



Patria 2016

ANNUAL REPORT

Content

Patria's Annual Report consists of the Business Units' Review, the Corporate Responsibility Progress Report and the Financial Statements Report. Patria's Annual Report is published only on the company's website at www.patria.fi.

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Patria briefly

Patria is a trusted provider of defence, security and aviation life-cycle support services and technology solutions. Patria has operations in Sweden, Norway, Estonia, Poland, the United Arab Emirates, the United States and South Africa. Versatile duties employ today some 2,800 skilled professionals.

Patria's operational sites in Finland:

- | | |
|------------------------|------------------------|
| 1. Espoo | 18. Orivesi |
| 2. Halli | 19. Oulu |
| 3. Hamina | 20. Pansio |
| 4. Hattula | 21. Pirkkala |
| 5. Helsinki | 22. Riihimäki |
| 6. Hämeenlinna | 23. Rovaniemi |
| 7. Jyväskylä | 24. Siikakangas |
| 8. Kajaani | 25. Sodankylä |
| 9. Kangasala | 26. Säköylä |
| 10. Keuruu | 27. Tampere |
| 11. Lappeenranta | 28. Tervola |
| 12. Lapua | 29. Tikkakoski |
| 13. Lievestuore | 30. Upinniemi |
| 14. Linnavuori | 31. Utti |
| 15. Lyly | 32. Vekaranjärvi |
| 16. Malmi | 33. Vihtavuori |
| 17. Niinisalo | |

Locations on the map: www.patria.fi/en/contact

Business units and net sales as share of group net sales

ADMINISTRATION ●

Admin, Finance, Marketing, Business Development and Communications

AVIATION ●, AEROSTRUCTURES ●

Extensive life-cycle support for aircraft and helicopter fleet management including pilot training. The design and manufacture of composite structures for aircraft and spacecraft.

28%

LAND ●

Armoured wheeled vehicles, mortar systems, ammunition, and life-cycle support services for these products.

26%

SYSTEMS ●

Comprehensive software-intensive system and equipment deliveries to defence forces and security authorities. Intelligence, surveillance and command and control systems, as well as their integration, software and life-cycle support.

5%

MILLOG ●

Patria's subsidiary (61.8%) Millog produces life cycle support services for the Finnish Army and Navy material.

41%

NAMMO ●

Patria's 50% owned Nammo AS focuses on development and provision of ammunition systems, missile and space propulsion products as well as environmentally friendly demilitarisation services.

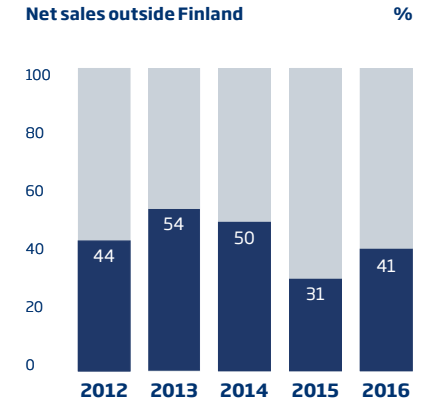
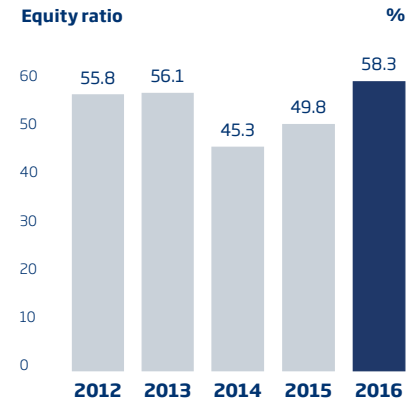
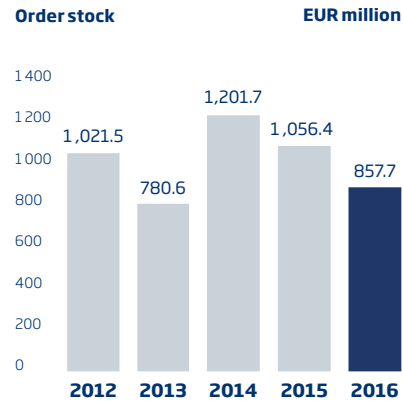
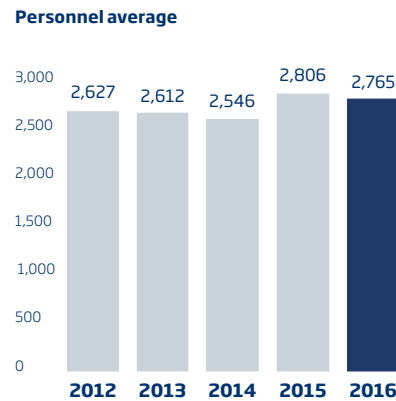
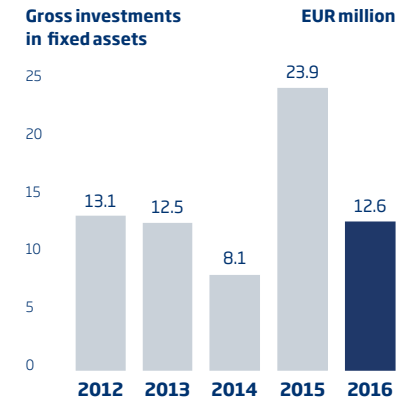
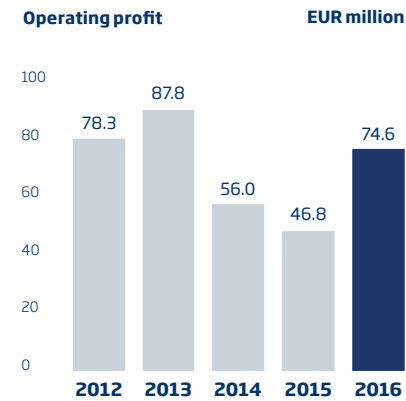
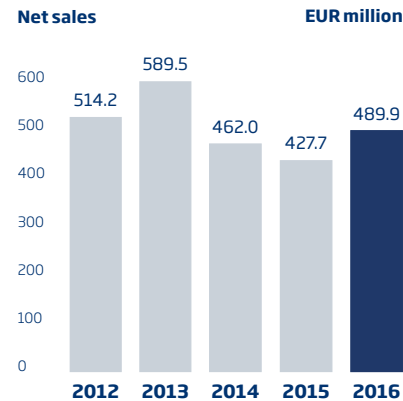
Key Figures

Patria Group's earnings for the financial year 2016 measured up to expectations.
Net sales grew and profitability was at a good level.

