

2020

Annual and Sustainability Report

MESSAGE FROM THE CEO

2020 is going to be one of those years that we will all remember. Lockdowns, travel restrictions, face masks everywhere – if someone had told us in late 2019 that this would become our reality, I suspect few of us would have believed them.

However, what has been just as memorable is the incredible resilience and courage shown by so many in the face of adversity. This includes my colleagues in Nammo, for whom 2020 has truly been the year of team performance. Thanks to the efforts of our more than 2 700 employees, we have delivered the strongest financial result in the history of our company.

This result builds on years of concerted effort to strengthen and improve Nammo. We have rationalized our structure, finding synergies between locations and units wherever possible. We have focused on continuous

improvement, dedicating tens of thousands of hours to improvement training across the company. And crucially, we have worked with our customers to develop mutually beneficial relationships, enabling us to grow and invest, while they receive the support they need to deliver on their missions.

In 2020, these lines of effort came together to have a direct impact on our bottom line. The results have been visible across the Group, on both sides of the Atlantic, in ammunition and propulsion and with military and civilian products alike. Overall, our performance has improved, and our customer relationships have strengthened. I am therefore happy to report that Nammo once again has entered a new year stronger than ever before.

That doesn't mean we are done growing or improving. If only a few of the major opportunities ahead of us come to fruition, they will facilitate another round of double-digit growth for the company. We need to continue to invest in products, processes and competence to meet growth in product deliveries. This is fundamental in building a Nammo that is able to meet the future needs of our customers.

These investments also represent a major opportunity. Building new and improved infrastructure and utilizing enhanced technologies and competence, will allow us to take a major step forward in terms of sustainability. While environmental, social and governance factors represent a growing requirement from our customers, partners and owners, our primary reason for emphasizing sustainability is quite simply that it is the right thing to do for the well-being of the company and all its stakeholders.



Visit early 2020 by the Minister of Trade and Industry together with the Mayor of Vestre Toten Municipality. From left to right: Morten Brandtzæg, CEO Nammo, Stian Olaisen, Mayor Vestre Toten, and Iseelin Nybø, Minister of Trade and Industry

Nammo's vision – Securing the Future – reflects more than ever our strong ambition to succeed on this path.

We wholeheartedly reaffirm our commitment to support the Ten Principles of the United Nations Global Compact in the areas of Human Rights, Labor, Environment and Anti-Corruption. These principles continue to play an important part of our strategy and day-to-day operations.

While I continue to be confident in Nammo's future, there are also some areas of concern, including some that remain beyond our control. These range from challenges in the European space market, where fewer launches risk undermining the overall supply chain, to the growing pressures on international organizations and international cooperation more generally.

Leading a truly multinational company, I have become a strong proponent of the inherent benefits of international partnerships and collaboration. Yes, securing domestic security of supply is important, and Nammo supports many of its customers in that effort.

But Nammo is also living proof of the fact that by cooperating across borders, by bringing together niche competence from diverse backgrounds, we can become more than the sum of our parts.

For now, I find myself grateful for the opportunity to lead such a group of dedicated people, working hard every day to deliver a truly reliable advantage to our customers. We remain committed to our values, and to our promise to deliver – and our best years are still ahead of us. Together, we continue to build a resilient and sustainable Nammo, thereby Securing the Future.

MORTEN BRANDTZÆG
PRESIDENT & CEO



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Student and teachers from Nammo Raufoss company school on CNC machining. Photo taken pre-COVID-19

NAMMO GROUP

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NAMMO AS

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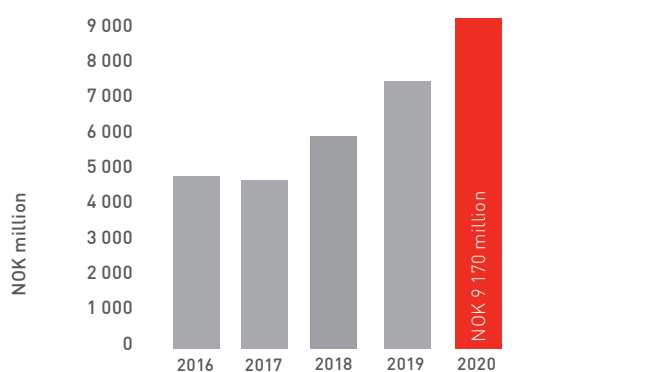
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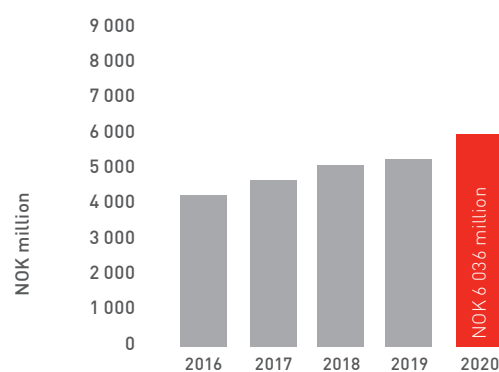
Cover image Lake Mjøsa, Norway: GettyImages

KEY FIGURES

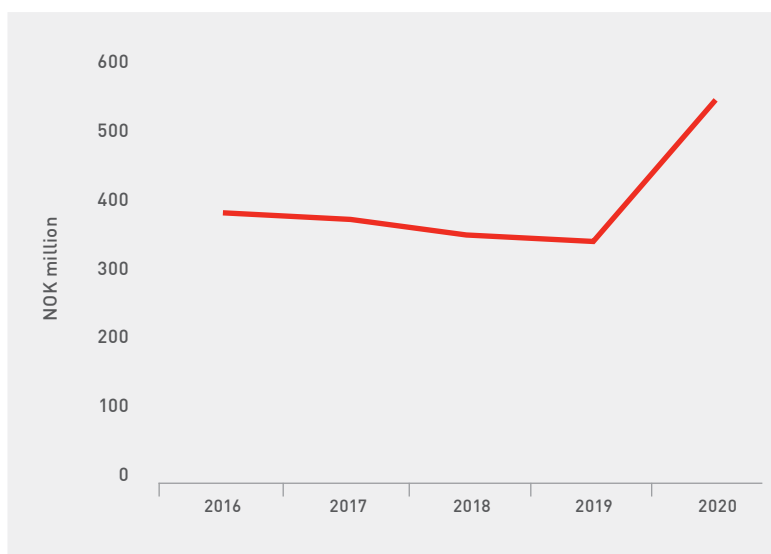
ORDER STOCK



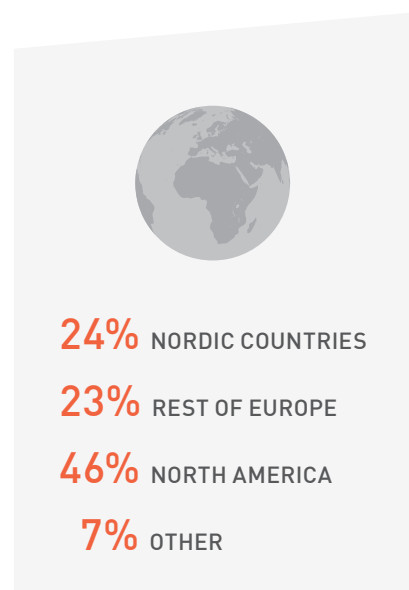
REVENUE



EARNINGS BEFORE INTEREST AND TAX (EBIT)



SALES PER REGION



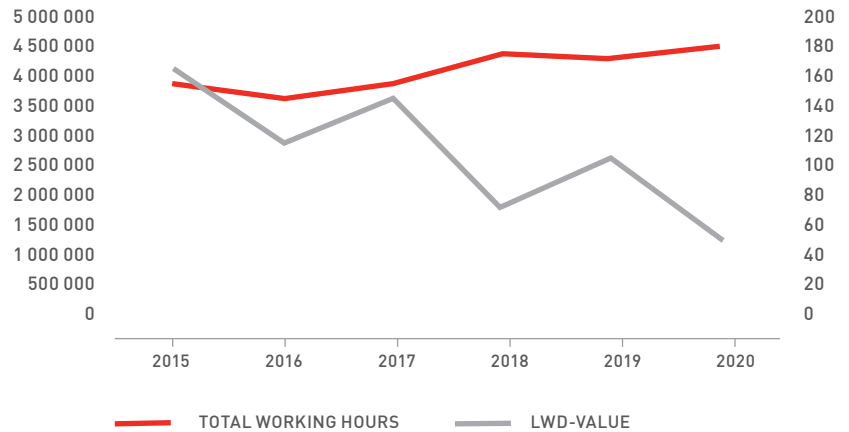
(NOK 1 000)	2016	2017	2018	2019	2020
Order Stock	4 767	4 645	5 813	7 443	9 170
Revenue	4 132	4 462	4 920	5 073	6 036
Earnings Before Interest and Tax (EBIT)	384	367	362	352	564
Total Assets	5 050	5 632	6 083	6 229	7 106
Total Equity	2 383	2 537	2 688	2 776	3 011
Average Man-years	2 102	2 217	2 409	2 377	2 523
Return on Sales (ROS)	9.3%	7.6%	6.7%	6.0%	9.1%

KEY FIGURES



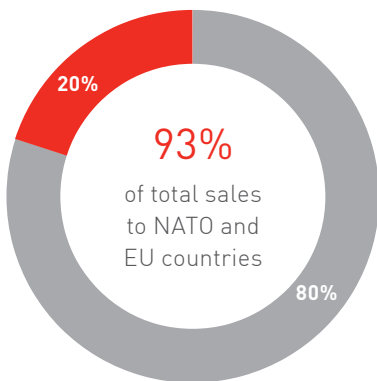
▶ MALE ▶ FEMALE

LWD VALUE VS. TOTAL WORKING HOURS: 2015-2020



Nammo suffered no fatalities or serious injuries in 2020 and also recorded the lowest Lost Workday (LWD) Value (lost workdays per 1 million working hours) in our 20-year history.

REVENUE NOK 6 036 million	
HQ Raufoss, Norway	
COUNTRIES 12	
EMPLOYEES 2 700	
PRODUCTION SITES 28	
SALES OFFICES 5	



▶ DEFENSE AND AEROSPACE ▶ COMMERCIAL

Main customers are national authorities, defense forces and other aerospace and defense manufacturers. Commercial market products are sold through distributors, retailers and national sport shooting and biathlon associations.

ABOUT NAMMO

Nammo is an international aerospace and defense company headquartered in Norway. With more than 2 700 employees across 28 production sites and five sales offices in 12 countries, Nammo is today one of the world's leading providers of specialty ammunition and rocket motors for both military and civilian customers.

The Group was founded in 1998 through a government-led business combination of the Nordic ammunition and propulsion businesses in Norway, Sweden and Finland, all of whom brought with them proud legacies of innovation, quality and service to their customers. In the years since, these initial locations have been joined by similar businesses from across Europe and North America, making Nammo what it is today – a unique combination of small, yet highly capable, specialist operations that are equally at home on both sides of the Atlantic.

Nammo is owned by the Norwegian Government, through the Ministry of Trade, Industry and Fisheries, and the Finnish company Patria Oyj. Both hold 50 percent of the shares, with the position of Board Chairman alternating between the two owners on an annual basis. The current Chairman is Esa Rautalinko, the President and CEO of Patria Oyj.

Nammo considers itself a niche company, aiming to deliver a truly reliable advantage to customers that accept only the best from themselves and their equipment. Customers are primarily located in Europe and North America, markets which

consistently represent more than 90 percent of the Group's revenue.

Aerospace and Defense represents roughly 80 percent of Nammo's business, with production facilities in Europe and the United States, all marketed under the Nammo brand. Commercial products, primarily commercial ammunition, gunpowder and components, represents roughly 20 percent, with the majority of production in Europe, marketed under brands including Lapua, SK, Vihtavuori, Berger and Hansson Pyrotech.

NAMMO'S VISION: SECURING THE FUTURE



We will develop and secure a long-term sustainable business for our customers and employees



Our future development depends on a secure and safe working environment. We must emphasize the importance of every single employee



We will protect our national and allied forces with high-quality defense products



We will secure the future development of sustainable products, processes and services



We will secure further growth based on strong financial performance

NAMMO'S VALUES

These values are the fundamental principles guiding the way the company does business and interacts with its stakeholders.

PRECISION

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

DEDICATION

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

CARE

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

BUSINESS UNITS

Nammo's day-to-day operations are conducted through four business units, each led by an Executive Vice President (EVP).

Small and Medium Caliber Ammunition (SMCA)

EVP: Reijo Bragberg

SMCA is the business unit delivering the widest range of products to the largest number of customers. With major manufacturing operations in Norway, Sweden, Finland and Spain, as well as smaller operations in several other countries, it covers Nammo's military ammunition products from 4.7 mm up to and including 40 mm. Its specialties include market-leading armor penetrators based on tungsten carbide, lead-free small arms ammunition, programmable 40 mm airburst ammunition, and Nammo's signature Multipurpose ammunition, which has delivered decisive firepower to both infantry vehicles and aircraft for more than 50 years. SMCA also provides environmentally friendly demilitarization services at facilities in Norway and Sweden.

Large Caliber Systems (LCS)

EVP: Vegard Sande

LCS delivers large caliber ammunition for naval gun systems, projectiles, ammunition for main battle tanks, ammunition and ammunition components for

mortar systems and components for artillery systems, and shoulder-fired weapons such as the M72-series. It has major manufacturing operations in Norway, Sweden, Finland, USA and Switzerland.

In recent years, Nammo has positioned itself as the leading provider of range-extension technologies for artillery systems, developing and manufacturing both complete long-range shells and components and technologies for integration into other designs. Its product range also includes hand grenades, such as the Scalable Offensive Hand Grenade, and the Anti-Personnel Obstacle Breaching System (APOBS) used by the US Army and the US Marine Corps.

Aerospace Propulsion (AP)

EVP: Stein Erik Nodeland

AP specializes in developing and delivering compact, yet supremely reliable and powerful propulsion systems and energetics for both military and commercial applications. With development and manufacturing operations in Norway, the United Kingdom, Ireland and the USA, it has supported international tactical

missile programs since the early 1960s, with Nammo today being the sole provider of rocket motors for several key programs. Nammo's core of aerospace engineers are at the cutting edge of development for new propulsion solutions for both air and space applications, including air-breathing and hybrid designs. Other key products include energetic components for aircraft escape systems and in-space propulsion for satellites and other spacecraft, such as the UK-designed and built LEROS series of engines.

Commercial Ammunition (CA)

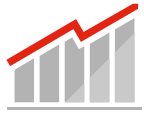
EVP: Raimo Helasmäki

CA delivers premium commercial ammunition products and gunpowder under the brands Lapua, SK, Vihtavuori and Berger. With major manufacturing operations in Finland, Germany and the USA, its products are trusted and preferred by competition shooters everywhere. CA is also responsible for Nammo's production of ammunition base components such as cups and disks, through Nammo's German subsidiary ND PressTec.

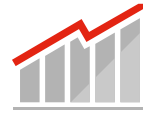
Testing of products at
Nammo Palencia test range



HIGHLIGHTS 2020



19% Sales increased by 19%



23% Order stock increased by 23% to record level



80% Profit before tax increased by 80%



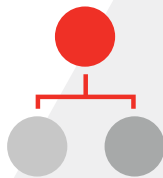
2% Internal R&D investments maintained above 2% of total sales

BUSINESS AND CUSTOMER

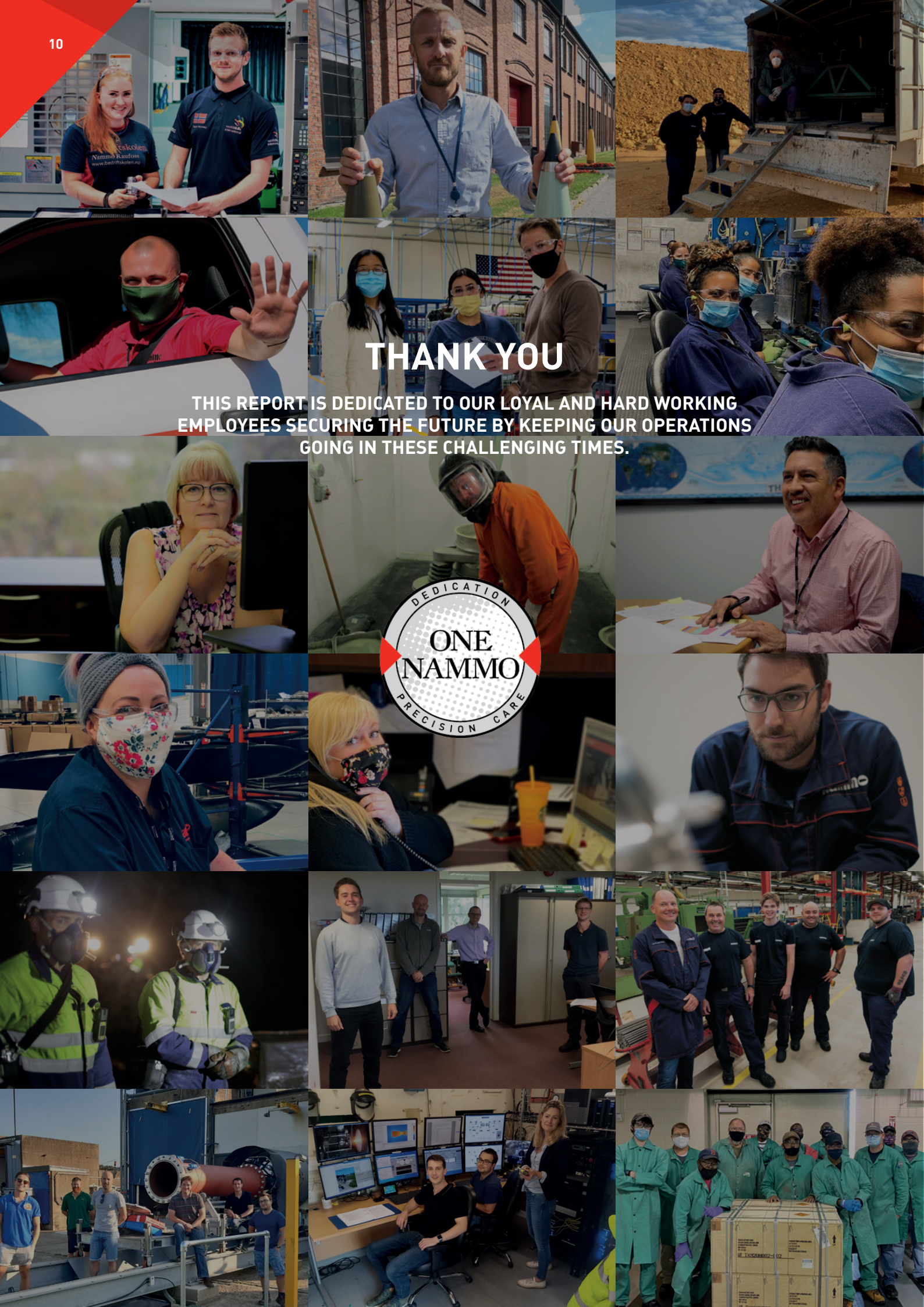


- Record sales and profitability of commercial high-end ammunition and component sales in the US
- Revised and strengthened Strategic Partnership Agreement with Finnish Defense Forces
- Further strengthened the Security of Supply role to key customers
- Successfully qualified M72 Fire From Enclosure for the US customer
- Established a key role with US Army on artillery range extension technology
- Demonstrated ability and dedication to deliver on-time to customers in a challenging business environment

ORGANIZATION AND PEOPLE



- Reorganized management and business structure in our military segment in the US
- Nammo Academy successfully implemented
- Internal business processes strengthened to support company growth
- Continuous improvement program delivered according to plan
- Acquisition of Chemring Ordnance (Nammo Perry) in Florida, USA in Florida, USA
- Acquisition of remaining membership interests in MAC LLC in Mississippi, USA
- Great team effort by all employees in handling the pandemic at 28 production sites in nine countries



THANK YOU

THIS REPORT IS DEDICATED TO OUR LOYAL AND HARD WORKING EMPLOYEES SECURING THE FUTURE BY KEEPING OUR OPERATIONS GOING IN THESE CHALLENGING TIMES.



