

**PRIVILEGED AND CONFIDENTIAL**

Norwegian Competition Authority  
P.O. Box 439 Sentrum  
5805 Bergen

Our ref.: 210458-010 lto

Your ref.: 210458-010

Responsible partner: Haakon Blaauw

Bergen, 5 December 2006

**Standardized notification of concentration****1. Notifier**

Name: Nammo Apache Inc.  
Address: 2711 Centerville Road, Suite 400, Wilmington, New Castle  
County, Delaware 19808, USA  
Tax ID Number:  
Telephone: + 1 703 524 6100  
Fax: + 1 703 522 6847  
E-mail: [johannes.norheim@nammo.com](mailto:johannes.norheim@nammo.com)  
Contact person: Mr. Johs Norheim, Senior Vice President Business  
Development. E-mail: [johannes.norheim@nammo.com](mailto:johannes.norheim@nammo.com)

**2. Other involved companies**

Name: Talley Defense Systems, Inc  
Address: 4051 N.Higley Road, PO Box 34299, Mesa, AZ 85277-4299,  
USA  
Tax ID Number: 86-0295636  
Telephone: + 1 480 898 2200  
Fax: + 1 480 898 2387  
E-mail: [SWegener@talleyds.com](mailto:SWegener@talleyds.com)  
Contact person: Steve Wegener, CEO and President.  
E-mail: [SWegener@talleyds.com](mailto:SWegener@talleyds.com)

### **3. Nature of the concentration**

Nammo Apache Inc. (the "Company") intends to acquire 100 % of the issued and outstanding share capital of Talley Defense Systems Inc. (the "TDS"), all of which are owned by Marshall & Ilsley Trust Company N.A., as trustee for the Talley Defense Systems, Inc. Employee Stock Ownership Trust (the "ESOT"). The ESOT is organized pursuant to the Talley Defense Systems, Inc. Employee Stock Ownership Trust, between TDS and Marshall & Ilsley Trust Company N.A.

The transaction agreement was signed on November 30 2006.

The transaction has to be notified to the Norwegian Competition Authority pursuant to Sections 17 and 18 of the Norwegian Competition Act. The transaction was/will also be notified in the United States.

### **4. Corporate structures and areas of operation**

#### **4.1 Nammo Apache Inc.**

Nammo Apache Inc. is 100 % owned by Nammo AS ("Nammo" or "the Group"). Nammo is a Norwegian company organized under the Norwegian Limited Liability Companies' Act (with organization number 979 984 731). Nammo AS is the ultimate parent in the Nammo group of companies.

Nammo was established in 1998 following the merger of the ammunition operations of three major Nordic defence companies (Celsius AB, Patria Industries Oyj and Raufoss ASA). Nammo is now owned with 50 % each by The Government of Norway and the Finnish defence group Patria Oyj. Patria Oyj is owned by the Finnish State (73.2 %) and European Aeronautic Defence and Space Company EADS N.V. (26.8 %).

Nammo has a global staff of some 1.200 employees. The head office is located at Raufoss, Norway. The Group has wholly and majority owned subsidiaries in Norway, Sweden, Finland, Germany and the US. Nammo has the following subsidiaries in Norway: Nammo Raufoss AS, Nammo Bakelittfabrikken AS and Nammo NAD AS. (Nammo NAD AS is owned 50 % by Nammo AS).

Nammo's activities are organized in four business areas across national borders and legal units: Small Caliber Division, Medium & Large Caliber Division, Missile Products Division and Demil Division.

The *Small Caliber Division* is supplier of niche technology and products within small calibre ammunition.

The *Medium & Large Caliber Division* supplies a range of combat- and training ammunition for Army, Navy and Air Force applications. Pyrotechnics, M 72 Light Anti-armour Weapons (the "M-72 LAW"), hand grenades and restoring of ammunition is also important parts of the product range.

The *Missile Products Division's* core business is propulsion systems for air/defence/ship self defence missiles, short range air-to-air missiles as well as boosters for medium to large size anti ship missiles. The business also comprises missile warheads and small rocket motors for space applications.

The *Demil Division* is specialised in handling excess, outdated and obsolete conventional ammunition.

The Company is established for the sole purpose of acquiring and holding title to 100 % of the shares in TDS for thereafter being merged with TDS.

For more detailed information on Nammo's business activities, see [www.nammo.com](http://www.nammo.com).