Net sales
489.9 EUR million

Operating profit
74.6 EUR million

Personnel average
2.765



The years 2012-2013 pro forma due to the change of Nammo's consolidation method. From the year 2014 onwards, in Patria's financial statements, Nammo is consolidated using the equity method.



Stakeholder-specific capital flows

Direct economic value, EUR million			2013	2014	2015	2016
		Consolidated net sales	589.5	462.0	427.7	489.9
		Other operating income	27.7	28.5	20.4	23.4
		Financial income	0.4	1.3	0.1	0.4
Customers	Sales	Income total	617.6	491.7	448.2	513.8
Suppliers	Goods, materials and services	Operating costs excluding depreciation and personnel expenses	356.0	265.1	217.3	254.2
Personnel	Wages, salaries and fees	Personnel expenses	156.5	154.7	170.0	169.7
Public sector	Taxes	Payments to government (taxes)	5.9	4.6	4.3	4.3
Not-for-profit organisations	Support and donations	Donations and other charitable payments	0.0	0.0	0.0	0.0
		Payments made to shareholders and loan providers				
Shareholders	Dividends	Dividends	19.0	38.0	13.9	13.9
Investors	Financial costs	Interest and other financial expenses	3.5	2.5	2.5	3.3
	Expenses	Distributed, total	540.9	465.0	408.0	445.4
	Sales-expenses = added value	Economic value retained for operational development	76.7	26.7	40.1	68.4
Investments		Investments in tangible and intangible assets as well as acquisitions	17.7	8.1	23.9	16.5

Nammo Group has been consolidated using the equity method starting from 1st of January 2014 instead of the proportionate method line by line used earlier. The comparative information of the year 2013 has been restated to be in line with the new consolidation method. The comparative information based on the previous consolidation method is presented in the Financial Statements Report, which can be read at <http://patria.fi/en/patria/financial/financial-reviews>.

Tax footprint

Besides Finland, the Group has operations in Sweden, Norway, Estonia, Poland, the United Arab Emirates, the United States, and South Africa.

Patria's principle is to pay the indirect and direct taxes it is subject to in each country according to local laws and regulations. Patria does not have operative companies in low taxation countries.

Patria's tax strategy is to support business solutions and ensure that they are implemented properly and in a compliant manner also from a taxation perspective. The starting point is compliance with applicable local legislation and handling reporting obligations.

2016	Finland	Sweden	Poland	Croatia	Norway	Total
Direct taxes payable for the financial year, EUR million (taxes and tax-like charges paid directly by the company)						
Income taxes (business income taxes)	10.1				0.0	10.1
Employer contributions (employer's pension and social security contributions, etc.)	2.8	1.7				4.4
Property taxes	0.2	0.0				0.3
Other taxes (tonnage, transfer and other such taxes)	0.0					0.0
Indirect taxes payable for the financial year, EUR million (taxes paid by the company as part of the price of the service/product and recognised as expenses)						
Other taxes	0.1					0.1
Taxes to be remitted for the financial year, EUR million (taxes that the company collects from its customers or employees which it remits to the tax authorities)						
Wage taxes (withholding, employee social security contributions, etc.)	35.6	1.6				37.2
VAT, sales	99.8	4.9	12.2			116.9
VAT, procurements	-71.1	-5.5	-15.0	-0.3		-91.8

The figures include the most essential international operations.

**Personnel statistics**

Personnel figures	2014	2015	2016
Personnel, on average	2,546	2,806	2,765
Personnel in Finland	2,436	2,746	2,646
Blue collar, %	40	45	43
Salaried, %	21	22	21
Senior salaried, %	39	33	36
Proportion of women, %	17	15	15
Proportion of women in Board of Directors	1/6	2/5	2/8
Proportion of women in Board of Management	1/7	1/7	2/8

Education	2014	2015	2016
University, %	17	14	15
University of applied sciences, %	32	31	31
Vocational/upper secondary school, %	49	53	52
Basic education, %	2	2	2

Employment	2014	2015	2016
Average age	44.2	44.9	45.4
Length of services, yrs	14.3	14.8	15.1
Personnel turnover, %	2.4	5.2	4.5
Permanent employees, %	95	95	95
Part-time employees, %	2.4	2	2.1

Occupational health and safety	2014	2015	2016
Absenteeism attributable to sickness, %	4.2	4	4
The frequency of accidents, qty per million work hours	17	19.7	15

Growth and laying the groundwork for new developments



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We focus on what is in our customers' interests at all times and we do what we promise. We want to be successful in line with our values - we are proud of our work and want that pride to show.

From many perspectives, the year 2016 was one of renewal. Patria now has two strong owners - the state of Finland and Norwegian Kongsberg. In May 2016, the competition authorities approved a share transaction in which the state of Finland sold 49.9 percent of Patria Oyj to Kongsberg Defence & Aerospace AS. The state of Finland now owns 50.1 percent of Patria Oyj. In connection with this, an extraordinary general meeting appointed a new board for Patria Oyj, with the board appointing a new CEO.

I began in my post in August 2016, when my predecessor, Heikki Allonen, retired in accordance with his contract. As a

result, my autumn was a season of learning. I toured our sites and units, talking to people and interviewing them. I have been engaged in a wide range of discussions with the members of our new board, customers and stakeholders. These discussions have been fruitful and provided me with a good and realistic perspective on the company. This is the same perspective that I had when I joined Patria; I have encountered no major surprises.

We have a great deal of unique expertise and great products and services. People have long careers at Patria, which is an indication of their strong commitment to the company.