SUSTAINABILITY STRATEGY

Sustainability means meeting our present needs without compromising the ability of future generations to meet theirs.

Sustainability is based on three pillars: people, planet and prosperity.

For Nammo, this means that we shall act in an ethically, socially and environmentally responsible manner at all times, while maintaining solid financial results supported by sound governance.

We support global initiatives such as the UN Global Compact and abide by the OECD Guidelines for Multinational Enterprises.

The Nammo Group is committed to supporting the UN Sustainable Development Goals (SDGs). We have prioritized eight SDGs where we believe Nammo can have the most impact.

Our KPIs, targets and focus areas are aligned to contribute positively to the selected goals.

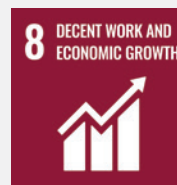
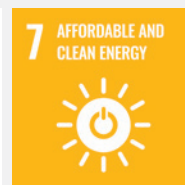
Our strategy is evolving to embed sustainability into our organizational processes to ensure that sustainability becomes a natural part of our foundation.

SUSTAINABLE DEVELOPMENT GOALS



NAMMO PRIORITY

NAMMO PRIORITY



NAMMO PRIORITY

NAMMO PRIORITY

NAMMO PRIORITY



NAMMO PRIORITY

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NAMMO PRIORITY

APPROACH TO SUSTAINABILITY

Nammo conducts its business in a transparent and responsible manner, emphasizing environmental, social and governance issues. We are committed to promoting human and labor rights, protecting the environment, ensuring anti-corruption efforts, and conducting business in compliance with relevant laws and internationally recognized standards.

Our approach to sustainability

Nammo reports on sustainability in accordance with legal requirements (the Norwegian Accounting Act) and other applicable standards. To identify key topics, Nammo has conducted a materiality analysis identifying sustainability focus areas, an approach recommended by the Global Reporting Initiative (GRI). Nammo reports on topic-specific disclosures corresponding with the GRI Standard and other appropriate disclosures where the material topic is not covered by an existing GRI Standard disclosure. In these instances, Nammo has chosen to report using the Sustainability Accounting Standards Board (SASB) standards, as well as custom indicators.

- The sustainability reporting has been prepared in accordance with the GRI Standard: Core option
- The consolidation approach has been applied when calculating emissions (financial control)
- A GRI Index is available in the Appendix to this report and at www.nammo.com

When compiling this report, we incorporated the Norwegian guidelines on the state's direct ownership of companies: *Meld. St. 8 (2019-2020) Report to the Storting (white paper) Sustainable value creation*. Furthermore, Nammo incorporates the principles of the

United Nations Global Compact and the OECD Guidelines for multinational enterprises, in its management and operations. This chapter also represents Nammo's Communication on Progress to the UN Global Compact (active reporting level).

PRIORITIES

Our social, environmental, and ethical responsibilities are governed by our values and inform the decisions we make every day.

Our strategic sustainability priorities are based on feedback from a range of stakeholders. Nammo has developed goals and targets to monitor performance throughout the strategy period, and all business units and sites have been challenged to establish their own commitments in line with the Group sustainability commitments. Input from the different sites and business units will provide valuable input during the strategy work in 2021.

In 2020, we implemented global sustainability strategy goals and targets for all prioritized areas. We also rolled out a risk management tool to strengthen supply chain due diligence processes, and we established a human rights policy and integrated these topics into management processes. A new learning platform has been implemented that will integrate a wide range of new training modules as part of the training program's development during 2021.

In 2021, we will follow up on the progress on sustainability and:

- Conduct a company-wide climate risks and opportunity assessment
- Explore the need to develop a separate tax policy
- Roll out training on our new Code of Conduct as well as an additional and specialized human rights training module
- Continue site self-assessments using the OECD Responsible Business Conduct Compass
- Expand existing training protocols: New HR management system to be implemented
- Red Flag training to continue at several sites in 2021 if COVID-19 permits

In the year ahead, Nammo will also launch its Sustainability Award as part of its annual Award Program.



Stakeholder engagement

We maintain an open dialog with our stakeholders in the countries where we operate. Many of Nammo's production sites are located in rural areas where we are a

significant employer and of great importance to the local community. In addition to ensuring compliance with the laws and regulations applicable to our operations, we continuously assess potential impact and views of different stakeholders.

Although stakeholder engagement varies across the countries in which Nammo operates, the overview below provides insight into how, when, and with whom we engage on sustainability topics.



Employees	Civil society	Customers	Suppliers	Owners
<ul style="list-style-type: none"> • Regular staff survey • Frequent staff meetings • Appraisal dialogue • Leadership development program • Code of Conduct 	<ul style="list-style-type: none"> • Discussions with NGOs • Sponsorships • Follow-up on material topics 	<ul style="list-style-type: none"> • Structured follow-up meetings • Product stewardship • Export control 	<ul style="list-style-type: none"> • Supplier Conduct Principles • Supplier audits • Human rights 	<ul style="list-style-type: none"> • Transparent organization • Comprehensive reporting • Structured meeting schedule



Nammo's tradeshow concept, the Time to Reload Cafe

SUSTAINABILITY

Material topics








Nammo conducted a comprehensive materiality assessment in 2019, to identify and prioritize environmental, social and governance (ESG) issues that could impact our business and our stakeholders. Nammo updates its materiality analysis when there are significant changes to the organization, strategy, or business environment, and at least every four years.

Critical stakeholders from business, government and civil society were consulted, providing a valuable overview of Nammo's risks and opportunities related to sustainability issues. Additionally, an extensive internal survey was conducted to understand how and which significant sustainability risks and opportunities impact our business.

Material topics were identified by matching the opinions of external

stakeholders and employees, highlighting the sustainability issues that were deemed most important. Although Nammo is managing a wide range of ESG-related issues, the sustainability priorities are based on the results of the materiality assessment, the global initiatives in which we participate, and the laws and regulations to which we are subject. Our focus is prioritized on the following:

Our main commitments

Sustainability area	Priorities	Sustainable development goals	
Business integrity	Anti-bribery and corruption controls Corporate governance efficiency		
Value chain integrity	Business partner due diligence Supply chain: with emphasis on labor and human rights and governance and anti-corruption standards		
Employee safety and well-being	Occupational health and safety Diversity		
Environmental stewardship	Emissions Energy use Water management Climate risks		
Product stewardship	Product safety Lifecycle management		

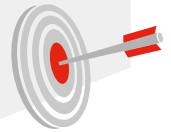
BUSINESS INTEGRITY



Nammo aspires to develop and secure long-term sustainable business for our customers and employees. We believe that ensuring business integrity within the company and in our value chain is key to succeeding.

Goal:

Nammo shall conduct business with efficiency, integrity and in line with the highest ethical standards. We shall ensure that our IT infrastructure utilizes the highest technological standards to protect our operations against external risks.



Key Performance Indicator

	2020	2021	2030
% of completed compliance awareness training (e-learning)	88%	>90%	98%

Nammo is committed to:

- increasing awareness, knowledge and competence of our employees through training
- establishing and implementing comprehensive new training modules in 2021 (i.e. human rights training)

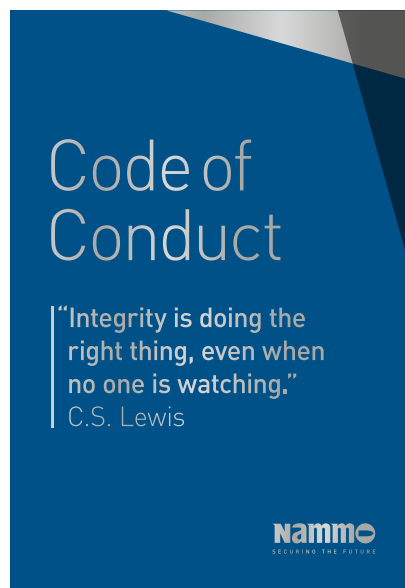
Governing responsible business and sustainability documents

The way we conduct our business is based on our policies, directives, procedures, and guidelines. These are the most relevant public documents for our sustainability efforts:

- Code of Conduct
- Supplier Conduct Principles
- Modern Slavery Act Statement

The new Code of Conduct sets the standard, with particular focus on people, environment, business integrity and a stronger focus on how together we shall secure Nammo's products, assets and information. A culture of compliance is fundamental to protect our company values and our reputation in the market. Compliance is doing business within the legal framework of the countries in which we operate and we are committed to complying with all applicable laws and regulations and acting in an ethical, sustainable and responsible manner.

Nammo's Code of Conduct outlines the overarching ethical principles that govern decisions and behavior for all employees and third parties acting on behalf of our company.



All Nammo employees receive the Code of Conduct as part of the onboarding process. It provides specific guidance for tackling

corruption, conflicts of interest, harassment, and discrimination.

The Chief Compliance Officer (CCO) is responsible for keeping Nammo's Code of Conduct up to date. Nammo's Ethics and Integrity Council reviews the Code before a final approval by the Board of Directors. The Code of Conduct was last revised and updated at the end of 2020.

Anti-bribery and corruption controls

Nammo has zero tolerance for corruption. We are committed to the United Nations Global Compact, including Principle Ten, which obliges us to work against corruption in all its forms.

As our main market segments are within EU and NATO countries, we are less exposed to corruption than the industry as a whole. The majority of our business (93 percent) comes from the EU, the Nordic countries, and the United States – markets which represent relatively low levels of corruption risk.

SUSTAINABILITY

The table below shows the countries in which we operate and how they rank on the 2020 Transparency International Corruption Perception Index (CPI): CPI Score 0=highly corrupt, whereas 100=very clean.

COUNTRY	CPI SCORE	RANK
Sweden	85	3
Finland	85	3
Switzerland	85	3
Norway	84	7
Germany	80	9
UK	77	11
Ireland	72	20
USA	67	25
Spain	62	32

The remaining seven percent of our business (i.e. excluding the EU, Norway, Switzerland and the United States) is comprised of markets in Asia, Oceania, and the Middle East, which include a number of countries with equally low levels of corruption and strict regulations (e.g. Japan and Australia). For remaining markets in countries with medium to high levels of corruption risk, Nammo has established a new and rigorous sales management process, which includes a thorough risk evaluation before onboarding partners, customers, and suppliers. A higher risk also necessitates an enhanced due diligence process.

The Defence Companies Index (DCI), assessed the levels of public commitment to anti-corruption and transparency in the corporate policies and procedures of 134 of the world's largest defense companies.

The assessment score went from A – Very High down to F – Very Low. Nammo was rated with a score C – Moderate. Thirty-seven companies out of the 134 scored between A-C. For Nammo the results of the DCI Index have been a useful guide to define the areas where we can improve and be more transparent. Since the closure of the evaluation process by TI we have established a brand new Code of Conduct and several new supporting policies, which all address the areas of the Index where our score was low.

Code of Conduct

The Nammo Code of Conduct is based on regulations in line with the US Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act 2010. All employees must comply with the Code of Conduct, which outlines Nammo's policy and guidelines for handling corruption and bribery.

Training

As part of our risk mitigation control of anti-bribery and corruption, we have a training program comprised of three modules: e-learning, dilemma training, and proactive "red flag" fraud training. Training status is part of the monthly compliance reporting to the Board of Directors, and the Group Management Team is regularly informed of progress in the program.

In 2020, 1 875 (out of 2 700) employees were invited to complete the training modules, the completion rate was 88 percent. The e-learning exercises are also a requirement for all external sales representatives and the external Board members. As of 2020, Nammo's Board members had a 91 percent completion rate for e-learning training.

Dilemma training is workshop training for middle management employees in high-risk positions. Nammo has developed an in-house Dilemma Bank with around 30 different dilemmas covering areas of company culture, finance, business

ethics, procurement, and personal conduct. Forty-one employees comprising four high-risk teams completed dilemma training on ethics and anti-corruption practices in 2020. Due to pandemic-related travel restrictions, several physical training sessions had to be canceled.

Onboarding

Employees of newly acquired companies must participate in a program introducing Nammo's company culture, the Code of Conduct and a workshop that includes the discussion of several ethical dilemmas. This training should be accomplished within the first 100 days after the acquisition and is a part of our general risk management process when acquiring new companies. Nammo made two acquisitions in 2020 and completed the onboarding program of the employees by the end of the year, with some delays due to the COVID-19 pandemic situation.

Nammo was not subject to any investigations, fines, or sanctions in 2020 relating to incidents of corruption, anti-competitive behavior or ethical breach of laws or regulations.

Export control

There is an international market for illegal procurement of technology for military use. Nammo emphasizes awareness with regard to due diligence on how business is performed and what type of products are sold to whom and in line with which regulations. Export control regulations are intended to ensure that defense-related products, technology and services are only exported in accordance with a country's security and defense policy, and that exports of dual-use items do not contribute to the proliferation of weapons of mass destruction (nuclear, chemical, and biological weapons) or their means of delivery.

Every country has its own national export control regime. They are all based on the same principles with a few exceptions with regards to geopolitical relations. Common to all is the requirement of an export license approved by the national authorities when exporting defense products, technology or services for military purposes. Human rights considerations are also part of the export controls, and key risks in countries include potential geopolitical changes taking place after contract signature.

During 2020, Nammo uncovered and self-disclosed six deviations in trade compliance. None of these deviations resulted in fines or legal proceedings.

Labor and human rights

Nammo is committed to respecting and protecting human rights in all its operations. We support and respect the protection of internationally proclaimed human rights, including the International Bill of Human Rights, the core International Labor Organization (ILO) Conventions and the UN Guiding Principles on Business and Human Rights (UNGPR). Nammo Group implemented a human rights policy in 2020.

Every entity at Nammo is responsible for ensuring that the Group does not violate human rights in any of its business operations, as well as being aware of its corporate social responsibility in the local community.

Nammo supports equal opportunities and rights and prohibits discrimination on the grounds of gender, ethnicity, national origin, skin color, language, sexual orientation, marital status, religion, philosophy of life, and age. We strongly support freedom of association and collective bargaining as per the ILO standard, and 61 percent of Nammo's workforce is covered by collective bargaining agreements

(the figure is impacted by recent acquisitions in the US). All employees are covered by such agreements where they exist, regardless of whether or not an employee is a union member (with the exception of the executive management team). We deem there to be a low risk of violation when it comes to Nammo's own operations. However, we have reasons to believe there is a higher risk in our supply chain.

Nammo does not tolerate any form of harassment based on race, color, religious affiliation, national origin, citizenship, age, gender, sexual orientation, marital status, disability, or any other such discriminating factors.

Cybersecurity and proprietary information

At Nammo, we continuously strive to reduce the risks related to cybersecurity. Our IT strategy outlines the main efforts, including improving technical security, limiting the attack surface and raising awareness levels among employees. Proprietary information is one of Nammo's most valuable assets. It is the intangible lessons and experiences we have amassed over the years, which make Nammo what it is. This is equally true for our customers and partners, which is one important reason for Nammo to measure and certify internal security efforts against standards like ISO, National Institute of Standards and Technology (NIST-800-171) and Cybersecurity Maturity Model Certification (CMMC) to document our level of security.

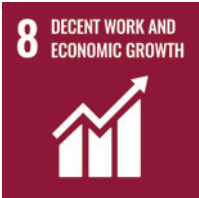
Nammo complies with the relevant IT security and privacy regulations in all countries where we operate. In 2020 there were no cybersecurity incidents or loss of information and we launched major improvements in network visibility, tracking and protection as a result of investments and added capacity. In the coming year, Nammo Group will continue to improve capabilities to prevent and detect cyberattacks.

Cybersecurity threats pose financial, reputational and societal risks. Appropriate IT security measures are critical to safeguarding vital product information generated by the Nammo Group, its customers, and its suppliers. Like most defense and aerospace companies, Nammo experiences attempted cyberattacks on a regular basis. Such security incidents are related to fraud, sabotage, extortion, or attempts to retrieve proprietary information.

New innovations continuously narrow the gap between digital and physical systems. A firm grip on cybersecurity is more important than ever to prevent virtual attacks from affecting real-world values like environment, equipment and personnel. The gap between work and personal life becomes smaller and smaller. Rigorous training of employees helps them avoid being victims of fraud and extortion – and from funding future attacks by criminals.



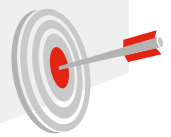
VALUE CHAIN INTEGRITY



At Nammo, value chain integrity means that all our business partners operate in an ethical manner that safeguards human rights and workers' rights, while protecting the environment.

Goal:

Nammo shall hold suppliers and business partners to the highest standards on responsible business conduct, and be a collaborative partner in reducing sustainability risk and promoting understanding of and respect for ESG issues.



Key Performance Indicator

	2020	2021	2030
ESG screening of all new suppliers	Baseline	>80%	100%

Nammo is committed to:

- always knowing who we are doing business with and securing the Supplier Conduct Principles
- adding ESG to the supplier audit plan as a KPI for 2022

Our business partners include joint-venture partners, suppliers, sub-contractors, consultants, sales representatives, distributors and customers. We are convinced that high value chain integrity produces high-quality products and services, thereby increasing our competitiveness.

Our supply chain consists of suppliers of raw materials and components, sub-contractors, and providers of various services such as transportation and freight forwarding, maintenance and consulting. As a general rule, local suppliers are to be sourced if competitive. Most of our suppliers are located in Europe and North America, with a few suppliers in Asia and South Africa.

We estimate to have more than 7 000 registered suppliers, of which close to 500 are strategic.

A strategic supplier is in general defined as a supplier either pre-qualified by the end-customer or a supplier who sells goods with high quality and/or high technological content at competitive prices.

Third-party due diligence

Nammo's Code of Conduct and Supplier Conduct Principles state our requirements and expectations for business practices, personal conduct and working conditions to our business partners. The expectations are founded on the UN Global Compact's Ten Principles and the ILO conventions. All business partners are required to comply with the Supplier Conduct Principles and with applicable national and international laws.

Our Supplier Conduct Principles address the supplier's obligation to conduct business in compliance

with modern slavery and human trafficking legislation. Environmental requirements are also stated, committing our suppliers to minimize their negative environmental impact, continuously improve their environmental performance, and prevent and mitigate environmental and health-related risks. We have a risk-based due diligence process in the selection and use of business partners. The degree of due diligence depends on the categorized risk of business partner, the country or countries involved, the size and nature of the transaction, and the historical relationship with the business partner.

During 2020, 325 of our strategic suppliers were screened against several types of predefined risks in addition to social and environmental criteria and are now monitored continuously.

Each of Nammo's legal entities and business units are responsible for undertaking appropriate due diligence for their suppliers to ensure all potential suppliers meet Nammo's standards. All our suppliers receive and are obligated to comply with Nammo's Supplier Conduct Principles upon signing a contract with us. Nammo also requires all external Board members, special consultants and sales representatives to commit to the Code of Conduct and participate in the monthly e-learning awareness program on ethics and IT security.

During 2020, Nammo had 36 sales representatives representing the following regions: Europe, North America, South America, South East Asia, Middle East and South Africa. All sales representatives undergo the company's due diligence procedure. If they are approved, they are only allowed to operate in accordance with a written agreement with Nammo. All representatives are continuously monitored and comprehensively reevaluated every two years.

