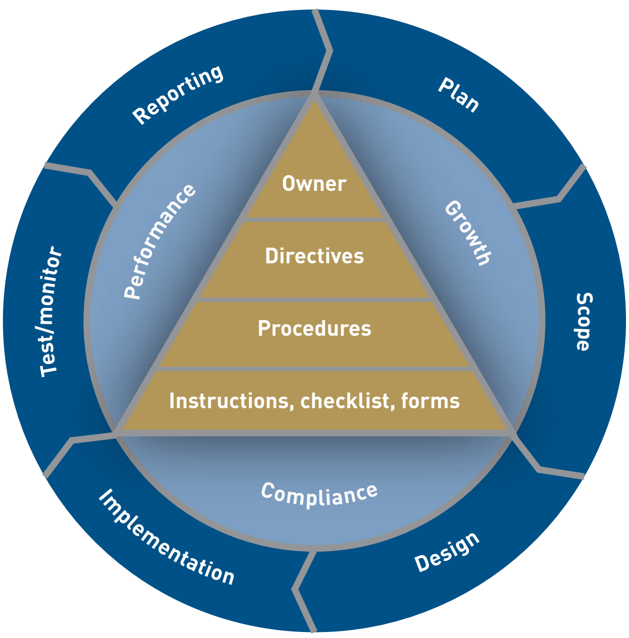
INTRODUCTION

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 nine other countries where we operate: Finland, Sweden, Germany, Switzerland, Spain, Poland, 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. 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 implemented an updated corporate governance framework, Nammo Management System (NMS). The Nammo Management System describes 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. 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, new opportunities and other significant items at the time are also addressed.

Project management and design:
Markhi AS and Harleys Global Ltd

www.nammo.com

SECURING THE FUTURE