Patria is a strong company with stable finances. We are very proud of our company which has long traditions, strong roots in Finland's history and an important position in our society. Patria is a trusted operator in Finland, playing a key role in ensuring the defence capability of the state and security of supply.

Our customer promise

To ensure Patria's continued success, we drew up a new strategy in 2016, on a tight schedule. This overview provides additional information on the new strategy. The work was based on a customer promise which we published internally in December - **When if is not an option**.

More than 300 Patria employees were engaged in formulating this promise all of whom feel that Patria is company that our customers can trust. Patria employs committed people with expertise, who are capable of managing long-term and demanding projects in a reliable manner. We focus on what is in our customers' interests at all times and we do what we promise. We want to be successful in line with our values - we are proud of our work and want that pride to show. We have a customer-driven approach, since collaboration ensures that both of us succeed.

When if is not an option - this is a promise to which all of us at Patria are committed. This customer promise aptly highlights the responsible nature of Patria's operations. We want to base our profitable operations on good partnerships in which if is not an option.

A year marked by growth

The year 2016 was marked by growth, with the balance sheet indicating that the year was a good one and the company is in



Responsibility is a key part of our business operations, as good corporate citizenship is the foundation of all our operations.

excellent condition. Net sales were higher than in the previous year. This was due to many projects related to equipment life-cycle management being under way, and the outsourcing of maintenance activities to Millog progressing as planned.

Projects progressed at many sites during the accounting period. The following summary sheds light on Patria's varied operations as a reliable defence sector provider, indicating the sources of our revenue during the accounting period.

In early 2016, Patria announced a major order for Patria AMV 8x8 armoured wheeled vehicles to be delivered to the United Arab Emirates. This agreement continues the successful co-operation between the UAE Armed Forces and Patria.

In May, Patria acquired a minority stake (25%) in Silverskin Information Security Ltd, a company specialising in cyber security. This acquisition will allow Patria to expand its cyber security business, and will open up new business opportunities in both the international market and Finland.

At the beginning of its accounting period, Patria's subsidiary, Millog Oy, established a new company called Senop Oy, which will focus on modern sensor technology and advanced system integration. In June, Senop Oy acquired the operations of Rikola Ltd Oy, an Oulu-based optoelectronics company.

In July, the armoured reconnaissance vehicle AMV35, jointly supplied by Patria and BAE Systems Australia, was selected

to undergo 12 months of testing and assessment, by the customer, for the Australian Land 400 project.

In September, Patria signed a contract with the Finnish Border Guard on the modernisation of two Agusta/Bell 412 EP helicopters. This system update comprises the replacement of avionics, mission systems, patient stretchers and a thermographic camera, as well as the integration of a video data link with the helicopters.

In September, Patria Pilot Training and ASTCO Finland signed a partnership agreement on security training meeting the official requirements for airline flight personnel.

In October, Patria and Finnair signed a contract on the training of new commercial pilots. Under the contract, Patria will provide Finnair's trainees with training under the MPL (Multi-Crew Pilot License) training programme, in collaboration with Finnair Flight Academy Ltd.

During the accounting period, Patria signed a contract on component manufacturing for the Airbus A320 programme. The carbon fibre components that Patria will manufacture will be delivered to Germany for use in the tail assembly of the A320.

In December, Patria handed the Finnish Air Force the last of the F/A-18 Hornet multi-role fighters that had undergone the Mid-Life Upgrade 2 (MLU2). The upgrade performed by Patria included hardware and system installations and changes required by air-to-ground weaponry.

During the last year, Patria has also been present at a number of major defence sector events, such as DIMDEX in Qatar, Defence Services Asia event in Malaysia, Black Sea Defense & Aerospace in Romania, Eurosatory in France, DVD2016 in Great Britain, and Helitech International in Holland.

Responsible work

Responsibility is a key part of our business operations, as good corporate citizenship is the foundation of all our operations. Patria further developed its ethical practices and continued its work within the scope of Society's Commitment to Sustainable Development, coordinated by the Ministry of

the Environment, under which the company has committed itself to developing the energy efficiency of the real estate property it manages and to further enhancing occupational safety in order to reduce the number of accidents at work.

During the accounting period, Patria and Vapo signed an agreement on cooperation regarding the development of energy solutions and partnership. Together, we intend to develop energy efficiency and increase the proportion of domestic fuels used. We also signed two significant, long-term agreements on heat supply.

Patria has been helping to prevent the marginalisation of young people for many years. We continued this work during the last accounting period. Patria is supporting the restoration of the VL Myrsky, the only Finnish fighter aircraft ever to go into serial production. An important part of the restoration project involves young people working in youth workshops in Jyväskylä and Vantaa, or studying in technical education institutions.

A glance at the future

Our domestic customer, the Finnish Defence Forces, has launched projects that are of crucial strategic importance and record-level financial value for Patria. Squadrons 2000 and 2020 and the Hornet replacement project are crucial to the nation's entire defence industry and its future. On the international market, in addition to our neighbouring areas, Patria will set its sights on regions such as Australia and the Middle East. Our future prospects are bright, and this is a solid base to continue. I would like to thank all of our customers, owners, partners and other stakeholders for their excellent cooperation.

Olli Isotalo

President and CEO

The year 2016 briefly

Q1

Patria AMV vehicle selected by the United Arab Emirates. The agreement was an extension for the successful co-operation between the UAE Armed Forces and Patria.



Patria's subsidiary Millog Oy established a new company called Senop Oy, which focuses on modern sensor technology and system integration.

Q2



The State of Finland sold 49.9 percent of the defence company Patria Oyj to Kongsberg Defence & Aerospace AS. After that the State of Finland owns 50.1 percent of Patria Oyj.

Patria's Board of Directors appointed Olli Isotalo, President and CEO as of August, 15 2016.

Patria acquired a minority stake (25%) in Silverskin Information Security Oy which is specialized in cyber security.

Senop Oy acquired as an asset deal Rikola Ltd Oy, a company that is specialised in optoelectronics.

Q3

BAE Systems Australia and Land 400 bid partner Patria were confirmed as one of two tenders selected to take part in the 12-month Risk Mitigation Activity for the Australian Army's Land 400 Phase 2 combat reconnaissance vehicle program.