Nammo performs regular audits of the supply chain to review quality and compliance with the Supplier Conduct Principles and how flow down is handled throughout the supply chain.

We are currently developing a global framework to improve third-party risk management. The framework will support the screening tool implemented in 2020 and will together form an active and improved third-party risk management process starting in 2021.



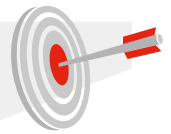
EMPLOYEE SAFETY AND WELL-BEING



Nammo’s success relies on the highly skilled people working in our company. Ensuring our employees’ safety and well-being and continuously developing their competence is therefore a key priority for us.

Goal:

Nammo shall ensure that our employees are working in a safe and healthy environment while being provided with the opportunity for building knowledge and competency development.



Key Performance Indicator	2021	2030
Lost Time Injury (LTI) Value	≤5	≤3
Overall sick absence	≤3.7%	≤3.5%
Percentage of accident, near-miss and hazardous conditions reports submitted by staff outside of HESS Safety Walks	25%	50%

Lost Time Injury (LTI) Value: number of LTIs x 1 000 000/total number of working hours.

Nammo is committed to:

- maintaining and improving a comprehensive occupational health and safety system
- providing for competence development and life-long learning for employees

Occupational health and safety

Nammo’s employees are exposed to health and safety risks related to handling energetic materials, mechanical manufacturing, heat treatment, chemical surface treatment and assembly operations. Health, Environment, Safety and

Security (HESS) matters always have the highest priority, even when there is a conflict with other business objectives.

The HESS policy provides guidelines for how our employees shall handle health and safety issues in the workplace. It includes systematic follow-up and reporting of all

LTIs, near-misses and hazardous conditions. The policy is reviewed annually and applies to all employees at all our sites; however, it allows for local adaptations to comply with national and local requirements. An HESS site assessment is performed annually at each operating location.

Occupational health and safety management system

Nammo’s occupational health and safety management system is based on the legal requirements of each of the nine countries in which we operate, as well as the principles of ISO 45001 and 31000 standards for Occupational Health and Safety Management and Risk Management Systems respectively. All workers, activities and workplaces in Nammo are covered by the occupational health and safety management system. Annual reviews during HESS site assessments are used to evaluate and continually improve the occupational health and safety management system.

Each site has its own form of HESS committee or Safety Council that meets regularly. Employee representatives participate in these meetings to ensure that production staff members’ input is heard in order to contribute to the overall site occupational health and safety culture. Results from these meetings are shared openly.

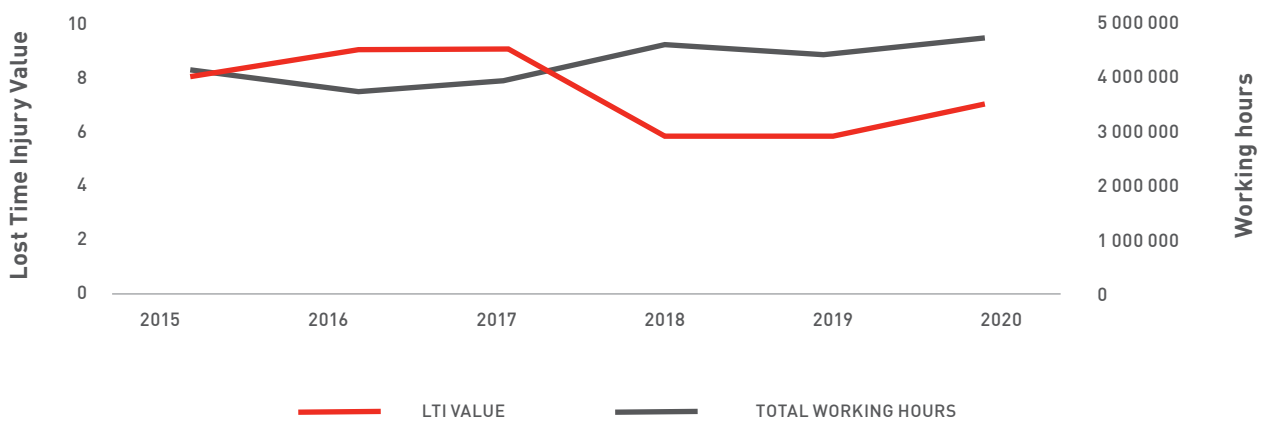
Reducing both the total number of LTIs and the LTI value (LTIs per 1 million working hours) has been, and will continue to be, a priority for Nammo. LTIs are reported to the Nammo Group HESS director using an accident report template requesting information about the root cause analysis and actions taken at the site to prevent reoccurrence of

similar hazards. High-potential near-misses and accidents are shared throughout the company via a “Safety Flash” format to summarize findings and promote organizational learning. During 2020, the first full year in which the Nammo Group used Safety Flashes, 17 were issued.

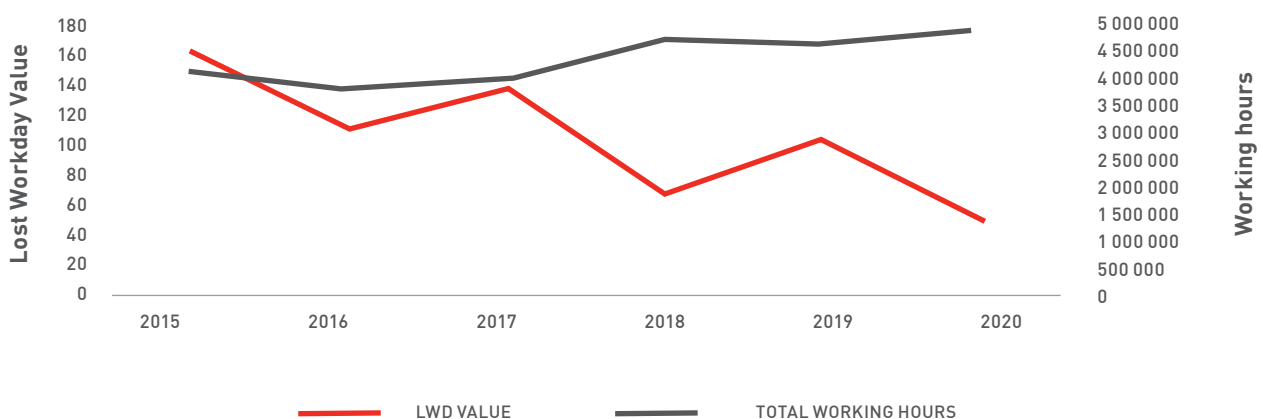
ALL EMPLOYEES ENGAGED IN THE HANDLING AND STORAGE OF POTENTIALLY HAZARDOUS SUBSTANCES RECEIVE ANNUAL PHYSICAL CHECK-UPS TO MONITOR ANY CHANGES THAT COULD RESULT FROM WORKING IN PROXIMITY TO SUCH SUBSTANCES.



LTI VALUE VS. TOTAL WORKING HOURS: 2015-2020



LWD VALUE VS. TOTAL WORKING HOURS: 2015-2020



SUSTAINABILITY

In 2021, the Nammo Group is instituting a quarterly safety council to review all LTIs and high-potential near-misses via digital meeting platforms. This will strengthen information sharing among sites and contribute to organizational learning. Additionally, increased emphasis on Root Cause Analysis (RCA) for all LTIs, near-misses and hazardous conditions reports aims to address problems before they result in personal injury or material damage to equipment. Close coordination and support from Nammo Group Lean Six Sigma Black and Green Belts is helping to ensure that all sites have the necessary competence to conduct RCA effectively at the lowest possible level. Involvement of the operational staff in RCA empowers individual employees to improve the safety and effectiveness of their working environment.

Training

Occupational health and safety training is conducted during the onboarding process for all new employees. Each site has an annual training plan to cover specific work-related hazards, hazardous activities and hazardous situations. Training is delivered through a mix of web-based solutions and face-to-face training. All training is conducted during working hours in each site's native language, attendance is recorded, and feedback is requested to ensure that training remains relevant. Each site's annual occupational health and safety training plan is reviewed during the annual Group HESS site assessment.

In 2020, 28 HESS site assessments were completed at Nammo's facilities. Due to COVID-19, related travel restrictions only four of the assessments included physical visits to production facilities. All other HESS site assessments were conducted via digital meeting platforms. Annual assessments

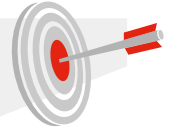
are conducted in accordance with an agenda developed annually by the Nammo Group HESS director based on trends observed during the previous year's operations.





Goal:

Nammo shall demonstrate a measurable improvement in gender balance year-on-year until reaching 30 percent by 2030.



Key Performance Indicator	2020	2021	2030
% of women in the Nammo Group	26%	27%	30%

Nammo is committed to:

- putting diversity on the agenda through 2021 by initiating and supporting actions

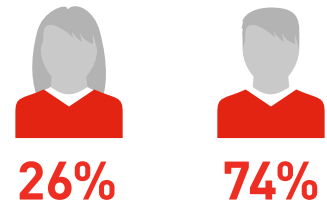
Anti-discrimination and diversity

Nammo is committed to creating a working environment that values diversity, is free from unlawful discrimination and harassment, and is based on the principle of equal opportunity and affirmative action. Our Code of Conduct and our People Policy outline how these principles are to be implemented. We are working actively through training and recruitment campaigns to increase the number of female employees and to motivate women to apply for management positions.

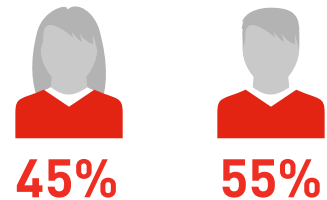
During 2020, we continued competence development through Nammo Academy. A global leadership development program and an internal mentoring program were kicked off and will continue running. Local leadership development programs were also initiated. Based on the diversity objective of 27 percent females in Nammo Group by 2021, KPIs were set for all countries of operation. These will be followed up by monthly reporting and supported by corporate as well as local initiatives and actions.

Nammo is dedicated in its focus to ensure a secure and safe working environment for its employees. Our operators can be exposed to occupational health and safety risks, meaning tailored governance and management systems are required to reduce the risk of harm. We strive to uphold a just and modern working environment where our employees are valued and supported.

FULL-TIME



PART-TIME



EMPLOYEES BY EMPLOYMENT CONTRACT:

	PERMANENT EMPLOYEES	TEMPORARY EMPLOYEES
India	1	0
Germany	150	15
Spain	163	27
Switzerland	13	0
Finland	331	7
Norway	799	9
Sweden	304	7
USA	792	24
Ireland	21	0
UK	47	0

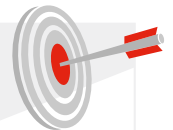
ENVIRONMENTAL STEWARDSHIP



Nammo has a direct impact on the environment throughout the lifecycle of its products and services. Minimizing our environmental footprint in all phases of the product lifecycle provides a positive effect from both an environmental and economic perspective.

Goal:

Nammo will continuously strive to reduce its environmental footprint, by measuring and mitigating impact, as well as implementing the most efficient technologies and processes.



Key Performance Indicator

	2021	2030
Reduction of CO2 emissions	Baseline	50%

Nammo is committed to:

- establishing our CO2 baseline in 2021 by mapping our environmental footprint through the direct and indirect emissions at each site
- enhancing efforts to reduce energy consumption across business units

In 2021, Nammo is committed to establishing our CO2 baseline by mapping our environmental footprint through the direct and indirect emissions at each site. We will enhance efforts to reduce energy consumption across business units.

As part of new product development, environmental issues are analyzed and resolved or reduced to the greatest extent possible. In addition, conflict minerals and counterfeit materials are assessed. Flow

down of requirements and related risk analysis within the supply chain are also conducted.

Initiation of Lean Six Sigma improvement projects to address any environmental issues is part of the mandate of each site's Business Improvement Team.

Over 70 percent of Nammo employees work at sites certified in accordance with ISO 14001, an internationally recognized standard

that sets out the requirements for an environmental management system. In 2020, no audits focused solely on environmental issues, but environmental issues were reviewed as an agenda topic during the annual HESS site assessment at each of Nammo's production facilities.

Our HESS directive requires all sites to review environmental improvement plans annually and report any nonconformities.

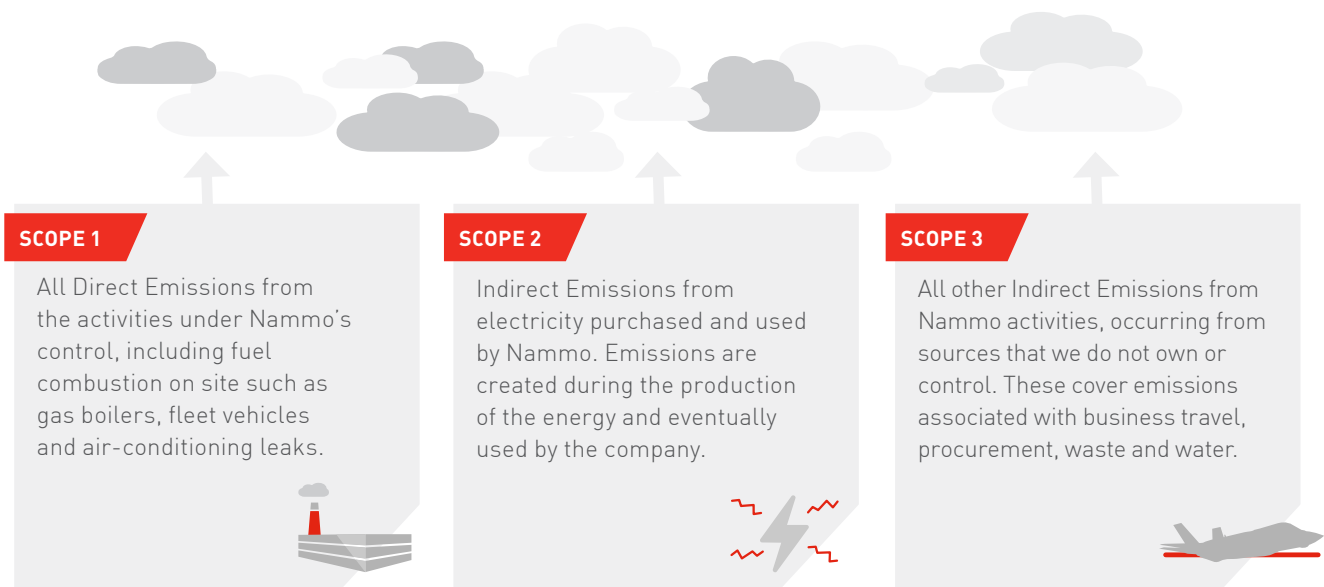
Emissions

At Nammo, we follow up and measure waste emissions to water and the atmosphere, work to reduce noise levels, and handle other environmental factors in accordance with existing regulations and internal instructions.

We currently address environmental challenges related to historically polluted areas at two 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. Nammo's facility in Mesa, Arizona, in the United States, is now working more closely with the Environmental Protection Agency

through an Administrative Order on Consent to address the historical pollution present from operations that occurred prior to Nammo's purchase of the site in 2007.

Emissions to air are reported according to the Greenhouse Gas (GHG) Protocol as scope 1, 2 and 3 emissions.



Scope	2020 amount tCO2e	2019 amount tCO2e
Scope 1	1 901	1 642
Scope 2	22 507	25 436
Scope 3	1 311	4 138
Total	25 719	31 216

GHG emissions intensity ratio calculated for total emissions in 2020 amounts to 4.3 kg CO2e per NOK 1 000 revenue. The 2019 figure amounted to 6.2 kg CO2e per NOK 1 000 in revenue. Nammo regards this reduction in CO2 intensity as a noteworthy achievement and we will do our utmost to stay on this positive path of change. However, we see the need to further structure our efforts to lower the emissions through monitoring the KPI as presented above, since it is likely that some of the decrease in 2020 emissions is related to effects of the pandemic.

Energy saving

Energy efficiency measures provide economic and environmental benefits. For this reason, reducing energy consumption and energy conservation measures are a high priority at all sites. By using alternative energy sources, Nammo has already made significant cost savings.

All sites shall have at least one energy saving, water conservation or other environmental impact reduction project. Project status is reviewed during annual Nammo Group HESS site assessments.

Reported energy consumption at our production sites was approximately 116.66 GWh in 2020, up from 102.13 GWh in 2019. However, the energy mix was cleaner and resulted in lower total CO2 emissions.

In 2020, Nammo installed a heat recovery solution at the Vihtavuori production site in Finland. The system extracts waste heat from the hall space in the boiler room and provides heat to the return water of the district heating system. In February 2021, 45 kW of energy was recovered. Payback time is estimated to be three years from date of installation.

Waste and hazardous materials management

Our company consistently monitors the handling of hazardous material to ensure we are in compliance with national environmental laws and regulations. All Nammo sites must comply with the European REACH regulations (Registration, Evaluation, Authorization and Restriction of Chemicals), which aim to protect human health and the environment from risks posed by chemicals.

Waste is handled in accordance with national laws and regulations at each operating location. Our goal is to minimize the amount of waste destined for landfills by delivering

waste for recycling or combustion with energy recovery. REACH impacts all Nammo Group sites and efforts are underway at all sites to work proactively in identifying substitute substances and materials that minimize potential harm to human health and the environment. Downstream customers are informed of all candidate list substances exceeding REACH defined thresholds in Nammo products, in accordance with REACH reporting requirements.

Water management

The Nammo Group operates at 28 production sites in nine countries. There are wide variations in water consumption requirements and associated impacts related to this consumption, based on the type of production at each site. All sites comply with national and local regulations regarding water effluent quality, discharge, withdrawal, consumption and impacts from runoff. The Nammo Group does not have internally developed water quality standards or guidelines; we adhere to national and local requirements at each of our sites.

Currently, each site analyzes its water consumption annually and works to identify ways to reduce consumption. Where water consumption is an issue, the sites engage with local stakeholders. The Nammo Group has an overall goal of reducing water consumption at each site year-on-year, and progress is reviewed during annual Nammo Group HESS site assessments.

Climate risk

The impacts of global climate changes are monitored and evaluated, and we have determined that climate change has only a minor impact on our facilities. Currently, only physical risks, and the consequential financial risks, are considered in relation to climate risks and opportunities.

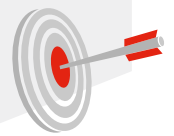
PRODUCT STEWARDSHIP



At Nammo, responsibility for a product starts during the innovation process. We strongly focus on the use of environmentally friendly materials in our production lines and processes. Safety levels in systems and products shall meet all relevant laws, regulations, international standards and best practices.

Goal:

Nammo will ensure effective and efficient use of resources and materials, conduct responsible management of waste and disposal, and make sure that we do not include “at risk” materials in new development projects.



Key Performance Indicator

	2021	2025
Integrate Life Cycle Analysis (LCA) based on ISO 14040 standard into product development processes within Nammo Process Management System (NPMS).	Baseline	LCA Integrated

Nammo is committed to:

- implementing LCA tools to understand the environmental and social footprint of our products throughout the product life cycle

Once the baseline has been set, a target and improvement plan will be established. For existing products, issues are evaluated and addressed through design and process failure mode and effects analysis (DFMEAs and PFMEAs) and value stream mapping (VSM). For new products, all aspects of health and safety are analyzed, and problems are eliminated or reduced to the extent possible during the development process.

Life cycle management

Nammo takes responsibility for the entire product life cycle, providing recycling and environmentally controlled disposal of obsolete munitions and propulsion systems for various customers around the world. All processes meet strict

environmental standards, minimizing emissions to air and water.

When relevant, surveillance programs are established to check the conditions of munitions and propulsion systems during their lifetime. The purpose of such programs is to evaluate functionality and whether the product is still safe to store, handle and use.