#### **4.2 Talley Defence Systems Inc.**

TDS is 100% owned by Marshall & Ilsley Trust Company N.A., as trustee for the Talley Defense Systems, Inc Employee Stock Ownership Trust. ESOT is an employee benefit plan which makes the employees of TDS beneficial owners of stock in their own company.

Founded in 1960, TDS designs, develops, and produces propellant-based products for predominantly military applications. TDS employs approximately 220 people. The company is located in Mesa (Arizona), Columbus (Mississippi), Arlington (Virginia) and Davidsville (Pennsylvania).

The Company's sales base is comprised of four segments: Weapons Systems, Rocket Motors, Extended Range Munitions and Core Products. US Defence Department and armed service branches (U.S Army, U.S. Marines, U.S. Navy and U.S. Special Forces) represent more than 75 % of TDS' revenues.

TDS's activities within *Weapon Systems* contain the M-72 LAW, the Bunker Defeat Munition and the Shoulder-launched Multipurpose Assault Weapon (sales of US\$ 44.2 million in 2005). TDS and Nammo have over the last two decades been cooperating in a three-party consortium in joint development, manufacturing and marketing worldwide of different versions of M-72 LAW.

TDS also contains activities in *Propellant Devices*. These activities include aircraft canopy or hatch-removers for emergency crew evacuation; rockets and catapults for ejection seats; and spin-up, de-spin, or retro-thrusters for projectile or air vehicle flight control (sales of US\$ 10.1 million in 2005).

In addition to the above mentioned businesses, TDS has an *Extended Range Munitions* unit, which offers propellant based components to extend the range of artillery rounds (projectile designs that allow for increased range capability (sales of approximately US\$ 0.42 million in 2005)). Nammo is also producing similar propellant based components for increased range capabilities for artillery ammunition.

TDS' traditional products and product extensions are organized in the unit called Core Products. These products include: Gas generators, dispersion systems, racks and auto devices (sales of US\$ 7.2 million in 2005). As Nammo is not into production of any of TDS' core products or any upstream, downstream or neighbouring products, these products will not be discussed further in this notification.

Additional information on the TDS activities can be found at [www.talleyds.com](http://www.talleyds.com).

## **5. Turnover and operating profit**

Nammo's worldwide turnover in 2005 amounted to NOK 1.641 million. The Norwegian turnover was NOK 229.5 million in 2005. The Group's operating profit in 2005 was NOK 216.5 million.

The activities of TDS generated a worldwide turnover of US\$ 62.6 million or approximately NOK 403.5 million (exchange rate 6.445) in 2005. The turnover in Norway, all realized in relation to sales of M-72 Warhead Metal Parts and royalties from the M-72 consortium, was US\$ 1.75 million – or approximately NOK 11.28 million (exchange rate 6.445) in 2005. TDS' operating profit in 2005 amounted to US\$ 1.9 million or approximately NOK 12.2 million (exchange rate 6.445).

## **6. Markets affected by the concentration**

The concentration does not raise any competition concerns as it does not affect any markets where the parties have overlapping activities and where the collective market share as a result of the concentration is over 20 %. Although a notifier is not required to provide details of the markets affected by a concentration when the involved companies do not have such overlapping activities, we have, for the Competition Authority's information, chosen to provide some information in order to demonstrate that the transaction will not create or strengthen a restriction of competition in any market.

### **6.1 Weapon Systems**

Nammo's only activity within Weapon Systems is manufactures of the M-72 LAW (a US Government licence).

Weapon systems are usually defined by range, rate of fire, lethality or technical capability. Nammo and TDS have overlapping activities only in one segment of weapon systems, the

segment for shoulder-fired, man-portable, light anti-tank rocket systems. The M-72 LAW is a lightweight, self-contained, disposable, anti-armour weapon consisting of a rocket packed in a launcher. It is man-portable and is issued as a round of ammunition. The M-72 LAW is capable of penetrating a foot of armour, but its effective range is only about 200 meters. Therefore, M 72 LAW is, compared to for instance the M136 AT-4, in the low end of light anti-tank rocket systems in terms of range of fire.

There is a continuum of light anti-tank rocket systems based on cost and capability, and it is the decision of the respective Ministry of Defence what level of capability it wants to acquire.

For defence markets, a distinction is traditionally made between those countries where the Ministry of Defence, being the ultimate customers, has a preference to award contracts to a domestic supplier which may serve to limit the scope of the geographic market on the one hand and those countries without a national supplier on the other hand (subject to applicable procurement rules). The merging parties further consider that there is a worldwide/international market for the supply of defence equipment with suppliers often competing on a worldwide/international basis, subject to the above limitations. On this basis, the relevant market may be considered to be national in scope but also may be broader in scope depending on the nature of the specific contract and the availability and location of relevant suppliers. (See inter alia Decision COMP/M.1745: EADS of 11 May 2000 and Case No COMP/M.2938: SNPE/MBDA/JV of 30 October 2002).