Patria signed a contract on the upgrading of the avionics systems of two Border Guard Agusta/Bell 412 EP helicopters.

Q4

Finnair and Patria Pilot Training signed an agreement for the training of new commercial pilots.



Patria signed a contract with Airbus for the manufacture of Airbus A320 Vertical Tail Plane components.

Patria delivered the last MLU 2 life-cycle upgraded Hornet to the Finnish Air Force.

The international situation is reflected in defence sector markets

While the significance of homeland defence has been accentuated in many countries, the economy has continued to pose a challenge. New and more cost-efficient solutions are required in order to balance this equation. There is often a long delay between the augmentation of defence budgets and actual procurement decisions.

The defence industry market is being simultaneously affected by short-term factors such as changes to the security situation and, on the other hand, long-term technological developments. To succeed, companies need to stay abreast of both of these developments. The defence market is subject to harsh competition. The bedrock of Patria's success lies in first-class products, expert personnel and a flexible approach which takes the company close to the customer.

Defence is a hot topic

The security situation in Europe has deteriorated due to issues such as Russia's actions in the Ukrainian conflict. The uncertainty of the European security situation has also been aggravated by the outcome of the presidential election in the United States and the ensuing speculation about the role of the US as the guarantor of Europe's security.

Such uncertainties are manifesting themselves in a buoyant defence market. In defence procurement, systems that can, if necessary, be deployed quickly without a long development phase, are being given priority. Such a situation also sets requirements for logistics and other supply functions, since their ability to raise the level of preparedness and act quickly is becoming increasingly important. In many countries, the significance of homeland defence has grown in importance, as the focus transfers from international operations to the homeland. At the same time, the battle against extremism and terrorism continues.

Nordic collaboration in the field of security and defence policy has deepened over the last few years because, despite their different basic solutions, the challenges faced by Nordic defence forces are similar. The Nordic Defence Cooperation, or Nordefco, is seeking to achieve benefits brought about by networking for

the development of defence capability and its use. Finland will chair Nordefco in 2017, during which discussions will also be conducted on defence materiel and industrial collaboration.

In addition to Nordefco, collaboration in the defence sector will be developed between Finland and Sweden on a bilateral basis. The EU's common defence has once again become a topic of discussion, with the EU allocating major funding to research on defence.

Long-term development

The defence market is also being affected by long-term trends in technological development, the most notable of which is digitalisation. With regard to future needs, investment in R&D is important.

A key factor, with a long-term impact on the defence sector, lies in developments, in networking and systems,



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The bedrock of Patria's success lies in first-class products, expert personnel and a flexible approach which takes the company close to the customer.

which are becoming increasingly complex. In connection with this, the importance of cyber security has grown in importance, both in defence and the defence industry. In this focus area, Patria is actively involved in developing its business.

In addition to technological development, the defence sector is developing from the social perspective. Responsible operations are vital to the success of companies and are therefore becoming a visible priority area. In the Finnish and international defence sectors, the number of companies engaged in providing sustainability reporting is growing. The application of the Global Reporting Initiative (GRI) guidelines is also increasing.

Topical themes involving responsibility include the Paris agreement, the expansion in taxation reporting, and the UN targets set for sustainable development which entered into force in early 2016. These themes will also lead the way in the defence sector.

Extensive projects and cost-effectiveness

In Finland, the Finnish Defence Forces, Patria's principal customer, has launched major future projects which are important to Patria. Within the scope of the HX fighter project, Hornet fighters will be replaced with a solution based on a new multi-role fighter, from 2025 onwards. Patria has a strong role in the Finnish Air Force's life-cycle support services, and the HX project is very important for the company.

The Finnish Defence Forces' Squadron 2020 project is a combat vessel project for the replacement of the Rauma class missile boats and Hämeenmaa class minelayers, and their capabilities, which will become obsolete in the 2020s.

The Finnish Defence Forces has faced cost savings over the last few years, particularly in terms of its operating costs. These savings have affected the volume of materiel and maintenance ordered from Patria.

Patria's subsidiary Millog, which specialises in the provision of life-cycle services, is an example of cost-effective operations, providing life-cycle support services for the Army and Navy systems and acting as the Finnish Defence Forces' strategic partner. Similarly, Patria's Aviation and Systems business units ensure the availability and performance of the Finnish Air Force's performance and their further development as a strategic partner.

Consolidation and partnerships

The International defence market continues to become more competitive. This has led to consolidation, resulting in larger operators in the market.

From Patria's perspective, a key event and prime example of consolidation was a transaction completed in spring 2016, under which the state of Finland sold 49.9% of Patria's shares to Norwegian Kongsberg Defence & Aerospace AS. The new ownership structure is expected to open up new markets and business opportunities for Patria.

Consolidation of significance for Patria is also represented by the Nammo Group, established in 1998 and 50-50 owned by Patria and the state of Norway.

In large-scale projects, a key to success is project-specific partnerships between actors representing different fields and combining competencies with a certain product. Patria's Land business unit is involved in major projects in the export market, including Australia and the Middle East.



Strategy review

Patria

Patria's Board of Directors has been substantially renewed in line with the new ownership structure. It is therefore natural that Patria's strategy was given more than the usual scrutiny during the autumn. The Board of Directors approved the strategy after the end of the financial period, in January 2017. In addition, a new mission and vision crystallised during the process.

In accordance with the approved strategy, Patria will continue to provide its aerospace and military customers with equipment availability and continuous performance development. The aim is to further expand life-cycle support services in various defence sectors. Even more emphasis will be placed on the internationalisation of these services. Another growing trend is the system and integration

business and its internationalisation. Growth areas include strategic partnerships with defence forces in life-cycle support services, particularly in northern Europe; international helicopter maintenance services; and selected intelligence, surveillance and command and control systems

The Finnish Defence Forces currently have strategically vital and exceptionally large projects underway. These projects will be decisive for the future of Finland's defence industry.