All our products must be able to meet stringent national, international, aerospace and military standards. Compliance with these requirements results in products exhibiting high performance, safety and top quality.

Safe disposal

Our demilitarization operations in Sweden and Norway ensure that we will continue to offer our highly

specialized demilitarization services to the international market.

Since Nammo was founded in 1998, we have remained a significant player in the European demilitarization market. Nammo has specialized in offering safe and environmentally friendly dismantling, recycling or destruction of old or obsolete munitions. A significant part of this work has been done by Nammo’s demilitarization businesses in Germany, Sweden and Norway. Nammo is proud of the significant role we have been playing in support of the Convention of Cluster Munition [CCM-2008] to dispose of a large part of the Western world’s cluster munitions in an environmentally friendly manner.

INTERNAL CONTROL, RISK MANAGEMENT AND COMPLIANCE

Our internal control and compliance processes reduce the risks faced by the company and ensure efficient and sustainable utilization of resources. Nammo's internal control, compliance and risk management system encompasses its leadership culture, vision and values, Code of Conduct, risk management, reporting and control mechanisms.

INTERNAL CONTROL

Internal control forms a crucial part of any management system. Management involves determining what is to be achieved and providing the right guidance. Internal controls need to operate effectively throughout the value chain in order to ensure that the company reaches its strategic goals, while complying with all regulatory requirements.

Processes performed by Nammo employees at all levels include internal control mechanisms. Guiding principles, processes and tasks are all examples of internal controls. Securing quality reporting to both internal and

external bodies in accordance with relevant legal and regulatory frameworks is also a vital function of internal control mechanisms.

RISK MANAGEMENT

Risk management involves identifying, assessing and controlling risks that may prevent the Group from attaining its goals, or cause damage to Nammo's employees, values, brands and reputation. A sound risk management process and culture will improve strategic decision making, reduce financial uncertainty, protect the Group's brands and reputation, and allow us to recognize opportunities.

Risks and opportunities related to Nammo's business operations are identified during the annual strategy process. Operational risks and opportunities are addressed by the responsible corporate function, business unit or legal entity as appropriate.

The corporate functions are responsible for the preparation and maintenance of requirements through policies and directives and requirements for the verification of these. Responsible corporate functions communicate regulatory changes requiring amendments to Nammo Group policies and directives to the Board of Directors, its audit committee, and the Group Management Team.



Nammo Mesa, Arizona, USA

Internal grievance mechanism for misconduct:

All reports are handled confidentially through our reporting channel, SpeakUp, which can be accessed by phone or online and with a specific country code as instructed in the "Do the Right Thing" manual. The digital service is managed by a third party, which facilitates the 'dialogue' between the company and the reporting employee. Employees can report in their native language and the system is available 24/7. Nammo does not have access to an individual's identity if they choose to report their concerns anonymously. The system is encrypted and Privacy and GDPR compliant and can be used by all employees outside the US. A similar system was implemented in the US at the end of 2020. The US reporting channel is called Ethicspoint and has very similar functionality to the European system. Additionally, it is compliant with the requirements of the Nammo Special Security Agreement (SSA) entities.

**COMPLIANCE**

Nammo emphasizes adherence to policies, relevant laws and regulations – and this is managed through our compliance processes.

Financial compliance within Nammo is handled by the corporate finance department, determining the accounting and reporting principles and monitoring of the business activities in the Group, ensuring reliable, relevant and adequate financial information and control. The finance function is also responsible for ensuring the adequate handling of cases concerning risk management in Nammo.

Nammo's compliance program is managed by the Group Chief Compliance Officer (CCO) with identified compliance champions at each Nammo legal entity to assist in implementing and monitoring local compliance processes. The CCO operates in accordance with a defined mandate and carries out the responsibilities as defined in the compliance program. Compliance is included in Nammo Management System directives, process descriptions, procedures and support tools.

The compliance program is evaluated and assessed by a third party every three years and the results are reported to the Group Management Team and the Board of Directors. The compliance program was last evaluated in 2018, with a new evaluation set for the end of 2021.

All reports submitted through the SpeakUp system in Europe are forwarded to the company's CCO, who then evaluates them in cooperation with the Ethics and Integrity Council (EIC). Reports submitted through the Ethicspoint in the US are forwarded to the US Ethics and Compliance Director, who then evaluates them in cooperation with the Ethics Incident Investigation Group (IIG). Nammo does not tolerate retaliation against any employee who raises a concern in good faith. Third parties who would like to report concerns about Nammo are welcome to do so through ethics@nammo.com.

In 2020, there were 36 reported concerns compared to 51 in 2019. The majority of the concerns were in the category of Other Misconduct, and were handled through the human resources department in the local line organization according

to company procedure. Eleven of the 36 reported concerns came through the new SpeakUp system and although most of the cases are related to human resources and organizational issues, this increase from two to 11 shows that the threshold to report outside the line organization has been lowered.

RISK MITIGATION

We believe that locating all of our production facilities within the EU, Norway, Switzerland and the US is a risk mitigation factor.

All of Nammo's production facilities have internal procedures in place to protect our technologies and processes and assure compliance with national and international export control regulations. Each legal entity has in-house experts to handle local rules and regulations.

Understanding export control regimes is essential to keep our business going. We work continuously to raise awareness among our employees through regular export control training and process improvement.

GOVERNANCE

Nammo AS is a limited liability company established under Norwegian law, with a governance structure based on the Norwegian Limited Liability Companies Act (Aksjeloven). Nammo is governed by directives and guidelines from the Board in accordance with global and national statutory requirements in the countries where Nammo operates.

Our governance system is also important to ensure efficient controls for the business processes. Corporate governance is regarded as a key element in both the short- and long-term sustainability of Nammo Group operations. Corporate governance encompasses the leadership culture, vision and values, ethical code of conduct, risk management, reporting and control mechanisms.

In recent years, Nammo has carried out a major upgrade of the Nammo Management System (NMS2), including a broad and detailed overview of the complete Nammo Process Management System (NPMS). The implementation phase has started and will continue through 2021. The NMS2 describes how the Nammo Group is managed and its continuous process for identifying and handling risks in its business operations. Through the NMS2,

Nammo has formalized an annual process for risk management, and reinforced the hierarchy and structure of 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, at least once per year.



Nammo Mesa, Arizona, USA

CORPORATE DIRECTIVES

The framework for leadership, organization and culture is the foundation of NMS2. The system is based on the delegation of responsibility to our legal subsidiaries and business units. Corporate functions, such as finance, human resources, communication, IT, HESS, legal and compliance and business development are directed from Group level. This safeguards a uniform standard and control structure, and Nammo Group has defined common requirements in the form of corporate directives that are mandatory for all parts of the organization. The directives address areas such as strategy and business planning, finance, risk management, organizational and employee development, HESS, ethics, and corporate responsibility.

CONTROLS AND PROCEDURES

NMS2 is designed to provide reasonable assurance to Nammo's Group Management Team 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. Internal control of financial reporting is a process designed

under the supervision of the Group Chief Executive Officer (CEO) and the Group Chief Financial Officer (CFO). The accounting principles applied by the Group follow the Norwegian Generally Accepted Accounting Principles (NGAAP).

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, Nammo has 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.

ANNUAL GENERAL MEETING OF SHAREHOLDERS

The shareholders of Nammo AS have the ultimate authority through the Annual 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 formally appoints the Board members.

The Annual General Meeting approves The Board of Directors' Report and the financial statements based on the Norwegian requirements, including the dividend proposed by the Board of Directors and recommended by the Group Management Team. The Annual General Meeting also appoints the Board of Directors and the external auditors and determines the auditor's remuneration. In addition, the Annual General Meeting handles all other matters listed in the notice convening the meeting.



GOVERNANCE

BOARD OF DIRECTORS – APPOINTMENT

The Board of Directors (BoD) 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. Nammo's owners, the Norwegian Ministry of Trade, Industry and Fisheries and the Finnish company Patria Oyj, nominate three board members each, with the positions of Chairman and Vice Chairman alternating annually between the two owners. The General Assembly elects the Chairman and the Vice Chairman. The Board also has two employee representatives as full members. The employee representatives are elected by the employees in each country in accordance with local procedures. The employees may also nominate one additional observer. The BoD meets regularly with a minimum of four meetings per year.

The BoD appoints the Group CEO, and supervises the daily management carried out by the Group CEO.

THE PRESIDENT AND CEO

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

Nammo's Group Management Team consists of the CEO, the CFO, the Chief Operating Officer (COO), the Senior Vice President (SVP) Business Development, and the Chief of Staff. The Chief of Staff leads the Corporate Business Support Team together with the SVPs. The COO leads Nammo's

Operational Leadership Group, which includes the EVPs responsible for Nammo's four business units and the President of Nammo Defense Systems in the US. The Group Management Team ensures Group level functions to safeguard central control and leadership within Nammo.

Management meetings are held about eight times a year and are called by the CEO, or more often when needed. These meetings focus on monitoring the status of operations and key performance indicators. The market situation is also addressed, as well as health, environment, safety and security indicators and human resource issues. Extended management meetings are held when specific subjects of strategic importance are needed. The extended management meetings include both the participation of the Operational Leadership Group and the senior vice presidents from the corporate staff. The Group CEO conducts individual business review meetings with the business units five times a year. These meetings are a vehicle for scrutiny of the business units' performance relative to budgets and targets. The market prospects, order intake, new opportunities and other significant items are also addressed.

The principles applying to remuneration of executive management are set by the BoD, and these are described in Note 3 to the financial statements presented in the 2020 Annual Report.

BoD PROCESSES

In accordance with the Norwegian Limited Liability Companies Act (Aksjeloven), the BoD exercises the overall governance of the company, including ensuring that appropriate management and control systems are in place. In addition to appointing the CEO and supervising the daily management carried out by the CEO, the BoD approves:

- The annual budget
- Group-wide principles
- Group strategy
- Investments/divestments above a designated financial threshold.
- Material organizational changes

The BoD has established two committees to prepare reviews and decisions by the BoD:

- Risk, Audit and Compliance Committee
- Human Resources and Compensation Committee

The Risk, Audit and Compliance Committee (RACC) is a committee of the BoD that assists and makes recommendations to the BoD in reviewing financial reporting, internal controls, compliance and risk management systems, external auditing matters and business ethics compliance matters. The RACC also oversees compliance related to the following defined areas managed by the Nammo Group Chief Compliance Officer (CCO): anti-bribery and corruption, export control and trade regulations, and sustainability and responsible business conduct.

The HR and Compensation Committee (HRCC) is a committee of the Board that supports the Board in reviewing matters concerning human resources and compensation in the Nammo Group. Topics the committee addresses are: succession planning, talent development, compensation policy and guidelines for top management and pension issues.

Annually, the BoD conducts a self-evaluation. The key findings from the evaluation are communicated to the shareholders.

The BoD remuneration is described in Note 4 to the financial statements presented in the 2020 Annual Report.

Maren Lundby, World Champion Women's Large Hill Ski Jumping
Credit: Hopplandslaget & Skijumping.pl



Corporate social responsibility and sustainability

Nammo has been a sponsor of women's ski jumping for more than a decade. We are proud to witness the success of the Norwegian women's ski jumping team, and in particular the successes of Maren Lundby in becoming an Olympic Champion, two times World Champion and three times World Cup overall winner.

Maren made history during the 2020/21 season by winning the first gold medal in the Women's Large Hill Ski Jumping in the World Championships. She is also an excellent spokesperson for women's rights to achieve gender equality in ski jumping.

Nammo began sponsoring the Norwegian Ski Federation, Women's Ski Jumping team for two reasons:



The first reason was, and is still, to give female athletes an equal opportunity to utilize their talent, while enabling them to perform at the highest level of the sport. This ambition also reflects Nammo's gender diversity and equal opportunity ambitions.



The second reason has been to support the Norwegian ski jumping team with a transfer of competence and knowledge of aerodynamics, in order to better understand the flight trajectory of a ski jumper.

Both reasons have been integral in strengthening the Nammo brand as an attractive employer and contributing greatly to corporate social responsibility and sustainability.

BOARD OF DIRECTORS' REPORT 2020

During 2020, Nammo demonstrated solid performance in an unprecedented environment. With 2 700 employees in 12 countries, the Group found itself adapting to a multitude of national, regional and local COVID-19 restrictions, while maintaining its international supply chain and close customer relationships. Despite these challenges, Nammo has been able to continue its long-standing internal improvement efforts, enabling it to deliver the highest net profits, revenue and order book of the Group's history.

Nammo's future outlook is solid, with a strong order backlog and product development pipeline. Nammo is confident in the ability of its dedicated employees to improve and deliver on its customer promise, yet remains humble in light of the significant challenges still ahead. In the near term, the Group will focus on continued COVID-19 risk mitigation efforts, while consolidating and building on the improvements already made and advancing its investments in new facilities and technologies.

Net income after tax amounted to NOK 423 million, compared to NOK 192 million in 2019. The financial result of 2020 shows significant improvement in profitability from 2019, benefiting from the restructuring cost incurred in 2019. The Board of Directors will propose an ordinary dividend of NOK 211.3 million (NOK 96.5 million) at the Annual General Meeting. The order backlog stood at a record high NOK 9 170 million (7 443) at year-end, which acknowledges Nammo's market position. The overall market trends reflect the continued trust in, and demand for, the kind of truly reliable advantage that Nammo continues to deliver to its customers.

GENERAL COMMENTS

Nammo's experience in 2020 mirrored that of many other multinational corporations. In early March it found itself forced to rapidly adopt a new way of working after the onset of the pandemic. In some respects, the Group faced unique challenges thanks to its large number of relatively small manufacturing locations and complex value chain distributed across several countries, while many of its support functions are centralized in a few larger hubs.

This structure has however proven beneficial, as it has enabled greater flexibility in responding to local conditions. Instead of issuing sweeping, Group-wide restrictions, local leadership was instructed early on to find local solutions for local challenges, caring for the well-being of their business and employees in line with local regulations, while maintaining a continuous dialogue with corporate leadership. So far, this local approach has been effective, with an internal survey indicating that three-quarters of Nammo employees have felt comfortable going to work during the pandemic, and with the Group maintaining an overall on-time delivery rate of nearly 95 percent throughout 2020.

Even with limited ability for physical meetings, Nammo has continued to develop and benefit from its close relationships with its key customers. It has continued implementation of the strategic partnership agreement signed with the Norwegian government in 2019, and in December 2020 renewed and expanded a similar agreement with Finland. In addition, building on the 2017 framework agreement, in April 2020 Nammo received a SEK 670 million delivery contract

from the Swedish government for small caliber ammunition. These agreements and contracts are indicative of the type of long-term strategic relationships that Nammo seeks to develop with its major customers, due to the improved predictability and efficiencies such partnerships and security of supply agreements create for both parties.

STRATEGY FOR PROFITABLE GROWTH

Nammo maintains its position as the largest independent provider of specialty ammunition and rocket motors for both military and civilian customers in the Western world.

The Group's strategy remains essentially unchanged: to achieve sustainable profitable growth in the US, in Europe and the Nordic markets. The past year has again validated Nammo's strategic direction, which since 2015 has generated a 60 percent increase in revenues, 100 percent increase in profit before tax and 79 percent increase in order stock. Going forward, Nammo's top priority is to build upon the profitability improvements made in recent years, in order to secure the level of R&D funding necessary to maintain the

Group's position as a high-end provider to some of the world's most demanding government customers. These are essential in order to maintain the Group's position as a high-end niche provider in a highly regulated market, addressing some of the world's most demanding government customers.

Consequently, Nammo will maintain an unrelenting focus on cost control and operational improvements, supported by permanent structures aimed at instilling a Group-wide culture of continuous improvements rooted in Lean and Six Sigma methodologies, building internal competence across business areas and locations.

OPERATIONS

While COVID-19 mitigation clearly influenced Nammo's operations in 2020, the Group also maintained, and in some respects enhanced, its focus on internal improvements and consolidation. At a very early stage, Nammo recognized the potential for organizational learning from its response to the pandemic, and in April 2020 established a project team within its corporate leadership to capture this from across the Group. The team conducted two internal surveys among Nammo employees in 2020, generating insights which will inform the company's continued response to the pandemic in 2021, as well as other future internal improvement actions.

The Group's manufacturing operations handled the challenges related to the pandemic well during 2020. The company only saw one temporary COVID-19-related site closure, with its Spanish facility in Palencia closing for two weeks during the first wave. However, thanks to close cooperation between local management and employee representatives, all time lost due to this closure was regained, with Palencia delivering strong results

in the final months of the year. Throughout, this kind of cooperation between local management and employees has helped mitigate the effects of the pandemic, significantly contributing to the Group's strong results in the process.

Overall, the greatest operational challenge has been transportation and the ability to deliver finished goods, due to lockdowns restricting the availability of cargo carriers and limiting the ability of some customers to travel to our facilities. This was largely mitigated by the efforts of Nammo's teams of supply chain and logistics managers, as well as measures taken by our suppliers and customers.

Major customer milestones of the year include the conclusion of formal qualification for the M72 Fire From Enclosure (FFE) shoulder-fired weapon system with the US government, following 19 years of development. Nammo has also continued to strengthen its position as the primary provider of range extension technologies for US artillery systems and programs, with multiple programs in advanced stages of development.

Additionally, 2020 saw developments in the US markets for both military and commercial small arms ammunition. On the military side, Nammo renewed and strengthened its strategic partnerships with several of the leading providers of ammunition products to the Department of Defense. On the commercial side, the market saw a major uptick in demand, in large part due to the effects of the pandemic and subsequent uncertainty.

During 2020, Nammo continued its investments in facilities and infrastructure in the United States. The Group concluded its acquisitions of both Chemring Ordnance in Perry, Florida (now Nammo Perry Inc.) as

well as the remaining shares in the lightweight polymer-ammunition company MAC, LLC. in Bay St. Louis, Mississippi. In Mesa, Arizona, construction has commenced on new facilities to support US-based production of range extension components for US artillery systems. Nammo also continued improving its US internal organization, including the installation of a new management team. Early results from this reorganization are promising, with Nammo's US defense operations delivering a nine percentage point improvement in profitability in 2020.

The largest European customer milestones have been the aforementioned contracts and agreements with the Nordic countries, Norway, Sweden and Finland. These agreements contributed significantly to the Group's record 23 percent growth in order stock. The past year also represented the first full year of operations for the new operational structures in Finland, Sweden and Norway, again yielding both operational and financial improvements.

Nammo aims to deliver world-leading products supported by world-leading processes and competence. In support of these objectives, the Group has launched a range of programs, including Nammo Academy, a Group-wide initiative to coordinate and strengthen internal training programs, which completed its first full year of operations during 2020. The Group also introduced its first comprehensive Human Capital Management system in 2020, as well as the first elements of the Nammo Process Management System, a set of standardized processes aimed at supporting greater transparency, controllability and cooperation between Nammo's diverse organizations.

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Further improvements were made at senior leadership levels, strengthening and focusing Group management resources on increased operational control and efficiency, including the establishment of a corporate position of Chief Operating Officer and recruitment of a new Chief Financial Officer. These measures have in turn supported Nammo's enhanced focus on sustainability, which is becoming an integrated part of all aspects of the Group's strategy, operations and reporting.

FINANCIAL STATEMENTS

Pursuant to Section 3-3a of the Norwegian Accounting Act, the Board of Directors confirms that the financial statements have been prepared under the assumption of a going concern as of the date of the financial statements. The Board confirms that the going concern assumption is valid. 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 policies used by the Group have also been applied by Nammo AS and all its subsidiaries. For further information, please refer to the financial statements and note disclosures.