TDS turnover in Norway is solely related to M-72 Warhead Metal Parts, which is only a component to the final M-72 LAW supplied by Nammo. Accordingly, there is no overlap between the parties in the Norwegian market for shoulder-fired, man-portable, light anti-tank rocket systems.

There is however a progressive internationalisation within the defence industry, even in states with national suppliers, due to cost rationalisation and shrinking budgets for defence equipment. Further, it should be noted that the Norwegian Ministry of Defence has the general policy of inviting tenders from international prime contractors before deciding whether or not to purchase from a national supplier, making it fair to propose a broader market definition. On the basis of an international market (comprising the EEA and the US) the combined market shares of Nammo and TDS does not exceed 10 %.

Hence, for the purpose of this case, it is not necessary to further delineate the relevant geographic market as no competition problems will arise whichever definition is applied.

## **6.2 Propellant devices**

Both TDS and Nammo are working within propulsion systems for military use, and in particular, develop, manufacture and supply rocket motors for tactical military devices. Rocket motors provide thrust by accelerating the exhaust produced by the combustion of a propellant.

TDS does also manufacture for civil applications. Since Nammo has no such production, propellants for civil applications are not to be discussed any further in this notification.

TDS is active within small specialized motors while Nammo's production is within propulsion for tactical missiles. TDS had annual sales of US\$ 10.1 million in this market in 2005, all of which is outside Norway.

According to Commission decisions in the defence sector, a distinction should be made between propulsion systems for tactical weapons, on the one hand, and propulsion systems for strategic ballistic missiles, on the other hand. Due to technical differences, relating to size, performance and the duration of burn of the propulsion system, there is no possible substitution on the demand-side. Whilst the Commission has confirmed that it is not necessary to apply a further segmentation of the rocket motor market according to its final application because the same basic technology is applied, the merging parties suggest that a distinction should be made between different propellant units following the requirements for the different applications. However, it is not necessary to choose between the various alternative definitions as no competition concerns arise whatever the product market definition.

If a national geographic market is appropriate, on the basis that there is a domestic supplier, and the relevant geographic market is limited to Norway, the transaction will have no competitive effect as TDS has no activities in this market and there is no overlap between the parties as regards propulsion systems.

Further, if the geographic market is considered to be international (comprising the EEA and the US), the transaction will also have no competitive effect as the parties combined market share is less than 10 %.

Hence it follows that it is not necessary to make a final decision with regard to the precise market definition, as no competition problems will arise whichever definition is applied.

### **6.3 Extended Range Munitions**

Both parties are active in development and production of systems for extended range artillery ammunition, but there is no overlap between the parties as they are trading in different geographical markets. Such differences relate to national preference and national security issues with the prime contractors. It should also be noted that prime contractors must comply with applicable procurement rules and often must also award certain contracts to preferred suppliers chosen by the contracting authority. The United States military is likely to rely only on United States firms (such as TDS), while European customers enter into agreements with European firms (such as Nammo). Accordingly there is, irrespectively of whether the relevant geographical market is national, regional or international, no overlap between Nammo and TDS in this field.

However, for the sake of completeness, we emphasize that the parties combined market share in an international market is less than 10 %. Therefore any concern for competition can be excluded also in this product market.

## 7. Annual reports and annual accounts

Nammo's annual report and annual accounts are available from the Brønnøysund Register.

For TDS, see the December 31, 2004 and 2005 financial statements and the balance sheet as at September 30, 2006.

## 8. Public access

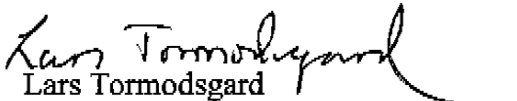
The information concerning the description of the parties under heading 4, the companies turnover and results under heading 5, and market shares under heading 6, are regarded as business secrets. We request that this information is treated as confidential information.

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The Norwegian Ministry of Defence is informed about the acquisition, and can be contacted through Mr. Leif Lindbeck, National Armament Director, Norwegian Ministry of Defence.

For the sake of good order we would like to emphasise that the abovementioned information is based on information received from the undertakings involved.

Best regards  
WIKBORG, REIN & CO.

  
Lars Tormodsgard