Customer promise

Our strategy work also included a customer promise, which we published internally in December - When if is not an option. More than 300 Patria employees were engaged in

formulating this promise, all of whom feel that Patria is a company in which our customers can trust. Patria employs committed people with expertise, who are capable of managing long-term and demanding projects in a reliable manner. Patria employees consider what is best for the customer and stand by what they promise. The company's promise is underpinned by its values. Patria is a guarantee of operational reliability, in line with its customer promise. The customer promise also aptly highlights the responsible nature of Patria's operations. Profitable operations are based on good partnerships in which if is not an option.



MISSION

We give our customers
confidence in all
conditions.

VISION

The #1 Partner
for critical operations.

When it is not an option

OUR VALUES

WE WANT TO SUCCEED

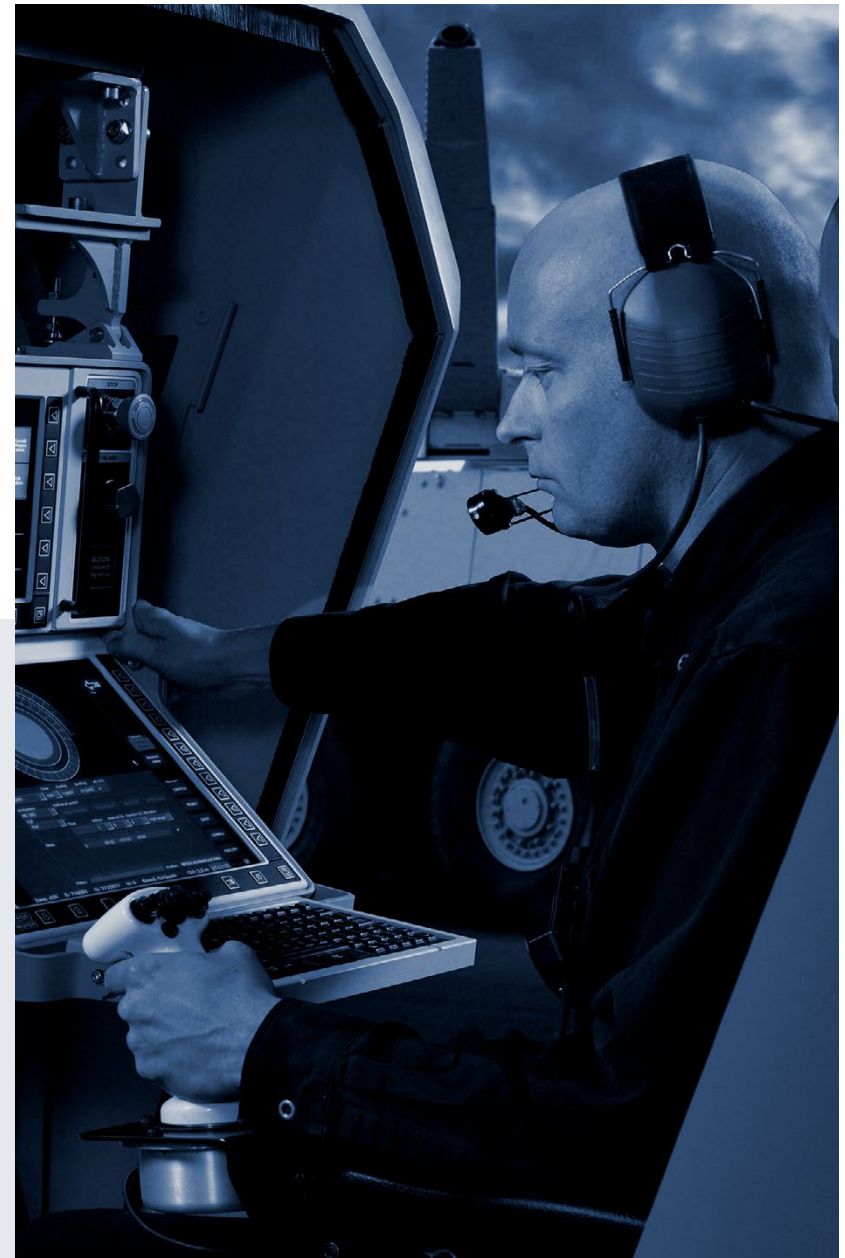
We are proud of our work, and we want to show it.

OUR OPERATIONS ARE CUSTOMER ORIENTED

Co-operation guarantees the success of all parties.

TOGETHER WE CREATE SUCCESS

We give constructive feedback. We enjoy succeeding together.



Strategic partnership in aviation

Aviation life-cycle support service projects progressed according to plan during the year. Towards the end of the year, Patria delivered the Finnish Air Force the last of the F/A-18 Hornet multi-role fighters that had undergone the Mid-Life Upgrade 2. In the flight training competence area, key events include the Multi-Crew Pilot Licence training programme launched by Patria and Finnair.

Life-cycle support services for aviation and flight training represent Patria's key expertise. Service production includes the maintenance and repair of aircraft and helicopters and their engines, devices and systems; demanding system and structural modifications; as well as military and civilian flight training.

In accordance with the strategic partnership contract, Patria provides life-cycle support services related to the Finnish Defence Forces' military aircraft and aviation systems, such as the F/A-18 Hornet fighters of the Finnish Air Force, the NH90 transport helicopters of the Finnish Army, and the related systems.

The strategic partnership contract in force between Patria Aviation Oy and the Finnish Defence Forces was updated in December. Following the update, military flight training and maritime engines with their associated systems, as well as

systems for reconnaissance, surveillance and command, were added to the scope of the contract. The contract will strengthen Patria's opportunities to offer a broad range of services for ongoing new equipment projects, for example.

In December, Patria and the Finnish Defence Forces signed a storage service contract regarding the customer's materiel stored at Halli and Linnavuori. The value of this three-year contract is approx. EUR 1.3 million, and it includes an option for the three next years.

Life-cycle support services for aircraft

In September, Patria signed a contract with the Finnish Border Guard on the modernisation of two Agusta/Bell 412 EP helicopters. This modernisation project will bring the helicopters in line with current operational requirements by the end of 2017.