Operating profit and profitability

Nammo reported revenues of NOK 6 036 million in 2020, which is 19 percent higher than 2019 (5 073). The largest single market for Nammo is the USA, which represented 45 percent of total Nammo revenues in 2020 (42 percent). Net Income Before Tax (NIBT) ended at NOK 548 million, representing an increase of nearly 80 percent from 2019 (305). Net financial expenses were NOK 16 million in 2020 (47). Net profit after tax was NOK 423 million in 2020 (192).

The profitability improvements of 2020 are the result of several

long-standing improvement efforts. Nammo's profitability improvement program is now delivering according to plan, along with full-year effects of reorganization in the Nordics and US, strengthened internal business process control, improved internal productivity, substantially improved operational profitability in the US military and commercial businesses, as well as successful handling of the COVID-19 pandemic during 2020. In combination, these have allowed Nammo to generate 14.5 percent Return on Equity, along with a substantial increase in company value due to increased profitability, order stock and outlook.

Cash flow and liquidity

Nammo's net cash flow from operating activities in 2020 was NOK 846 million (498) while the net cash flow from investment activities was NOK -525 million (-281). The main drivers for the increased cash outflow from investment activities in 2020 relative to 2019, includes the acquisition of Nammo Perry Inc. as well as the purchase of the remainder of the membership interest in MAC, LLC, representing in total a cash outflow of NOK 222 million. The 2020 net cash flow from financing activities amounted to NOK 110 million (-247). The largest contributor to the cash inflow from financing activities is cash from increased new long-term loans with NOK 291 million, securing available cash during the uncertain times of the pandemic. The net cash position was NOK 365 million at 31 December 2020 (-66). Nammo had unutilized credit facilities of NOK 1 388 million (868) measured at the exchange rates on 31 December 2020.

In light of the increased uncertainty during the pandemic, Nammo responded by securing funding through an additional Revolving Credit Facility (RCF) of NOK 500 million and also

extended the maturity date for the NOK 1 000 million RCF, as well as the EUR 100 million term loan. Based on the cash flow performance in 2020, cash available at year-end, as well as the available unutilized credit facilities status, Nammo's financial flexibility is considered to be good. Continued focus on working capital efficiency and careful prioritization of investment requirements are focus areas going forward.

Balance sheet

The total assets of the Nammo Group amounted to NOK 7 106 million at the end of 2020 (6 229). Net working capital, excluding cash, was NOK 1 990 million (2 013), while equity was NOK 3 011 million (2 776). Total liabilities were NOK 4 095 million (3 453) and the equity ratio ended at 42.4 percent (44.6 percent). Return on equity was 14.5 percent (7 percent). Total interest-bearing debt to financial institutions amounted to NOK 1 536 million at 31 December 2020 (1 249).

RISK FACTORS

2020 and the pandemic have again underlined the inherent risks in Nammo's operations. Crucially, the past year has demonstrated how the impact of world events may vary significantly between countries and regions, and the need for continued flexible risk mitigation strategies.

Market risk

The operational and financial development of the Group is highly reliant on the overall development of military and commercial ammunition markets. The fact that Nammo operates through four business units, each within a number of different segments, and a wide range of products and locations, is regarded as an advantage, as it spreads the risk over a broad platform of business activities. Nammo has

manufacturing activities in nine different countries, each country having its own export regulations with which Nammo is required to comply. Where export licenses are necessary to address a market, Nammo carries the risk that these might be revoked by the appropriate authorities at any point in time, for matters that are beyond Nammo's control, such as geopolitical changes. Additionally, Nammo expects protectionism to increase due to increased focus on national job creation in the wake of the pandemic.

Operational risk

The Group's value creation consists mainly of products and systems of high technological complexity. Safety is a key priority to Nammo, and the company has established routines and procedures designed to minimize overall operational risk, particularly those related to the handling of explosives and other hazardous materials.

Finally, procedures have been implemented to secure deliveries of critical raw materials and key components from suppliers. During 2020 this has been strengthened through closer strategic agreements with national governments, both ensure security of supply during times of crisis and conflict and manage the specific risks associated with the COVID-19 pandemic.

Financial risk

Nammo has established policies for financial risk management at both corporate and business unit levels. The following have been identified as the key financial risk areas for the 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 reducing exposure to fluctuations. Nammo is also exposed to currency risks in relation to equity in subsidiaries and joint ventures reported in foreign currencies. Translation risk is partly reduced through hedge accounting, with long-term debt financing in foreign currency as the hedging instrument.

Commodity price risk: Price volatility related to copper, steel and other raw materials can directly affect Nammo's operating expenses and can have an effect on the Group's reported operating results. Nammo reduces this risk by entering into commodity hedges for significant purchase transactions of metals that are possible to hedge in the market.

Liquidity risk: 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 through both of these.

Credit risk: Nammo's customers are mainly national defense ministries, armed forces and major companies in the defense and space industry in NATO and EU countries. The inherent credit risk is thus considered low. Credit risk is continuously monitored, and the risk associated with outstanding trade receivables is currently considered low.

Interest rate risk: Interest rate risk for the Nammo Group is monitored and assessed during the year. The main risk is related to long-term financing of the Group and is handled at corporate level. The risk is considered limited.

Reputational risk

Nammo's reputation is one of the company's most valuable assets. To protect the Group's reputation, focus on building a strong company

culture from the inside is necessary.

Nammo has zero tolerance for corruption and runs training programs aimed at continuously strengthening the understanding of ethics and compliance within the company. During 2020, Nammo made a major upgrade and renewal of the Code of Conduct with implementation starting in 2021.

In order to maintain a strong reputation and the trust of the societies we serve, Nammo's products must always be developed and produced according to international laws and conventions. Nammo's license to operate is dependent on every entity's compliance with strict national export regulations. Failure to do so represents a significant risk to the company's reputation, and thereby its business. Nammo maintains internal management systems to support the various quality and military standards, as well as regulatory and customer requirements. The integrated procedures and routines are essential risk mitigating factors, along with the due diligence processes of the supply chain.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Nammo's primary social responsibility is to develop and produce high-quality defense products supporting and protecting national and allied forces. We have committed to the Ten Principles of the UN Global Compact, which implies that Nammo is to operate in a manner which protects the environment, respects human rights, and has zero tolerance of corruption, as well as combatting modern slavery and child labor. Nammo requires compliance with human and labor rights in all operational sites and prevents its business having any negative effect on the local communities surrounding the facilities.

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Nammo's suppliers are expected to comply with the Nammo Supplier Conduct Principles. These principles, along with the Modern Slavery Act Statement, support customer requirement flow down within Nammo's supply chain.

Since 2009, Nammo has reported its sustainability work in accordance with the Global Reporting Initiative's (GRI) standard (Core option). The company published its seventh report to the UN Global Compact (Communication on Progress) in 2020.

Nammo supports OECD Guidelines for Multinational Enterprises. The OECD has developed a self-assessment tool called the "Responsible Business Conduct Compass". During 2020, Nammo started to use the Compass as an internal self-assessment tool. The Compass enables risk mapping and an increased awareness of responsible business conduct at all Nammo entities.

Priorities

During 2020 Nammo decided to strengthen its focus on five sustainability themes, which had been identified through the materiality assessment made in 2019, based on input from the Group's internal and external stakeholders. These five areas are:

- Business integrity
- Value chain integrity
- Employee safety & well-being
- Environmental stewardship
- Product stewardship

Commitments to the five areas have been established and corresponding key performance indicators (KPIs) for 2021 have been developed. Sustainable development will also be integrated into the Group strategic map and shall be implemented in all processes at all levels.

Ethics and anti-corruption

2020 represented the first full year of operation for Nammo's recently implemented grievance mechanism for its European employees (SpeakUp). By the end of 2020, a similar grievance mechanism was established and launched in the US (Ethicspoint).

The total number of incoming reports from both the line organization and from the two reporting channels decreased from 51 reported concerns in 2019 to 36 in 2020. Eleven out of the 36 reported concerns were made using the new grievance mechanism. One out of the 11 concerns required further investigation but was concluded by the end of the year without any major findings. Additional risk mitigating actions are surveys and training sessions.

During 2020 Nammo implemented a new due diligence tool for risk management of third parties. All strategic suppliers of the Group are now being monitored on a 24/7 basis. A general framework for third-party risk management is also being completed.

Nammo has a zero-tolerance policy for corruption and bribery. Regular training sessions for both Nammo's employees and third parties acting on behalf of the Group is the best risk mitigation strategy. Its ethics and anti-corruption training is divided into three different programs: web based e-learning training, dilemma workshops for employees in high risk positions, and tailor-made red flag training on fraud detection.

People

Nammo's People Policy aims to ensure equal opportunities and rights, as well as preventing discrimination on the grounds of gender, sexual orientation, gender identity, ethnicity, national origin, skin color, language, disabilities, religion, philosophy of life and/or age. This applies in particular to

recruitment, career and competence development, equal pay for equal work and working conditions, though always balanced by the need to observe strict accordance with rules and regulations of national security authorities in the respective countries. New "People Guiding Principles" describe our commitment and expectations to all Nammo employees, including Leadership, Workplace Behavior, Fair Employment Practices & Equal Opportunities and Reward.

The Group has reason to believe that the company offers a positive working environment as the employee turnover rate in most parts of the Group remains low. This impression has further been strengthened by internal polling conducted during the COVID-19 pandemic.

Women account for 26.2 percent of all employees, and the Group continues its efforts to encourage women of various educations and backgrounds to join Nammo. Additionally, it continues its efforts to increase the number of women in leadership positions, as well as increasing the overall diversity of its workforce. With a diversity objective of 27 percent females in Nammo by 2021 and 30 percent by 2030, KPI's have been set for all countries of operation. These will be followed up by monthly reporting and supported by global as well as local initiatives and actions related to employer branding, recruitment, talent management, succession planning etc.

During 2020 we have seen improvements with, for example, an increase in the numbers of female managers in Sweden. Regular site assessments related to diversity & inclusion work will be implemented during 2021. In 2021, we will also perform an analysis of salaries related to gender equality.

Nammo has strengthened its focus on competence development in the Group, as this is seen as a key asset for its future success. Further development of "Nammo Academy", including global leadership development and team development programs, as well as an internal mentoring program, supported this effort during 2020.

During 2020 Nammo had an average of 2 523 full-time equivalent employees.

Nammo has a strong ambition to be a positive contributor to the development of the local communities where its facilities are located. The Group therefore engages in local sponsorships in areas such as sports, science and culture, with a focus on children and youth.

Health, Environment, Safety and Security (HESS)

Operating in the aerospace and defense industry, Nammo Group employees regularly handle energetic materials in addition to conducting significant amounts of mechanical manufacturing, heat treatment, chemical surface treatment and assembly operations. HESS matters have the highest priority within the Nammo Group and are reviewed regularly by management at all levels.

Nammo's HESS policy and associated KPIs are evaluated and revised annually. All accidents or near-misses involving employees are reported and investigated. Corrective and preventive actions resulting from root cause analysis are tracked to completion and shared throughout the Group to promote organizational learning.

Efforts to minimize the transmission of COVID-19 within our facilities include enhanced hygiene routines, contact tracing and staggered shift start times to minimize employee-to-employee contact and other

actions contributing to employee health in the workplace. A total of 106 confirmed cases of COVID-19 were recorded during 2020 representing 3.8 percent of the total workforce. There were only a handful of serious cases requiring hospitalization and no deaths resulting from COVID-19 infections among Nammo employees.

Site assessments

Four HESS site assessments were completed at Nammo facilities during 2020 as physical visits, with the remaining assessments being completed via digital meeting platforms due to COVID-19 travel restrictions. Annual site assessments are conducted in accordance with a procedure and plan developed by the Nammo Group HESS director. All sites conduct their own internal HESS assessments in accordance with the Nammo Group procedure for HESS improvements and periodic assessments as part of their local program.

Activities and results

Overall performance in the HESS functional area for 2020 was satisfactory, particularly in light of the challenges presented by COVID-19. While the total number of Lost Time Injuries (LTI) increased from 27 in 2019 to 32 in 2020, LTIs were minor in nature, with no life-threatening injuries or fatalities reported. Evidence of this can be seen in the Lost Workday (LWD) Value (number of LWD per 1 million working hours). The LWD Value of 49 was the lowest in the 20-year history of Nammo.

Several initiatives are planned to address the total number of LTIs in 2021. Highlights include Nammo Group quarterly safety council meetings to review LTIs and near-misses, as well as increased cooperation between HESS staff and Lean Six Sigma resources to improve Root Cause Analysis when investigating LTIs and near-misses.

Sick absence increased only slightly from 3.7 percent in 2019 to 3.8 percent in 2020, in spite of COVID-19. The low level of sick absence indicates that the precautions put in place at our sites to minimize the spread of COVID-19 and the efforts of our staff to adhere to national/local guidelines were successful.

Reporting of accidents, near-misses and hazardous conditions continued the upward trend observed since 2017 with 2 688 reports recorded during 2020 compared to 2 595 during 2019. With reporting at a good level, our focus now shifts to conducting Root Cause Analysis in a timely manner to close out reports and reduce the hazards facing our staff, in an effort to reduce the potential for LTIs.

Environment

Nammo's business has a direct impact on the environment through production and testing of ordnance products and services, energy usage, water usage, waste stream management, and transportation. Over 70 percent of Nammo employees work at an operating location which is certified in accordance with the ISO 14001 standard for Environmental Management Systems.

All Nammo sites are working to reduce energy and water consumption in support of the Environmental Stewardship theme from the Sustainability Strategy. Energy and water consumption data from 2020 will be reported in accordance with the Global Reporting Initiative (GRI) standard and compared to the 2019 data, in order to identify opportunities for further reductions.

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The efforts to remediate historical pollution at the Nammo Mesa site are now being conducted in accordance with an Administrative Order on Consent under the cognizance of the US Environmental Protection Agency. Significant investments have been and will continue to be made to address the effects of operations conducted at the Mesa site that predate Nammo's acquisition of the company in 2007.

Security

Security continues to be an important consideration for Nammo companies due to the nature of the products manufactured and information that is handled within the Group. Several sites have invested in security improvements during 2020 with support and guidance from national security authorities. There have been no reports of major security violations during 2020.

Cybersecurity is critical to safeguard vital product information generated by the Group, our customers and our suppliers. We continue to experience cyberattacks as adversaries attempt to infiltrate company networks via numerous sophisticated methods. In 2020 we worked with specific security requirements from several customers, as well as delivering major improvements that enhance the security level even further in an ever-evolving threat landscape. The increase in the digitalization of Nammo continues to require further focus on cybersecurity. All employees having access to computers received mandatory and continuous e-learning throughout the year.

DISTRIBUTION OF DIVIDEND

At the Annual General Meeting the Board of Directors will propose a dividend payment of NOK 211.3 million for 2020. Assuming the proposed dividend and the net loss of NOK 10 million in the parent company, Nammo AS,

the proposed dividend will be covered by distribution of other equity equal to NOK 211.3 million.

The proposed dividend represents 50 percent of Nammo's net profit for the year.

OUTLOOK FOR THE NAMMO GROUP

Nammo's future outlook is heavily influenced by a series of macro-level developments influencing the international market at large.

COVID-19 is the primary, unavoidable factor which will continue to influence the world as a whole for the foreseeable future. Despite the growing availability of vaccines, supply and distribution issues, as well as continued uncertainty related to emerging virus mutations, will likely result in a "long tail" for the pandemic. Even after the virus itself has subsided, the financial and societal effects will be felt for years, influencing governmental spending priorities across Nammo's core markets, potentially affecting defense spending in the process.

Likewise, the effects of Brexit and the uncertainty related to the future development of the European Union and other multinational institutions will also affect the Group's prospects. While Nammo has enhanced its role in ensuring and promoting domestic security of supply for several of its core markets, it remains an inherently international company, with its long-term prospects deeply dependent on close international partnerships between industry and governments.

In this environment, Nammo will continue to be a constructive actor pursuing programs and investments, supporting partnerships and joint initiatives across government and industry on both sides of the Atlantic. It will continue to invest in both the domestic and collective security of supply of its core markets, by

setting up new modern production facilities, and by protecting and developing the production and development competencies needed to deliver future products and technologies to its customers.

Over the next three years, Nammo plans to invest heavily in existing and new production facilities. In 2021-2022 alone, Nammo will nearly triple the value of these investments compared to the preceding year. Much of this will happen in the United States, which remains the Group's largest and fastest growing market. As the United States transitions from a force structure optimized for asymmetric operations, towards one suited to dealing with potential peer adversaries, it will likely lead to an increase in the demand for Nammo's technologies and products, such as long-range artillery and missiles. The Group's investments in the United States will enable it to deliver on these requirements.

Notably, Nammo's growth in the United States also enables the Group as a whole to develop the necessary products and scale to meet the long-term needs of its European customers, particularly the Nordic countries, markets which would not independently have been able to generate the funds and demand necessary to support such developments. The Group therefore sees its continued investments on both sides of the Atlantic to be in the best interests of both its own future needs, and those of its customers in both Europe and North America.

Europe and North America are also expected to remain Nammo's primary customers for the foreseeable future. As in 2019, 93 percent of Nammo's 2020 revenues were from these regions, with the United States now representing 45 percent of Group revenue. The dominant role of customers such as the United

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States reflects its preference, along with many European countries, for precisely the kind of cutting-edge, high-quality and high-performance products that Nammo delivers. Combined with a growing emphasis on protecting the kind of technologies that Nammo offers, and growing restrictions on exports to other regions, this limits

the Group's incentive to explore markets outside these two regions in the coming years. Going forward, Nammo's strategy will therefore continue to emphasize growth within its core markets, along with continuous internal improvement efforts to support the necessary investments to support that growth.

The Board of Directors expresses its appreciation to all employees and customers for their commitment and dedication during the year. Nammo's prospects are good, and several improvement initiatives undertaken during 2020 will contribute to securing the interests of Nammo's customers, shareholders and employees.

Raufoss, 24 March 2021



Esa Rautalinko, Chairman of the Board



Cathrine Bjaarstad, Board member



Marianne Stensrud, Board member



Dag Schjerven, Vice Chairman of the Board



Ville Jaakonsalo, Board member



Petri Kontola, Board member



Dag J. Opedal, Board member



Sirpa-Helena Sormunen, Board member



Morten Brandtzæg, President & CEO

NAMMO GROUP

INCOME STATEMENT NAMMO GROUP

(NOK 1 000)	Notes	2020	2019
Revenue	1	6 035 646	5 073 279
Operating expenses			
Changes in stock of work in progress and finished goods		123 445	(339 184)
Changes in self-manufactured fixed assets		(182)	(207)
Cost of goods sold		2 122 477	2 121 845
Payroll expenses	3, 4, 12	1 866 744	1 684 050
Depreciation of tangible and intangible fixed assets	7	280 606	251 074
Write down of fixed assets	7	1 228	13 109
Other operating expenses		1 077 043	990 253
Total operating expenses		5 471 361	4 720 940
Operating result		564 285	352 339
Financial income and expenses			
Income from joint ventures – equity method	6	11 371	3 341
Interest income		15 149	34 504
Other financial income	5	54 401	23 214
Interest expenses		(50 149)	(73 095)
Other financial expenses	5	(46 648)	(35 037)
Net financial income (expense)		(15 876)	(47 073)
Profit before tax		548 409	305 266
Income taxes	13	(125 896)	(114 603)
Net income		422 513	190 663
Minority share		-	1 560
Profit (loss) for the year		422 513	192 223

BALANCE SHEET

NAMMO GROUP

(NOK 1 000)

Notes

As of 31.12.20

As of 31.12.19

Assets**Non-current assets**

Intangible assets			
Deferred tax asset	13	85 056	88 352
Licenses, trademarks and other intangible assets	7	208 844	255 175
Research and development		238 283	246 377
Goodwill	7, 16	168 727	179 891
Total intangible assets		700 910	769 795

Tangible assets			
Buildings	7	444 591	395 394
Land	7	52 131	34 060
Machines and equipment	7	829 798	711 394
Fixtures and fittings, tools, office machinery, etc.	7	84 568	88 456
Plant under construction	7	279 223	247 632
Total tangible assets		1 690 311	1 476 936

Financial fixed assets			
Shares in joint controlled companies	6	47 617	36 246
Other shares and participations	6	17 369	17 366
Pension assets	12	89 616	84 777
Other receivables	8	10 504	14 254
Total financial fixed assets		165 106	152 643

Total non-current assets		2 556 327	2 399 374
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Current assets

Inventory			
Raw materials		965 068	845 737
Work in progress		1 127 672	1 341 681
Finished goods		458 557	367 993
Total inventory		2 551 297	2 555 411

Receivables			
Accounts receivable	9	912 065	685 699
Other receivables	8	440 279	416 690
Advance payments to suppliers		280 503	171 548
Total receivables		1 632 847	1 273 937

Cash and cash equivalents	10	365 269	-
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Total current assets		4 549 413	3 829 348
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Total assets		7 105 740	6 228 722
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NAMMO GROUP

(NOK 1 000)

Notes

As of 31.12.20

As of 31.12.19

Equity and liabilities

Equity			
Share capital		100 000	100 000
Other paid in capital		258 670	258 670
Other equity		2 652 070	2 417 917
Total equity		3 010 740	2 776 587
Minority interest		-	(622)
Total equity and minority interest	11	3 010 740	2 775 965

Liabilities

Non-current liabilities			
Pension liabilities	12	200 628	183 569
Deferred tax liabilities	13	27 123	53 550
Other provisions		1 560	1 253
Total non-current liabilities		229 311	238 372

Other non-current liabilities			
Liabilities to financial institutions	15	1 535 557	1 248 735
Other non-current liabilities		135 537	84 034
Total other non-current liabilities		1 671 094	1 332 769

Current liabilities			
Bank overdraft	10	-	65 538
Warranty provisions	14	93 303	60 237
Accounts payables		310 548	332 241
Current tax payables	13	75 752	39 486
Public duties		156 022	95 798
Dividend payable		211 300	95 400
Prepayments from customers		991 438	898 640
Other short-term liabilities		356 232	294 276
Total current liabilities		2 194 595	1 881 616

Total liabilities		4 095 000	3 452 757
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Total equity and liabilities		7 105 740	6 228 722
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Raufoss, 24 March 2021



Esa Rautalinko, Chairman of the Board



Cathrine Bjaarstad, Board member



Marianne Stensrud, Board member



Dag Schjerven, Vice Chairman of the Board



Ville Jaakonsalo, Board member



Petri Kontola, Board member



Dag J. Opedal, Board member



Sirpa-Helena Sormunen, Board member



Morten Brandtzæg, President & CEO

CASH FLOW

NAMMO GROUP

(NOK 1 000)	2020	2019
Cash flow from operational activities		
Result before tax	548 409	305 266
Tax payments	(97 133)	(104 798)
Gain and loss on sale of fixed assets	(1 781)	(93)
Ordinary depreciations	280 606	251 074
Net interest cost	35 000	38 591
Changes in inventory	140 353	(292 016)
Changes regarding accounts receivables	(209 292)	336 191
Changes regarding accounts payables	(37 740)	52 491
Difference pension costs and paid pension premiums	(5 284)	3 315
Changes in other dispositions	192 722	(92 289)
Net cash flow from operational activities (a)	845 860	497 732
Cash flow from investment activities		
Sale of fixed assets	1 541	13 435
Purchase of fixed assets	(304 713)	(293 496)
Sale of long-term investments	-	10 750
Purchase of other long-term investments	(221 751)	(11 520)
Net cash flow from investment activities (b)	(524 923)	(280 831)
Cash flow from financing activities		
Payments received regarding new long-term loans	290 904	5 624
Installments on long-term loans	(49 534)	(94 048)
Net interest payments	(35 000)	(38 591)
Paid dividend	(96 500)	(120 100)
Net cash flow from financing activities (c)	109 870	(247 115)
Net changes in cash and bank accounts (a+b+c)	430 807	(30 214)
Cash and bank accounts as of 01.01.	(65 538)	(35 324)
Cash and bank accounts as of 31.12.	365 269	(65 538)

Total unused cash credits as of 31 December 2020 is NOK 1 388 million. See note 15.

NAMMO AS 2020 – CONSOLIDATED FINANCIAL STATEMENTS CONTENT NOTES

Accounting policies Nammo Group
Notes to the financial statements

1.	Revenue	9.	Receivables and losses on bad debts
2.	Financial market risk	10.	Cash reserve
3.	Board of Directors' statement on management remuneration	11.	Equity and shareholders
4.	Employee and management remuneration	12.	Pension liability and pension cost
5.	Financial items	13.	Income taxes
6.	Shares in other companies	14.	Warranty provision
7.	Fixed and intangible assets	15.	Interest-bearing loans and guarantees
8.	Other receivables (long- and short-term)	16.	Acquisition of Nammo Perry Inc

ACCOUNTING POLICIES NAMMO AS

GENERAL

The Nammo Group consists of Nammo AS and its subsidiaries. Nammo AS is a public limited liability 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 Nammo AS, directly or indirectly, has a controlling interest. 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 equity attributable to equityholders of Nammo AS. Minority interests consist of the amount of those interests at the acquisition date (see below) and the minority's share of changes in equity since the acquisition date.

FOREIGN CURRENCIES

The individual financial statements of a subsidiary 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 subsidiaries are translated to NOK 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 shareholders' equity.

In individual subsidiaries, 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 are accounted for using the acquisition 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. If acquiring less than 100 percent of a company, the interest of minority shareholders in the acquiree is initially measured as 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 the 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 assessed economic lifetime.

Negative goodwill arising as part of a business combination is amortized periodically over five years.

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

Nammo can be subject to price audits on a limited number of customer contracts, which in rare cases could result in customer price adjustments after contract fulfillment. Any such price adjustment is recognized as a reduction in revenue and accrued as a liability if and when a future cash outflow is more likely than not, and the amount can be estimated 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.

INCOME TAXES

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 taxes are recognized as expense or income in the income statement, except when they relate to items recognized directly in 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. 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.

Cost relating to significant development projects for new technologies, products, tooling etc., which is estimated to give future positive cash flow, is recognized as research and development 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.

NAMMO GROUP

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 net income, assets and liabilities of associated companies is 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.

INVENTORY

Inventories comprise of finished goods, work in progress and raw materials. Finished goods refer to own produced products and goods purchased for resale. Works in progress are partly processed, unfinished products. Raw materials include materials purchased from external parties such as metals, chemicals, ammunition powder, explosives, acquired components etc.

Inventories are recorded at the lower of cost, using the first-in, first-out (FIFO) method and net realizable value. Net realizable value is estimated sales price reduced by costs of completion and other sales costs.

The cost of inventories comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. This includes direct materials, direct labor, and an appropriate portion of production overhead, or the purchase price of the inventory.

IMPAIRMENT OF NON-CURRENT ASSETS

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, an impairment charge 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

A dividend liability is recognized based on the Board of Directors' proposal to be approved by the Annual General Meeting.

DEFINED BENEFIT PLANS

The Group's net obligation in respect of defined benefit plans is 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 income statement over the estimated remaining period of service from the members in the plan.

DEFINED CONTRIBUTION PLANS

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.

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.

WARRANTIES

Provisions for warranties are 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 an assessment of the business Nammo operates in, historical information on actual warranty 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" process, 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 instruments in a cash flow hedge are recognized in the profit and loss in the same period as the underlying 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 other non-current liabilities. 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 FINANCIAL STATEMENTS

NAMMO GROUP

1. REVENUE

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

Revenue from Nammo subsidiaries per country

(NOK 1 000)	2020	2019
England	95 350	82 062
Finland	681 870	610 295
Germany	669 547	645 480
Ireland	12 624	19 558
Norway	1 605 840	1 519 635
Spain	304 377	320 154
Sweden	726 820	553 461
Switzerland	5 042	645
USA	1 934 176	1 321 989
Total	6 035 646	5 073 279

Revenue per geographical location of customers

(NOK 1 000)	2020	2019
Norway, Sweden and Finland	1 440 291	1 181 609
Other Europe	1 382 473	1 338 202
North America	2 764 510	2 201 128
Asia	354 803	175 839
Other countries	93 569	176 501
Total	6 035 646	5 073 279

2. FINANCIAL MARKET RISK

The Nammo Group 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 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 2020:

Transaction type	Buy/Sell(-)	CHF	EUR	GBP	SEK	DKK	USD
FX Forward	Buy	3 690	31 472	-	16 745	1 552	28 429
	Sell(-)	(323)	(46 659)	(3 423)	(3 802)	(496)	(149 473)
FX SWAP	Buy	-	43 783	-	177	-	-
	Sell(-)	-	(24 073)	(1 625)	(11 694)	-	(82 189)

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

Transaction type	Buy/sell	Year 2021	Year 2022	Year 2023
FX Forward	Buy	72%	24%	4%
	Sell	89%	10%	1%
FX SWAP	Buy	100%	-	-
	Sell	100%	-	-

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

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

3. BOARD OF DIRECTORS' STATEMENT ON MANAGEMENT REMUNERATION

The Board proposes the following guidelines to be applied for 2021, up until the Annual General Meeting in 2022. The Board of Directors has established an HR (Human Resources) and Compensation Committee which consists of four Board members, whereof one is an employee representative and one member is appointed as the chairman of the committee.

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

The principles applying to remuneration of executive management are set by the Board and assessed yearly by the HR and Compensation Committee which presents these to the Board of Directors. Based on this the Board makes a final assessment of the CEO's remuneration and other compensation, 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 AS and its subsidiaries is based on the following main principles:

- Top management remuneration shall be competitive, but not leading and within this framework, support general moderation in the development of top management remunerations
- It shall be structured to attract and motivate managers to strive to achieve continuous improvements in operations, financial results and other company key objectives

- 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

Corporate management compensation will reflect their responsibility for 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, although, for members of top management employed outside of Norway, the compensation package might be somewhat adjusted to meet local market conditions in terms of salary level and pension schemes.

Nammo executive management does not have any long-term incentive agreements or part of value creation (e.g. measured by stock values) agreements. Most stock exchange and/or international companies have such incentive schemes in place.

Elements of management remuneration

Management remuneration in Nammo consists of four elements:

- Base salary
- Benefits
- Performance-based bonus
- Pension

Regular and relevant benchmarks (for the industry ex. oil & gas sector in Norway) are made to ensure that overall compensation packages are competitive, but not leading. For Nammo management, latest benchmark shows that total fixed and variable remuneration is lower than for comparable international companies.

Base salary

Base salary is the main element of the managers' remuneration. This shall be competitive, but not leading. The Board has defined the following main criteria as the basis for the top managers' salary level:

- Position grading, relative to size, complexity and responsibility
- Competence in terms of education and relevant work experience
- Length of employment at Nammo
- Time in current position and achieved results

Benefits

Common benefits for comparable positions in the different countries are offered to key management personnel. In Norway, there are no company car arrangements, but such arrangements may occur in other countries. Some top managers will receive a car allowance. There are four categories depending on managerial status. There is a car rental arrangement for transportation from Raufoss to the airport. Managers using this service will have their car allowance reduced. There are no particular limitations on the type of benefits that can be agreed.

NAMMO GROUP

Performance-based salary

Beyond the main principle of a base salary, there is a bonus scheme for the CEO and executive management. The bonus system adheres 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.

For 2021, the Board has given the following targets for the CEO.

A. Nammo Group improved operational performance, i.e. NIBT target, 50 percent of total bonus. The NIBT bonus window is:

- NIBT Budget -10 percent gives 0 bonus
- NIBT at budget gives 50 percent bonus (of this bonus element)
- NIBT at budget +10 percent gives 100 percent bonus (of this bonus element)

Through the bonus window, the calculation will be linear.

B. Personal goals, 50 percent of total bonus:

- 30 percent related to US Strategy (securing specific contracts, completing and delivering investments on plan and budget)
- 20 percent related to achieving a Lost Time Injury frequency rate of 5 or below

The prerequisite for achieving any bonus from personal objectives will be that the NIBT element actually yields a bonus payment.

In addition to bonus agreement objectives, Nammo has several measurable goals related to sustainability (e.g. environmental footprint, gender balance/female ratio), sick leave, common reporting, on-time delivery etc.

Targets for top management reflect these overall company goals set by the Board. Executive management has two main targets; improved financial and operational performance. The bonus scheme is based on:

- Financial, i.e. NIBT improvements both in the individual business unit for the EVPs (40 percent of total bonus) and on group level (EVPs 10 percent, other top managers 40-50 percent)
- Operational improvements (35-50 percent of total bonus), such as delivering on defined improvement programs and other specific operational objectives (e.g. working capital, contribution margin, cost of poor quality, NIBT per FTE)

In addition, all top managers have personal goals (10-20 percent of total bonus).

Good results over time should yield 50 percent payment of maximum bonus.

The performance-based bonus 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 that any required adjustments are made.

Pension

Nammo has pension schemes in line with market terms in all countries of operation. New employees are 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 (in 2020 app. 1.2 MNOK), with an estimated coverage of 60 percent of salary at time of retirement.

In accordance with the Norwegian government's guidelines, Nammo does not have a pension scheme for income above 12G.

Effective from 1 January 2017, management in Norway receives a payment of an additional cash amount equal to 20 percent of the base salary above 12G. This is intended to be saved for pension purposes.

The group CEO has an agreement for retirement at the age of 65.

After retirement at the age of 65, the CEO will receive 60 percent of his base salary for two years.

After retirement, the group CEO is entitled to a pension of 60 percent of base salary from the age of 67 years. This is reflected in a separate CEO pension compensation agreement.

Severance package arrangements

If the Board asks the CEO to resign from his position before his retirement age at 65, he is entitled to an "employment-ending-compensation". No other Group management executives are entitled to pay after termination of employment beyond the regular dismissal period.

Statement for the fiscal year 2020

The executive compensation structure was implemented in accordance with the above-mentioned information with full effect from 1 January 2017. The salary of the CEO has been set by the Board of Directors in line with the principles in the remuneration policy. The remuneration for other executive management is set in line with this remuneration policy and with reference to country-wide salary development/inflation rate. In addition, the performance-based salary outlined above has resulted in payments as described below in note 4. Base salary increases for Executive Management in 2020 were 2.5 percent. In 2020, Nammo delivered both financial and operational results above expectations. This resulted in bonus achievements of app. 80 percent for the CEO and other Group executives. Compared to previous years the achievement is significantly higher (2017: 22 percent, 2018: 31 percent, 2019: 40 percent). Bonus for 2020 results will be paid in 2021.

Besides the above described, 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)	2020	2019
Salaries	1 466 532	1 296 059
Employment taxes	117 836	111 924
Pension costs	126 630	123 361
Other personnel costs	155 746	152 706
Total	1 866 744	1 684 050
Average number of man-years	2 523	2 377

Remuneration CEO, Board of Directors and corporate management

(NOK)	Function	Salary	Bonus	Other comp.	Pension cost	Total
Morten Brandtzæg 1)	President and CEO	6 832 163	1 224 020	82 365	200 239	8 338 787
Kjell Kringsjå	COO	2 862 044	314 585	116 082	193 746	3 486 457
Christian Rykke	CFO (from April)	1 786 807	-	44 480	193 480	2 024 767
Lars Furuseth	Acting CFO (to March)	427 040	-	11 409	42 118	480 567
Jens-Petter Dieseth	SVP Business Development (from March)	1 291 865	148 219	44 257	189 696	1 674 037
Camilla Becker	SVP Human Resources and Chief of Staff	2 021 749	267 441	78 355	290 550	2 658 095
Stein Erik Nodeland	EVP AP	1 845 153	77 857	103 838	74 380	2 101 228
Vegard Sande	EVP LCS	2 170 864	300 464	115 335	144 039	2 730 702
Reijo Bragberg	EVP SMCA	1 969 526	156 209	16 103	989 364	3 131 202
Endre Lunde	SVP Communications	1 307 948	132 416	81 646	182 346	1 704 356
Anne Haugen-Flermoe	SVP Legal and Compliance	1 433 690	173 175	48 929	193 516	1 849 310

1) The CEO salary of NOK 6 832 163 in the table above includes an additional salary element of NOK 2 530 980. This fixed additional salary element compensates the CEO with a yearly payment to arrive at an estimated pension of 60 percent of his salary at retirement. Refer to note 3 for more details.

Board of Directors

Remuneration

Esa Heikki Elias Rautalinko	Chairman	435 500
Dag Scherven	Vice Chairman	410 625
Dag Opedal	Board Member	267 855
Cathrine Bjaarstad	Board Member	248 000
Sirpa-Helena Sormunen	Board Member	255 000
Ville Jaakonsalo	Board Member	255 000
Marianne Stensrud	Board Member	248 000
Petri Kontala	Board Member	255 000
Per Alenfelt	Observer	31 200

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

Auditor's fee

All numbers are presented exclusive VAT.

(NOK 1 000)	2020	2019
Group auditor's fees	6 854	5 919
Fees for other assurance work	-	29
Tax advisory services	2 062	2 402
Other services	869	483
Total	9 785	8 833

NAMMO GROUP

5. FINANCIAL ITEMS

(NOK 1 000)	2020	2019
Gain on exchange	53 520	13 222
Other financial income	881	9 992
Total other financial income	54 401	23 214
Loss on exchange	(37 790)	(26 894)
Other financial expenses	(8 858)	(8 143)
Total other financial expenses	(46 648)	(35 037)

6. SHARES IN OTHER COMPANIES

(NOK 1 000)	Company's share capital	Number of shares owned	Nominal value	Booked value NOK	Owner- ship
Joint controlled companies:					
SN Technologies SA, Meyrin, Switzerland	CHF 200 000	100	CHF 100 000	47 617	50%
Total				47 617	
Other shares and participations:					
Komm-In AS, Norway				4 500	8%
Sintef Raufoss Manufacturing AS, Raufoss, Norway				1 302	14%
Raufoss Industripark Holding AS, Raufoss, Norway				11 520	2%
Others				47	-
Total				17 369	

Joint controlled companies are recognized according to the equity method in the consolidated financial statements. In 2020 the Nammo Group accounted for a share of the net income from SN Technologies SA at NOK 11.4 million.

For information about the Nammo AS subsidiaries, reference is made to Nammo AS' financial statement in note 5.

7. FIXED AND INTANGIBLE ASSETS

(NOK 1 000)	Patents, trade- mark and other intangible assets	Good- will	Buildings	Land	Machinery and equipment	Fixtures, fittings, tools, office machinery etc.	Plants under const- ruction	Total assets
Acquisition cost as of 01.01.20	736 263	402 162	864 500	46 720	2 326 957	446 348	276 765	5 099 715
Adjustment gross acq. costs	(1 100)	-	11 721	-	(57 390)	3 641	(31 955)	(75 083)
Additions acquired company	-	-	107 383	48 764	72 834	-	5 367	234 348
Additions during the year	1 621	25 930	30 182	2 458	174 702	14 632	51 547	301 072
Disposals during the year	(2 187)	-	(43 498)	(24 173)	(12 325)	(2 980)	-	(85 163)
Exchange difference acq. cost	(9 651)	(12 025)	22 107	2 075	55 001	18 661	7 251	83 419
Acquisition cost 31.12.20	724 946	416 067	992 395	75 844	2 559 779	480 302	308 975	5 558 308
Accumulated depreciations 31.12.20	(515 664)	(247 340)	(531 481)	(23 713)	(1 700 160)	(385 547)	(17 047)	(3 420 952)
Accumulated write-down 31.12.20	(438)	-	(16 323)	-	(29 821)	(10 187)	(12 705)	(69 474)
Book value as of 31.12.20	208 844	168 727	444 591	52 131	829 798	84 568	279 223	2 067 882
Depreciations this year	48 982	38 086	40 085	1 308	125 542	26 603	-	280 606
Write-down this year	-	-	-	-	1 228	-	-	1 228
Annual leasing cost of assets not recognized in balance sheet	-	-	84 254	3 046	19 225	6 759	-	113 284
Economic lifetime (years)	1-25	5-10	10-50	-	5-20	3-10	-	-
Depreciation plan	Linear	Linear	Linear	Linear	Linear	Linear	-	-

Included in machinery and equipment there are two financial lease contracts in Finland capitalized with NOK 57 million. The leases expire in 2029 and 2032 respectively. Yearly lease cost is NOK 6.7 million.