With regard to the retrofit project for the NH90 transport helicopters of the FDF, during which the helicopters will be updated to their final configuration, Patria successfully delivered four helicopters, while the fifth one progressed to the inspection phase. The achievement of targets set for the retrofit production line was supported by the successful implementation of the operational development project (HIP7) jointly executed by Airbus Helicopters and Patria.

In accordance with the contract agreed by Patria and the Ministry of Defence, the overhaul of the seven additional Hawk Mk51 trainers to make them airworthy, and the overhaul of their avionics, progressed on schedule and test flights should begin in early 2017.

Monitoring of the condition of the engines of the Hawk Mk66 jet trainers (EHM), the modification of weapon sys-



tems (WCP) and Link-preparedness were implemented in late 2016, in accordance with the contract.

In December, Patria delivered the Finnish Air Force the last of the F/A-18 Hornet multi-role fighters that had undergone the Mid-Life Upgrade 2. In the MLU 2 upgrade program, the projects performed by Patria on the Hornets included installations of and changes to hardware and equipment required by air-to-ground weaponry. The work was performed at Patria's unit sited in Halli, Jämsä.

In December, Patria signed a contract on the provision of expert services for the introduction of the new Grob basic trainers.

Versatile flight training

In October, Patria and Finnair signed a contract on the training of new commercial pilots. According to the contract, Patria will provide Finnair's trainees with training under the MPL (Multi-Crew Pilot License) training programme in collaboration with Finnair Flight Academy Ltd.

The first course under the new collaboration model will begin in December. Plans are in place to start three new courses on an annual basis, each lasting eighteen months. Those students who pass the training successfully will obtain a promise of a job at Finnair and gain a direct route to

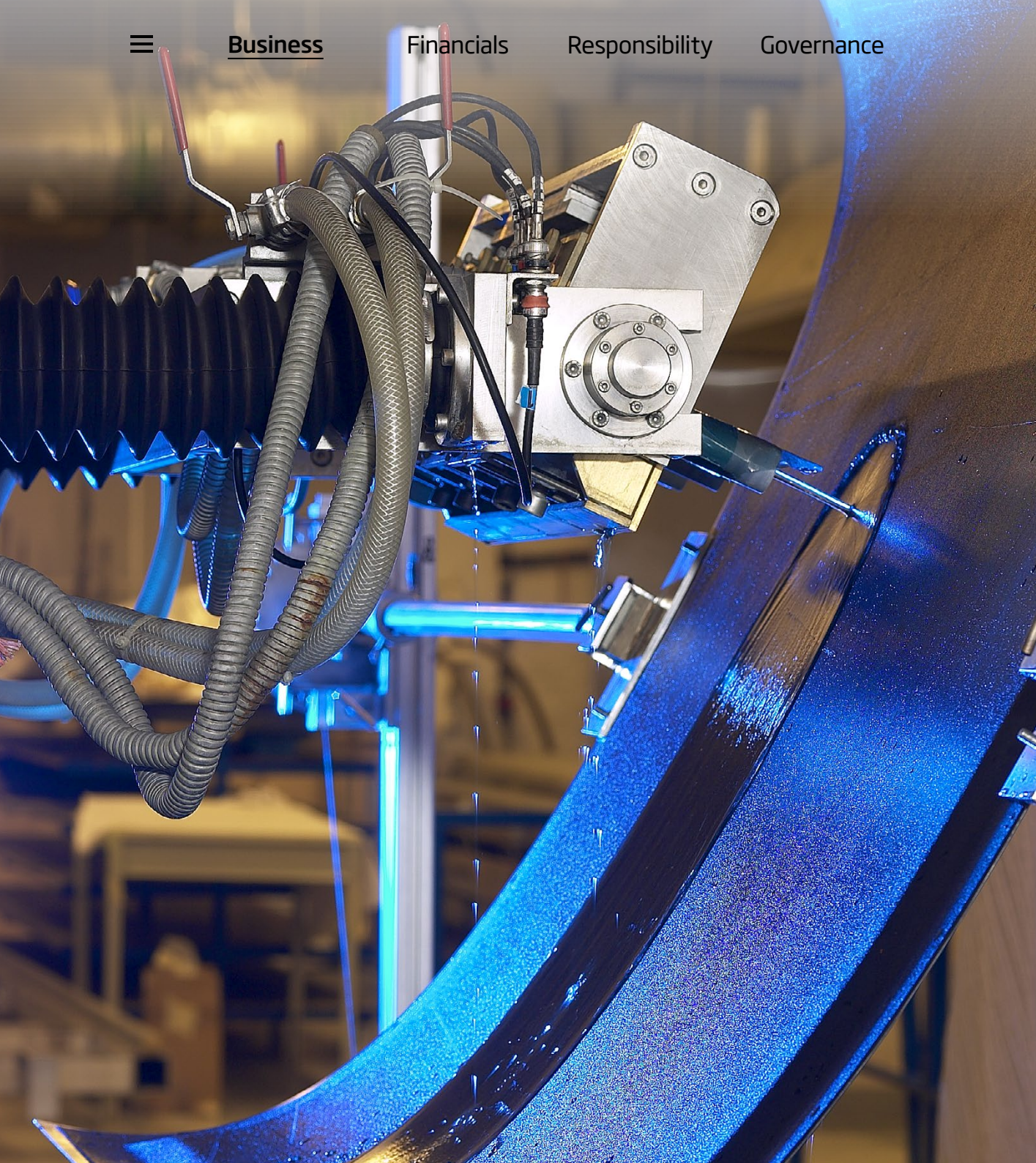


In accordance with the strategic partnership contract, Patria provides life-cycle support services related to the Finnish Defence Forces' military aircraft and aviation systems.

becoming a co-pilot on Finnair's A32S series Airbus aircraft.

Later, in October, Patria signed a contract on the procurement of an Airbus 320 flight simulator (A320 FNPT-II/MCC and FTD1) from Dutch Multi Pilot Simulations. Under Patria's and Finnair's Multi Crew Pilot License training programme, a pilot's basic training is combined with type training for the Airbus A320 airliner, with the flight simulator enabling the use of modern simulation technique in training.