Goodwill depreciated over more than five years is goodwill originating from companies 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 accrued revenue, receivables from employees, VAT receivables and other receivables.

9. RECEIVABLES AND LOSSES ON BAD DEBTS

(NOK 1 000)	2020	2019
Accounts receivables	916 169	686 524
Provision for bad debt	(4 104)	(825)
Book value of accounts receivables	912 065	685 699

No receivables fall due later than five years from 31 December 2020.

NAMMO GROUP

10. CASH RESERVE

(NOK 1 000)	2020	2019
Total available cash and cash credits 31 December	1 753 234	982 030

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 and Nammo NAD AS

Sweden: Nammo Sweden AB and Hansson Pyrotech AB

USA: Nammo Inc., Nammo Defense Systems Inc., Nammo Composite Solutions LLC., Nammo Tactical Ammunition LLC., Nammo Pocal Inc., Nammo Technologies Inc., Capstone Precision Group LLC., Nammo Energetics Indian Head Inc. and Nammo Perry Inc.

Spain: Nammo Palencia S.L.

Ireland: Nammo Ireland Ltd.

UK: Nammo (UK) Ltd. and Nammo Cheltenham Ltd.

All parties participating in the cash pool are mutually liable.

11. EQUITY AND SHAREHOLDERS

(NOK 1 000)	Share capital	Other paid in capital	Other equity	Minority interest	Total
Equity as of 31.12.19	100 000	258 670	2 417 917	(622)	2 775 965
Profit for the year	-	-	422 513	-	422 513
Additional dividend payment 2020	-	-	(1 100)	-	(1 100)
Proposed dividend to shareholders 1)	-	-	(211 300)	-	(211 300)
Minority share 2)	-	-	-	622	622
Other items	-	-	(68 156)	-	(68 156)
Exchange differences	-	-	92 196	-	92 196
Equity as of 31.12.20	100 000	258 670	2 652 070	-	3 010 740

1) Board of Directors' proposal to the general meeting of shareholders.

2) Nammo acquired the remainder of the shares in MAC, LLC. in 2020, hence minority share of equity is zero at 31 December 2020.

Nammo AS shareholders are disclosed in Nammo AS' financial statement, note 7.

12. PENSION LIABILITY – PENSION COST

The companies with pension arrangements, which provide the employees with the right to defined future pension payments, are included in the calculations of the pension liability (defined benefit plans).

The pension liability at 31 December 2020 was NOK 200.6 million and is derived from the companies in Sweden, Germany and Finland. Pension assets in Norway were 89.6 million at 31 December 2020.

The defined benefit plan in Norway has 768 active members, whereas in Sweden there are 104 active members. In addition, contribution pension plans exist in the other countries where we operate.

The total periodic pension costs for both defined benefit plans and defined 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 regulations in the respective countries. The assumptions used for the actuary calculations are as follows:

Assumptions	Norway	Sweden
Discount rate	1.50%	0.90%
Yield from pension funds	2.40%	-
Annual salary increase	2.00%	2.00%
Annual increase in G	1.75%	-
Annual increase Income Base amount	-	2.00%
Inflation	-	1.50%

Pension costs

(NOK 1 000)	2020	2019
Service costs	77 790	80 278
Amortization of net actuarial losses (gains)	11 236	12 091
Interest costs (income)	949	845
Expected return on plan assets	(11 630)	(12 677)
Pension cost related to defined contribution plans	48 285	42 824
Net periodic pension costs	126 630	123 361

Pension liabilities/assets

(NOK 1 000)	2020	2019
Defined benefit obligation incl. social security tax	861 571	777 080
Fair value of plan assets	(519 764)	(483 275)
Net pension obligation	341 807	293 805
Items not recorded in the profit and loss:		
Unrecognized net actuarial loss (gain)	(230 795)	(195 013)
Net pension liability	111 012	98 792
Classified as pension asset in the balance sheet	89 616	84 777
Classified as pension liabilities in the balance sheet	200 628	183 569

13. INCOME TAXES**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)	2020	2019	Change
Temporary differences:			
Intangible assets	31 216	14 852	(16 364)
Fixed assets	(54 172)	(115 242)	(61 070)
Accounts receivables	(45 032)	3 055	48 087
Inventory	101 504	151 859	50 355
Pension liabilities	41 468	39 201	(2 267)
Warranty liabilities	(91 820)	(58 340)	33 480
Financial non-current temporary differences	-	98 641	98 641
Other non-current temporary differences	(72 775)	(42 505)	31 600
Other current temporary differences	(103 350)	(77 479)	25 871
Temporary differences	(192 961)	14 042	207 003
Carried forward losses for tax purposes	(414 240)	(439 219)	
Total temporary differences	(607 201)	(425 177)	
Gross deferred tax/deferred tax assets (-)	(154 920)	(110 378)	
Deferred tax assets not recognized in the balance sheet	96 987	75 576	
Net deferred tax liability/deferred tax asset (-)	(57 933)	(34 802)	
Classified as deferred tax asset	85 056	88 352	
Deferred tax liability in the balance sheet	27 123	53 550	

NAMMO GROUP

Payable income taxes

(NOK 1 000)	2020	
Net income before tax		548 409
Changes in temporary differences		207 003
Exchange differences temporary differences		(79 240)
Permanent differences		(101 179)
Use of carried forward losses		(38 077)
Taxable income		536 916
Payable income tax		130 427

Tax expense in profit and loss

(NOK 1 000)	2020	
Payable tax on this year's result		133 864
Adjustments prior years		(3 437)
Payable tax in this year's tax cost		130 427
Change in deferred tax/deferred tax asset		(22 721)
Other items		18 190
Tax expense in the P&L		125 896

Payable tax in the balance sheet

(NOK 1 000)	2020	
Payable taxes		129 953
Prepaid taxes		(55 564)
Other items		1 363
Payable tax in balance sheet		75 752

14. WARRANTY PROVISION

(NOK 1 000)	2020	2019
Warranty provision 01.01	60 237	59 826
Exchange differences	2 477	(502)
Change in provision during the year	30 589	913
Warranty provision 31.12	93 303	60 237

15. INTEREST-BEARING LOANS, AVAILABLE CASH CREDITS AND GUARANTEES

(NOK 1 000)	2020	2019
Total interest-bearing loans	1 535 557	1 248 735

Nammo AS long-term loans from credit institutions as of 31 December 2020 consist of:

(NOK 1 000)	Final maturity date	Facility total	Utilized	Available
Term loan facility, EUR 100 million	19 September 2022	1 047 030	1 047 030	-
Revolving credit facility, NOK 1 000 million	19 September 2022	1 000 000	502 035	497 965
Revolving credit facility, NOK 500 million	10 July 2022	500 000	-	500 000

Available unused cash credits at 31 December 2020:

(NOK 1 000)	Cash credits
Revolving credit facility	997 965
Additional cash credits available	390 000
Total unused cash credits at year-end	1 387 965

The financial covenants related to the long-term loans from credit institutions are:

- Net Debt to EBITDA maximum 4.0, and
- Total Equity to Total Assets, minimum at 30 percent

At 31 December 2020 there is no default related to the financial covenants.

Guarantees not recognized in the balance sheet as of 31 December 2020 is NOK 351 million.

16. ACQUISITION OF NAMMO PERRY INC.

Nammo acquired 100 percent of Nammo Perry Inc. in May 2020. The company is located in Florida, USA.

(USD 1 000)	Amount
Purchase price incl. transaction costs	(18 225)
Assessment fair value of net assets at the acquisition date	20 474
Negative goodwill	2 249

The negative goodwill is presented as part of the net goodwill in the balance sheet at 31 December 2020 and amortized over five years from the date of acquisition. The negative goodwill balance at 31 December 2020 is NOK 16.3 million.

NAMMO AS

INCOME STATEMENT NAMMO AS

(NOK 1 000)	Notes	2020	2019
Revenue	1	97 504	97 856
Operating expenses			
Payroll expenses	2, 9	66 998	59 216
Depreciations	4	1 112	1 089
Other operating expenses		58 678	76 789
Total operating expenses		126 788	137 094
Operating profit		(29 284)	(39 238)
Financial income and expenses			
Received Group contribution		100 000	130 000
Interest income	3	42 795	68 120
Other financial income	3	30 778	23 983
Interest expenses	3	(34 947)	(38 723)
Other financial expenses	3, 13	(118 465)	(30 528)
Net financial income (expenses)		20 161	152 852
Profit before tax		(9 123)	113 614
Income taxes	10	(644)	(19 827)
Net income		(9 767)	93 787
The Board's proposal for allocation of the profit			
Dividend		211 300	95 400
Other equity		(221 067)	(1 613)
Total		(9 767)	93 787

BALANCE SHEET

NAMMO AS

(NOK 1 000)	Notes	As of 31.12.20	As of 31.12.19
Assets			
Non-current assets			
Tangible assets			
Buildings	4	32	46
Machines and equipment	4	43	70
Fixtures and fittings, office machines, etc.	4	2 383	3 454
Fixed assets under construction	4	2 072	-
Total tangible assets		4 530	3 570
Financial assets			
Investments in subsidiaries	5	609 365	609 365
Investments in other shares and participations		11 520	11 520
Loans to Group companies		1 057 839	913 150
Pension assets	9	4 209	3 759
Other receivables		1 706	2 081
Total fixed assets		1 684 639	1 539 875
Total non-current assets		1 689 169	1 543 445
Current assets			
Receivables			
Receivables from Group companies	12	350 274	671 655
Receivable Group contributions		100 000	130 000
Prepayments to vendors		12 255	9 677
Other receivables		6 583	7 199
Total receivables		469 112	818 531
Cash and cash equivalents	6, 12	231 105	-
Total current assets		700 217	818 531
Total assets		2 389 386	2 361 976

BALANCE SHEET

NAMMO AS

(NOK 1 000)

Notes

As of 31.12.20

As of 31.12.19

Shareholders' equity and liabilities

Equity			
Share capital	7, 8	100 000	100 000
Premium fund	8	258 670	258 670
Total paid in capital		358 670	358 670
Other equity	8	219 656	441 822
Total earned equity		219 656	441 822
Total equity		578 326	800 492

Liabilities

Non-current liabilities			
Deferred tax	10	1 047	22 696
Total non-current liabilities		1 047	22 696

Other non-current liabilities			
Liabilities to financial institutions	11	1 529 801	1 236 339
Total other non-current liabilities		1 529 801	1 236 339

Current liabilities			
Bank overdraft	6	-	155 227
Accounts payable		15 496	8 019
Payables to Group companies		9 058	8 392
Income tax payable	10	22 293	20 271
Public duties payable		5 765	4 388
Dividend payable to shareholders		211 300	95 400
Other current liabilities		16 300	10 752
Total current liabilities		280 212	302 449

Total liabilities		1 811 060	1 561 484
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Total shareholders' equity and liabilities		2 389 386	2 361 976
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Raufoss, 24 March 2021



Esa Rautalinko, Chairman of the Board



Cathrine Bjaarstad, Board member



Marianne Stensrud, Board member



Dag Schjerven, Vice Chairman of the Board



Ville Jaakonsalo, Board member



Petri Kontola, Board member



Dag J. Opedal, Board member



Sirpa-Helena Sormunen, Board member



Morten Brandtzæg, President & CEO

CASH FLOW

NAMMO AS

[NOK 1 000]

	2020	2019
Cash flow from operational activities		
Result before tax	(9 123)	113 614
Tax payments	(20 271)	(20 773)
Ordinary depreciation	1 112	1 089
Changes in accounts receivable	(8 166)	(835)
Changes in accounts payable	8 143	3 141
Pension cost less paid pension premium	125	(603)
Changes in loans to Group companies	(144 689)	100 143
Changes in other dispositions	309 540	(198 592)
Net cash flow from operational activities (a)	136 671	(2 816)
Cash flow from investment activities		
Investments in financial fixed assets	-	(11 520)
Investments in fixed assets	(2 072)	(491)
Disposal financial fixed assets	-	10 750
Net cash flow from investment activities (b)	(2 072)	(1 261)
Cash flow from financing activities		
Payments from new long-term loans	290 687	-
Installments long-term loans	(42 454)	(73 929)
Received dividend	-	30 000
Received Group contribution	100 000	100 000
Paid dividend	(96 500)	(120 100)
Net cash flow from financing activities (c)	251 733	(64 029)
Net changes in cash and bank accounts (a+b+c)	386 332	(68 106)
Cash and bank accounts as of 01.01.	(155 227)	(87 121)
Cash and bank accounts as of 31.12.	231 105	(155 227)

Unused credit facilities is NOK 1 388 million. See note 11.

NAMMO AS 2020 – FINANCIAL STATEMENTS

CONTENT NOTES

Accounting policies Nammo AS
Notes to the financial statements

- | | |
|---|---|
| 1. Related party transactions and revenue | 8. Equity |
| 2. Salaries and social cost | 9. Pension liability and pension costs |
| 3. Financial items | 10. Income taxes |
| 4. Fixed assets | 11. Interest-bearing loans and guarantees |
| 5. Shares in subsidiaries | 12. Cash pool |
| 6. Cash reserve | 13. Impairment investment in subsidiary |
| 7. Share capital | |

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 and that do not qualify for hedge accounting, are included in net income.

REVENUE RECOGNITION

Revenues are mainly sale of Group services to other Group companies. 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 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.

INCOME TAXES

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 taxes are recognized as expense or income in the income statement, except when they relate to items recognized directly in 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. 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.

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

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

IMPAIRMENT OF NON-CURRENT ASSETS

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, an impairment charge 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

A dividend liability is recognized based on the Board of Directors' proposal to be approved by the Annual General Meeting.

DEFINED BENEFIT PLANS

The net obligation in respect to defined benefit plans is 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 income statement 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 cost 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 effects of the financial instruments used as hedging instruments in a cash flow hedge are recognized in the income statement in the same period as the hedged transaction is recognized (hedge accounting).

NAMMO AS

NOTES TO THE ACCOUNTS

NAMMO AS

1. RELATED PARTY TRANSACTIONS AND REVENUE

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

REVENUE:

(NOK 1 000)	2020	2019
Management service fee Group companies	92 550	92 969
Other	4 954	4 887
Total	97 504	97 856

2. SALARIES AND SOCIAL COST

(NOK 1 000)	2020	2019
Salaries	52 887	44 661
Employment taxes	6 382	5 849
Pension costs	4 451	4 937
Other social costs	3 278	3 749
Total	66 998	59 216

Average number of man-years	20	18
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For details about the remuneration to the CEO and the Board of Directors, refer to note 4 in the Group financial statements.

AUDITOR'S FEE:

(NOK 1 000) All numbers are presented exclusive VAT	2020	2019
Auditor's fee	335	783
Tax advisory services	-	44
Other services	252	86
Total	587	913

3. FINANCIAL ITEMS

(NOK 1 000)	2020	2019
Interest income from Group companies	29 357	39 953
Other interest income	13 438	28 167
Total interest income	42 795	68 120
Gain on exchange	30 778	14 353
Other financial income	-	9 630
Total other financial income	30 778	23 983
Other interest cost	(34 947)	(38 723)
Total interest cost	(34 947)	(38 723)
Loss on exchange	(100 518)	(10 833)
Write-down receivable Nammo Buck GmbH, see note 13	(11 375)	(14 330)
Other financial expenses	(6 572)	(5 365)
Total other financial expenses	(118 465)	(30 528)

4. FIXED ASSETS

(NOK 1 000)	Buildings	Machines and equipment	Fixtures, fittings and office equipment	Plant under construction	TOTAL
Acquisition cost as of 01.01.20	913	694	11 051	-	12 658
Additions during the year	-	-	-	2 072	2 072
Reclassifications during the year	-	-	-	-	-
Disposals during the year	-	-	-	-	-
Acquisition cost as of 31.12.20	913	694	11 051	2 072	14 730
Accumulated depreciations 31.12.20	(881)	(651)	(8 668)	-	(10 200)
Book value as of 31.12.20	32	43	2 383	2 072	4 530
Ordinary depreciations for the year	(14)	(27)	(1 071)	-	(1 112)
Annual leasing cost on assets not in the balance sheet	(555)	(43)	-	-	(598)
Economic lifetime (years)	5 years	3-5 years	3-10 years		
Depreciation plan	Linear	Linear	Linear		

5. SHARES IN SUBSIDIARIES

(NOK 1 000)	Company's share capital	Number of shares owned	Nominal value	Booked value	Ownership
Nammo Raufoss AS, Raufoss	NOK 150 000 000	150 000	150 000	175 000	100%
Nammo Sweden AB, Karlsborg	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, Storkow	EUR 26 000	1	26	-	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, Warsaw	PLN 50 000	1 000	50	108	100%
Nammo India Ltd, New Delhi	INR 100 000	10 000	100	13	100%
Nammo UK Holding Ltd., Westcott	-	-	-	-	100%
Nammo Ireland Ltd., Dublin	EUR 476 250	375 000	476 250	21 160	100%
Nammo Technologies Inc., Virginia	-	-	-	-	100%
Total				609 365	

6. CASH RESERVE

Cash is reduced with the draw that the Group companies have in the international cash pool of NOK 343.8 million. This is classified as receivables from Group companies. Refer to note 12. The company has no restricted bank deposits.

7. SHARE CAPITAL

As of 31 December 2020, 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 2020:

(NOK 1 000)	Number of shareholders	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%

NAMMO AS

8. EQUITY

(NOK 1 000)

	Share capital	Other paid in capital	Other equity	TOTAL
Equity as of 01.01.20	100 000	258 670	441 822	800 492
Net income	-	-	(9 767)	(9 767)
Dividend 1)	-	-	(211 300)	(211 300)
Additional dividend payment 2020	-	-	(1 100)	(1 100)
Other items	-	-	1	1
Equity as of 31.12.20	100 000	258 670	219 656	578 326

1) Board of Directors' proposal for the Annual General Meeting

9. PENSION LIABILITY AND 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 22 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 2020 with the following assumptions:

Discount rate	1.50%
Yield from pension funds	2.40%
Annual salary increase	2.00%
Annual increase in G	1.75%

Pension cost (NOK 1 000)	2020	2019
Service costs	4 607	5 019
Amortization of net actuarial losses (gains)	642	780
Interest costs	48	38
Pension cost related to defined contribution plans	27	46
Expected return on plan assets	(873)	(946)
Net pension costs	4 451	4 937

Pension liabilities (NOK 1 000)	2020	2019
Defined benefit obligation incl. payroll tax	48 957	43 104
Fair value of plan assets	(36 908)	(35 005)
Gross pension liability	12 049	8 099
Items not recognized in the profit and loss:		
Unrecognized net actuarial loss (gain)	(16 258)	(11 858)
Net amount recognized in the balance sheet	(4 209)	(3 759)

10. INCOME TAXES

10.1. This year's tax cost

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

(NOK 1 000)	2020	2019
Profit before tax	(9 123)	113 614
Permanent differences	12 049	16 166
Changes in temporary differences	98 407	1 992
Non-taxable income	-	(39 630)
Taxable income	101 333	92 142

Specification of the tax cost in the profit and loss:

Tax payable	22 293	20 271
Changes in deferred tax	(21 649)	(438)
Adjustment previous period	-	(6)
This year's tax cost	644	19 827

Explanation of why the tax cost is not 22 percent of profit before tax:

Profit before tax	(9 123)
22% of profit before tax	(2 007)
22% of permanent differences	2 651
Calculated tax cost	644
Effective tax rate	7.0%

10.2. Deferred taxes

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

(NOK 1 000)	31.12.20	31.12.19
Tangible fixed assets	(97)	118
Financial fixed asset	-	98 641
Accounts receivables	647	648
Pension liability/asset	4 209	3 759
Net temporary differences as basis for deferred tax /tax asset (-) calculation	4 759	103 166
Deferred tax/deferred tax asset (-)	1 047	22 696

NAMMO AS

11. INTEREST-BEARING LOANS AND GUARANTEES

(NOK 1 000)	2020	2019
Total interest-bearing loans	1 529 801	1 236 339

Nammo AS long-term loans from credit institutions as of 31 December 2020 consist of:

(NOK 1 000)	Final maturity date	Facility total	Utilized	Available
Term loan facility, EUR 100 million	19 September 2022	1 047 030	1 047 030	-
Revolving credit facility, NOK 1 000 million	19 September 2022	1 000 000	502 035	497 965
Revolving credit facility, NOK 500 million	10 July 2022	500 000	-	500 000

Available unused cash credits at 31 December 2020:

(NOK 1 000)	Cash credits
Revolving credit facility	997 965
Additional cash credits available	390 000
Total unused cash credits at year-end	1 387 965

The financial covenants related to the long-term loans from credit institutions are:

- Net Debt to EBITDA maximum 4.0, and
- Total Equity to Total Assets, minimum at 30 percent

At 31 December 2020 there is no default related to the financial covenants.

Guarantees not recognized in the balance sheet as of 31 December 2020 is NOK 347 million.

12. CASH POOL

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 and Nammo NAD AS

Sweden: Nammo Sweden AB and Hansson Pyrotech AB.

USA: Nammo Inc., Nammo Defense Systems Inc., Nammo Composite Solutions LLC., Nammo Tactical Ammunition LLC., Nammo Pocal Inc., Nammo Technologies Inc., Capstone Precision Group LLC., Nammo Energetics Indian Head Inc. and Nammo Perry Inc.

Spain: Nammo Palencia S.L.

Ireland: Nammo Ireland Ltd.

UK: Nammo (UK) Ltd. and Nammo Cheltenham Ltd.

Nammo AS subsidiaries' balance on the cash pool is included in receivables from Group companies. This amounts to NOK 343.8 million. See note 6.

13. IMPAIRMENT INVESTMENT IN SUBSIDIARY

On 31 December 2020 Nammo AS had a cash credit receivable towards our subsidiary Nammo Buck GmbH at a total of NOK 109.2 million. At year-end we performed an impairment test and concluded that this asset is impaired, hence the amount is written down in full at year-end (of which NOK 97.8 million was written off as of 31 December 2019). The write-down is related to a cash credit receivable, and therefore the write-down is classified as other financial expenses in the profit and loss.



Statsautoriserte revisorer
Ernst & Young AS

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Medlemmer av Den norske revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Nammo AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Nammo AS, which comprise the financial statements for the parent company and the Group. The financial statements for the parent company and the Group comprise the balance sheets as at 31 December 2020, the income statement and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2020 and 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.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the



going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ▶ obtain an understanding of internal control relevant to the audit 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 Company's internal control;
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- ▶ obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.



Opinion on 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 management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 24 March 2021
ERNST & YOUNG AS

Anders Gøbel
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

GRI INDEX

This report has been prepared in accordance with the GRI Standards' Core option. The consolidation approach used for calculating emissions is financial control. The content provided in the report is to the best of our knowledge the most correct information available.

Disclosures refer to the GRI Standard, and Nammo response refers to Nammo Annual and Sustainability Report 2020, unless stated otherwise. 'ND' refers to 'Nammo defined' disclosure.

General disclosures		Nammo response									
102-1	Name of the organization	Nammo AS									
102-2	Activities, brands, products, and services	Page 7-8									
102-3	Location of HQs	Raufoss, Norway									
102-4	Location of operations	Page 6									
102-5	Ownership and legal form	Page 7									
102-6	Markets served	Page 6-7									
102-7	Scale of the organization	Page 5-6 Total equity: NOK 3 011 million Total debt: NOK 4 095 million Quantity of products and services provided: www.nammo.com/product/our-products www.nammo.com/nammo-com-front-page/services									
102-8	Employees and other workers	Page 6, 23 Number of employees by employment contract, by gender: <table border="1" data-bbox="805 1187 1436 1288"> <thead> <tr> <th></th> <th>Female</th> <th>Male</th> </tr> </thead> <tbody> <tr> <td>Permanent</td> <td>694</td> <td>1 927</td> </tr> <tr> <td>Temporary</td> <td>34</td> <td>55</td> </tr> </tbody> </table>		Female	Male	Permanent	694	1 927	Temporary	34	55
	Female	Male									
Permanent	694	1 927									
Temporary	34	55									
102-9	Supply chain	Page 18, 19									
102-10	Significant changes	Page 9, Board of Directors' Report 2020: Page 34-41									
102-11	Precautionary Principle	NAMMO AS is a signatory of the UN Global Compact and is therefore committed to complying with the precautionary principle.									
102-12	External initiatives	UN Global Compact, SDGs The OECD Guidelines for multinational enterprises									
102-13	Membership of association	Nammo is a member of the National Defense Industrial Associations in Sweden (SOFF), Finland (AFDA), Norway (FSi), Spain (TEDAE), US (NDIA). In the Nordic countries the associations have several working groups within diverse areas such as trade compliance, ethics and anti-corruption, industrial cooperation, cybersecurity, technology etc.									
102-14	Statement from senior decision maker	Page 2-3									
102-16	Values	Page 7									

General disclosures		Nammo response
102-18	Governance	Page 30-32 Management of responsible business and sustainability. The Chief Compliance Officer (CCO) leads the operational management of, and ensures compliance with, anti-bribery and corruption measures, export and trade regulations, and responsible business and sustainability. The CCO reports operationally to the Senior Vice President Legal & Compliance and meets with the CEO on a quarterly basis to present and review the status of activities and discuss strategic and operational topics. The CCO presents the status of compliance activities to the Group Management Team on a regular basis, to the Board of Directors annually, and to the Risk, Audit & Compliance Committee on a quarterly basis. The compliance overview is also part of the monthly reporting at Group level and to the Board of Directors.
102-40	Stakeholder groups	Page 13
102-41	Collective bargaining agreements	Page 17
102-42	Identifying stakeholders	Page 12-14
102-43	Stakeholder engagement	Page 12-14
102-44	Topics and concerns raised	Page 14, 29
102-45	Entities included	Page 46
102-46	Boundaries	Page 13-14
102-47	Material topics	Page 14
102-48	Restatements	No restatements.
102-49	Changes in reporting	No changes. First materiality analysis in reporting for 2019. Boundaries related to materiality analysis are defined for the first time in 2019 reporting.
102-50	Reporting period	1/1/2020 - 31/12/2020
102-51	Most recent report	May 2020
102-52	Reporting cycle	Annually
102-53	Contact point	info@nammo.com
102-54	Claims of reporting	This report has been prepared in accordance with the GRI Standards: Core option.
102-55	GRI Index	Page 74-80
102-56	External assurance	External assurance is not practiced for the sustainability report.
201-1	Economic value	Page 42 Value generated: - Revenues: NOK 6 036 million Value distributed: - Payroll expenses: NOK 1 867 million - Other operating costs: NOK 3 605 million - Net interest cost: NOK 35 million - Other financial income(-cost): NOK 19 million - Income taxes: NOK 126 million - Paid dividends: NOK 96 million* Value retained: - NOK 288 million

Business integrity		Nammo response																																				
Material topic: Anti-bribery and corruption controls																																						
103	Management approach	Page 15-16, 29																																				
205-2	Communication and training	Page 15-16, 29																																				
205-3	Incidents of corruption	Nammo has not been subject to any investigations, fines, or sanctions in 2020 relating to any ethical breach or incidents of corruption of laws or regulations.																																				
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices																																					
Material topic: Corporate governance efficiency																																						
103	Management approach	Page 30-32																																				
NDI2	Corporate governance efficiency	<p>a) Number of Group-wide procedures (publicly available)</p> <ul style="list-style-type: none"> • New Code of Conduct • Human Rights Policy • Procurement Policy • International Trade Policy • Fair Competition Policy • Anti-Bribery and Corruption Policy • Supplier Conduct Principles • Modern Slavery Act Statement • Hess Policy • People Policy <p>b) Number of Group-wide training</p> <p>E-LEARNING COMPLETION RATE BY COUNTRY IN 2020</p> <table border="1"> <thead> <tr> <th></th> <th>Number of employees</th> <th>Completion rate</th> </tr> </thead> <tbody> <tr> <td>Norway</td> <td>658</td> <td>92%</td> </tr> <tr> <td>Sweden</td> <td>152</td> <td>74%</td> </tr> <tr> <td>Finland</td> <td>199</td> <td>84%</td> </tr> <tr> <td>Switzerland</td> <td>17</td> <td>78%</td> </tr> <tr> <td>Germany</td> <td>54</td> <td>99%</td> </tr> <tr> <td>Spain</td> <td>71</td> <td>93%</td> </tr> <tr> <td>UK</td> <td>48</td> <td>99%</td> </tr> <tr> <td>Ireland</td> <td>24</td> <td>100%</td> </tr> <tr> <td>USA</td> <td>651</td> <td>89%</td> </tr> <tr> <td>India</td> <td>1</td> <td>100%</td> </tr> <tr> <td>Board of Directors</td> <td>9</td> <td>91%</td> </tr> </tbody> </table>		Number of employees	Completion rate	Norway	658	92%	Sweden	152	74%	Finland	199	84%	Switzerland	17	78%	Germany	54	99%	Spain	71	93%	UK	48	99%	Ireland	24	100%	USA	651	89%	India	1	100%	Board of Directors	9	91%
	Number of employees	Completion rate																																				
Norway	658	92%																																				
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Material topic: Cybersecurity and proprietary information																																						
103	Management approach	Page 17																																				
NDI3	Cybersecurity and proprietary information	a) Description of approach to identifying and addressing data security risks. Page 17																																				
Value chain integrity		Nammo response																																				
Material topic: Business partner due diligence																																						
103	Management approach	Page 18-19																																				
205-2	Communication and training (c)	Page 19																																				
NDI1	Business partner due diligence	<p>a) Processes and due diligence procedures for assessing and managing risks relating to business ethics that it faces associated with business partners. Page 18-19</p> <p>b) Discuss areas that are at the highest risk for corruption and bribery occurrences, such as those operations in countries with low rankings in Transparency International Corruption Perception Index. Page 15-16, 29</p>																																				

Material topic: Supply chain: social practices and Supply chain: good governance and anti-corruption standards		
103	Management approach	Page 18-19
308-1	Suppliers screened using environmental criteria	Page 18-19
414-1	Suppliers screened using social criteria	Page 18-19
Material topic: Illicit arms transfers		
103	Management approach	Page 16-17
SASB: RT-AE-510a.1	Business ethics	Total amount of monetary losses as a result of legal proceedings associated with incidents of corruption, bribery, and/or illicit international trade: 0 NOK
Material topic: Human rights		
103	Management approach	Page 17
412-2	Employee training on human rights policies or procedures	New Code of Conduct and human rights policy established in 2020, to be implemented in Q1 2021. Training modules of human rights policies will start in 2021.
Employee safety and wellbeing		Nammo response
Material topic: Occupational health and safety		
103	Management approach	Page 20-22
403-1	Occupational health and safety management system	Page 20-22
403-2	Hazard identification, risk assessment, and incident investigation	<p>Page 21-22, 29 and 38</p> <p>Monthly reports are collected from all sites. Hazard analyses are reviewed any time there is a change in procedure, equipment, or staffing to evaluate possible effects to the overall risk picture. Each site is required to review risk analyses every five years if no changes have been made (with some countries requiring reviews more frequently). The quality and competence of the personnel carrying out risk analyses is assured by annual site assessments conducted by the Group HESS director and continuing training conducted during the HESS Forums and Lean Six Sigma Yellow/Green/Black Belt training.</p> <p>Workers can report work-related hazards and hazardous situations at any time. Reports are reviewed by HESS staff with support from Lean Six Sigma Green/Black Belt certified staff as necessary, based on the complexity of the identified hazard. Reprisals against whistleblowers are explicitly prohibited as stated in our Ethical Code of Conduct. Internal grievance mechanism for misconduct: page 29 and 38.</p> <p>Each site has its own system and policies in accordance with national regulations regarding how to report work-related hazards and hazardous situations, instructions for workers to remove themselves from potentially hazardous situations, and access to non-occupational medical and healthcare services.</p>
403-3	Occupational health services	Page 21
403-4	Worker participation	Page 21-22
403-5	Worker training	Page 22

403-6	Worker health	<p>The scope of services varies widely based on the national laws and regulations in each of the nine countries in which the Nammo Group has production facilities. Non-occupational medical and healthcare services are provided for all full-time Nammo employees, while non-Nammo employees services are in accordance with services provided by the company for which they are employed.</p> <p>Employee Assistance Programs (EAPs) also vary widely based on the national laws and regulations in each of the nine countries in which the Nammo Group operates. All Nammo employees are made aware of the EAPs available in their country during the onboarding process and via annual internal communication efforts. Examples of EAPs include general wellness programs, smoking cessation, mental health screening, and physical exercise to promote joint health.</p>
403-7	Prevention and mitigation	Page 20-22
403-8	Workers covered by an occupational health and safety management system	<p>All workers, activities, and workplaces in Nammo are covered by the occupational health and safety management system. Temporary employees and third-parties working in Nammo facilities are provided with a HESS orientation. Procedures for ensuring the safety of temporary employees and third-parties are reviewed during annual HESS assessments. Internal audits are completed annually at each Nammo production site by the Nammo Group HESS Director.</p> <p>The number of workers who are not employees, but whose work is controlled by Nammo, is 89. All (100 percent) are covered by the occupational health and safety management system.</p> <p>In December 2020, the Nammo Group had 2 761 employees. All sites are audited regularly by their national authorities, such as the Occupational Health and Safety Administration (OSHA) in the United States and the Arbeidstilsynet in Norway. 744 employees (26.9 percent) worked at sites that are certified in accordance with ISO 45001 Occupational Health and Safety Management System.</p>
403-9	Work-related injuries	<p>Page 21</p> <p>For employees and workers who are not employees but whose work is controlled by Nammo:</p> <ul style="list-style-type: none"> • Zero fatalities and high-consequence injuries. • LTI value of 6.8 (injuries resulting in a lost workday per 1-million working hours). • Ergonomic related injuries that resulted in minor finger, hand or back injuries • Number of hours worked: 4 708 957 <p>Nammo's employees are exposed to health and safety risks related to handling energetic materials, mechanical manufacturing, heat treatment, chemical surface treatment, and assembly operations. Work-related hazards that pose a risk of high-consequence injuries are work-related to energetics. All processes are subject to risk analysis to determine hazards and appropriate controls in accordance with the principles of ISO 31000.</p>

Environmental stewardship		Nammo response																								
Material topic: Waste and hazardous materials management																										
103	Management approach	Page 26																								
306-2	Waste by type and disposal method	<p>Waste generated by type: Hazardous waste: 804 282 kg Non-hazardous waste: 9 170 887 kg</p> <p>Disposal method:</p> <table border="1"> <thead> <tr> <th></th> <th>Hazardous waste (kg)</th> <th>Non-hazardous waste (kg)</th> </tr> </thead> <tbody> <tr> <td>Reuse</td> <td>0</td> <td>0</td> </tr> <tr> <td>Recycling</td> <td>275 903</td> <td>8 150 183</td> </tr> <tr> <td>Composting</td> <td>0</td> <td>0</td> </tr> <tr> <td>Recovery, including energy recovery</td> <td>10 787</td> <td>408 792</td> </tr> <tr> <td>Incineration</td> <td>172 733</td> <td>8 252</td> </tr> <tr> <td>Landfill</td> <td>109 519</td> <td>605 746</td> </tr> <tr> <td>Other</td> <td>321 372</td> <td>176 917</td> </tr> </tbody> </table>		Hazardous waste (kg)	Non-hazardous waste (kg)	Reuse	0	0	Recycling	275 903	8 150 183	Composting	0	0	Recovery, including energy recovery	10 787	408 792	Incineration	172 733	8 252	Landfill	109 519	605 746	Other	321 372	176 917
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306-3	Significant spills	None																								
306-4	Transport of hazardous waste	<table border="1"> <thead> <tr> <th></th> <th>Hazardous waste (kg)</th> </tr> </thead> <tbody> <tr> <td>Transported</td> <td>459 877</td> </tr> <tr> <td>Imported</td> <td>0</td> </tr> <tr> <td>Exported</td> <td>4 845</td> </tr> <tr> <td>Treated</td> <td>428 026</td> </tr> <tr> <td>Shipped internationally</td> <td>0</td> </tr> </tbody> </table>		Hazardous waste (kg)	Transported	459 877	Imported	0	Exported	4 845	Treated	428 026	Shipped internationally	0												
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Material topic: Climate risk																										
103	Management approach	Page 26																								
201-2	Financial implications due to climate change	Page 26																								
Material topic: Emissions																										
103	Management approach	Page 24-25																								
305-1	Direct (Scope 1) GHG emissions	<p>Page 25</p> <p>Consolidated approach for emissions: financial approach. Emission factors: DEFRA Conversion Factors 2020. GWPs: based on the Intergovernmental Panel on Climate Change (IPCC) Fourth Assessment Report (AR4) over a 100-year period.</p>																								
305-2	Energy indirect (Scope 2) GHG emissions	<p>Page 25 (market-based)</p> <p>Grid mix emissions factors from EIA State Electricity Profiles and AIB Residual Mix Results. District heating emissions factors have been collected from the relevant suppliers, or where not available a regional average has been applied.</p> <p>Consolidated approach for emissions: financial approach. GWPs: based on the IPCC Fourth Assessment Report (AR4) over a 100-year period.</p>																								
305-3	Other indirect (Scope 3) GHG emissions	<p>Page 25</p> <p>Consolidated approach for emissions: financial approach. Emission factors: DEFRA Conversion Factors 2020. GWPs: based on the IPCC Fourth Assessment Report (AR4) over a 100-year period.</p>																								
305-4	GHG emissions intensity	Page 25																								

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Material topic: Energy use		
103	Management approach	Page 25
302-1	Energy consumption within the organization	Page 25
		kWh consumed
Fuel oil		3 269 972
Natural gas		4 045 689
Diesel and petrol		940 628
Other fuel		228 122
Electricity		78 631 510
Heating		29 539 475
TOTAL		116 655 396
Material topic: Water management		
103	Management approach	Page 26
303-1	Interactions with water	Page 26
303-2	Management of water discharge-related impacts	Page 26
303-5	Water consumption	1 726 917 m3
Product stewardship		Nammo response
Material topic: Product safety		
103	Management approach	Page 27
416-2	Incidents of non-compliance	There were no incidents of non-compliance concerning the health and safety impacts of our products and services.



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COMMUNICATION
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This is our **Communication on Progress** in implementing the Ten Principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.