Patria Pilot Training transferred its operations to Tampere-Pirkkala Airport in early January 2017. For the purpose of finding a new home base, several airport scenarios were appraised and negotiations were conducted with a number of various alternative service providers. Finally, Pirkkala was chosen because it outperformed the competing options in terms of its geographical location, operating capacity and cost structure. Vital criteria for Patria in the selection process included the long-term business continuity of the airport and the presence of several other companies operating from the same airport. The need for relocation arises from the Finnish Government's decision to discontinue using the Helsinki-Malmi Airport. Later in the spring, operations will be



Patria manufactures and maintains demanding composite aircraft structures and is actively involved in the development of new composite technologies.

continued from a new training centre in the same area; Patria will occupy around 40% of these premises. The other operator on the premises will be Tampere Vocational College, which will locate its aircraft mechanic training there.

In September, Patria Pilot Training and ASTCO Finland signed a partnership agreement on security training that meets the official requirements for airline flight personnel.

Aerostructures - demanding aircraft structures

Patria manufactures and maintains demanding composite aircraft structures and is actively involved in the development of new composite technologies. The efficient manufacture of composite structures and a high degree of planning ability constitute the key expertise in this case.

Patria delivered spoilers for 23 Airbus A380 airliners. With regard to other Airbus contracts (A330 and A400M), deliveries were continued as predicted. Patria also signed a major new contract with Airbus on deliveries of the tail structures of the A320 airliner, to begin in early 2018. In accordance with this contract, the automatic laminating machinery will be introduced in commercial use during 2017. Patria has further expanded its collaboration with Saab's Surveillance business area related to Airborne Early Warning radar structures.



AVIATION

The Aviation business unit provides aircraft life-cycle support services and pilot training for its military and civilian aviation customers.

The majority of them are northern European defence forces and authorities. The unit in Sweden offers world-wide services as a service centre authorised by three helicopter manufacturers.

When it comes to military pilot training, Aviation is in charge of offering basic training to the Finnish Air Force, the Finnish Army and the Border Guard. Civilian pilot training customers include airlines, aviation schools and private students, both domestic and from abroad. The main product is airliner pilot training.

Diesel engine maintenance and repair services are another key business sector of Aviation. The main customers are the Finnish Navy and European nuclear power plants.

Personnel
 **1,033**

Net sales as a share of group net sales
 **28%**

Personnel as a share of group personnel
 **37%**



Export of high-quality products

Patria's year was boosted by a major order of Patria AMV 8x8 wheeled vehicles placed by the United Arab Emirates' (UAE) Armed Forces, secured in early 2016. Armoured wheeled vehicles and mortars were showcased at international events. AMV35 vehicle progressed to the evaluation phase of the Australian vehicle project.

In January 2016, Patria announced a major order for Patria AMV 8x8 wheeled vehicles from the UAE Armed Forces.

This agreement continued the successful co-operation between the UAE Armed Forces and Patria. The vehicles were manufactured on a very tight schedule by one of Patria's partners in Poland.

The armoured reconnaissance vehicle AMV35, jointly offered by Patria and BAE Systems Australia, was selected to take part in the 12-month Risk Mitigation Activity for the Australian Army's Land 400 Phase 2 combat reconnaissance vehicle program.

Nearly 1,600 Patria AMV vehicles have already been ordered. They are used in challenging conditions by customers in seven countries. AMV products are under continuous development and are fitted with the latest technology. AMV's

structural solutions enable a high payload capacity, a high level of protection and the integration of heavy weapons systems. Patria AMV has received excellent feedback from customers for its performance in combat and crisis management operations in Afghanistan and Chad.

Introduced in 2015, Patria AMV^{XP} provides further strength to the company's product range through its extra protection, payload and performance.

Deliveries making headway

Deliveries to South Africa under the AMV serial production contract, signed in 2013 with Denel Land Systems, continued according to plan. All the pre-series vehicles manufactured in Finland have been delivered, with the component series for local production in South Africa being set to continue for

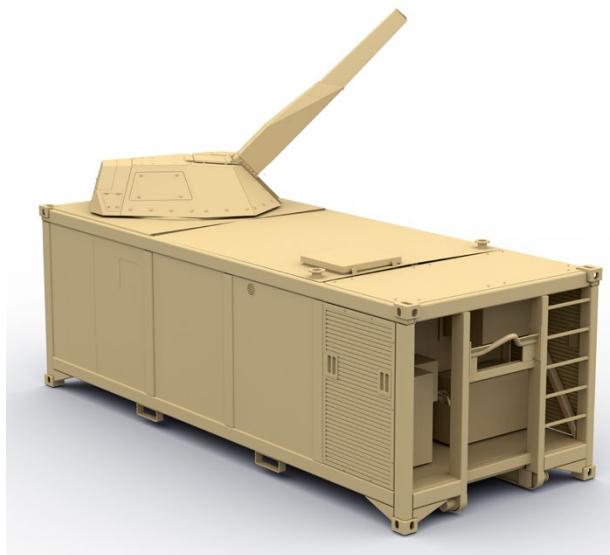
years. A total of 240 AMV vehicles will be delivered to the South African National Defence Forces.

Under the contract signed in 2013, Patria is responsible for the modernisation of the XA-180 personnel carriers of the Finnish Defence Forces (FDF). Patria and its subsidiaries will modernise a series of 70 vehicles by the end of 2017. Thanks to the modernisation project, the life cycle of the XA-180 vehicle, also known as Pasi, representing the previous generation, will be extended to beyond 50 years. The contract includes an option for the modernisation of 210 vehicles, the implementation of which would extend to the end of 2021. Patria made an agreement with the FDF on the first option series, which will be delivered during the year 2017.

In accordance with a contract on additional vehicles that Patria signed with the Ministry of National Defence of Poland



Patria has strengthened its operations and international position by engaging local partners. The company has strong prospects of meeting customer needs based on its customer-driven approach, high quality products and rapid response time.



in 2015, Patria will deliver components for 200 vehicles for its local partner Rosomak S.A., which produces the vehicles under Patria's license. The last deliveries will take place during the course of 2019. The order will strengthen Patria's order stock and financial result, but does not generate much production work for the Hämeenlinna unit. The customised vehicle versions for the Polish customer generate design and development work to Patria in Finland.

The XA-203 vehicles to be sent to the Finnish peacekeeping operation in Lebanon were prepared for deployment and delivered to the customer according to the agreement. In this project Land business unit operated as Millog's subcontractor.

The Finnish AMOS mortar delivery project has been completed and transferred for inclusion in the life-cycle support phase. The Finnish Army operates 18 AMV vehicles equipped with AMOS mortars.

The Patria AMV vehicle was showcased at a large number of international events, such as Eurosatory in Paris and the Defence Vehicle Dynamics (DVD) in UK. The vehicle was also showcased at the Land Forces exhibition in Australia, the BSDA exhibition in Romania, at a demo event held in Bulgaria in November for the Bulgarian army, and for local industry in December during Patria Industry Day.

High-tech mortars

Patria's mortar turrets and the related systems represent the most advanced indirect fire systems on the market. Modern mortars offer protection, mobility and firepower, both in the form of direct fire and also Multiple Rounds Simultaneous Impact fire missions where up to 5 grenades are hitting the target simultaneously.

Key products include single- and double-barreled 120 mm mortar turrets, in which Patria is an international market leader. Patria presented mortar systems for domestic and international stakeholders at the Turreted Mortar Systems Experience event, arranged in Rovaniemi in May, which showcased a single-barrelled Patria Nemo and a double-barrelled AMOS.

For customer needs, Patria developed the world's first 120 mm easy-to-move mortar solution, integrated with

a container which delivers all the equipment required by a mortar unit in a single package: protection for the crew, the weapon and ammunition. Patria Nemo Container was introduced to the public at the IDEX exhibition in the United Arab Emirates in February, after the financial period.

Active participation in projects

Patria is actively involved in marketing and sales projects for armoured wheeled vehicles and mortar systems. The company is involved in the Land 400 vehicle project of the Australian Army, and is following activities such as the Mechanised Infantry Vehicle MIV project, launched by UK, with great interest. Patria is engaged in discussions regarding several future Finnish Defence Forces' projects.

Patria has strengthened its operations and international position by engaging local partners. The company has strong prospects of meeting customer needs based on its customer-driven approach, high quality products and rapid response time. Patria is firmly engaged in the development of its mortar and vehicle products. A topical example of this is the development of a 6x6 vehicle representing a new generation, which is now under way.



LAND

Patria's key competence areas include cutting-edge armoured wheeled vehicles, mortar systems, and the related life cycle support services. The most widely known products include the Patria AMV vehicle, the XA vehicle from the previous generation, and Patria Nemo and AMOS mortar systems. These are market leaders in their own product segments.



Personnel

277

Net sales as a share of group net sales



26%

Personnel as a share of group personnel



10%



Focus on software competencies

The year 2016 saw a heightened focus on software competencies in delivery projects, product development and on extensive recruitment which began towards the end of the year. Patria strengthened its competencies in cyber security by acquiring a minority stake in Silverskin Information Security Oy. Patria's expertise in simulators was showcased at international events, with the company introducing the Patria AMV Part Task Trainer training system at the Eurosatory exhibition.

The systems business covers a broad range of customers and technologies. However, whether on land, at sea or in the air, all systems have one thing in common. Software expertise lies at the core of them all.

Software competencies play a key role, whether a project involves application development, maintenance, system integration, product development or export products. At Patria, software professionals work on situational awareness systems used by the authorities, on military communications solutions and on the development and networking of international training systems. In addition to development and integration, Patria's extensive software expertise covers the lifecycle management of software and information systems. Patria has a total of approximately 250 software and systems professionals in its service and intends to hire more in 2017.

Strengthened competencies in international cyber security

In May, Patria acquired a minority stake (25%) in Silverskin Information Security Oy, a company specialising in cyber security. This acquisition will allow Patria to expand its cyber security business, opening up new business opportunities in Finland as well as the international market. Silverskin Information Security is an international actor in cyber security. Patria joining Silverskin as a partner is a key step towards the further development of operations in order to enable increasingly large projects and serve new customer groups.

Silverskin is an information security company with the highest certified levels of standards both in European Union and in the US Department of Defense. The company operates in Finland directly with the customers but also indirectly



Software competencies play a key role, whether a project involves application development, maintenance, system integration, product development or export products.

using a wide network of partners. International operations extend from South-East Asia and the Middle East to the USA. Silverskin offers real-time situational awareness about the state of the company's cyber security – from inside and out, coaches the personnel of the customer organisations in the field of cyber security and helps its customers to choose and to put into operation the best and most suitable information security standards.

Cost-effective simulator solutions

Patria offers cost-effective training solutions for Patria AMV vehicle and Patria Nemo mortar systems. In this area in 2016, Patria focused on the networking of several simulators and, through this, the development and marketing of more extensive and integrated training systems. One example of this is a combined setup consisting of AMV PTT and Nemo training simulator, which was showcased at the international Eurosat 2016 event.

SYSTEMS

Systems makes comprehensive software-intensive system and equipment deliveries to defence forces and security authorities. Areas of special expertise are intelligence, surveillance and command and control systems, as well as their integration, software and life-cycle support.

Personnel
 **247**

Net sales as a share of group net sales
 **5%**

Personnel as a share of group personnel
 **9%**

Millog, a strategic partner of the Defence Forces

Millog plays an important role as a strategic partner of the Finnish Defence Forces (FDF) in materiel maintenance. The operations of the company have developed favourably, and the extended partnership, launched in 2015, has progressed according to plan. During the year, Millog transferred its sensor business to a new subsidiary, Senop.

As a strategic partner of the Army and Navy, Millog is responsible for the maintenance of materiel and equipment, and acts as a technical expert organisation.

In 2016, Millog focused on process development. Observational studies were conducted at various sites and Millog's functional structure and processes were analysed. On the basis of such studies, the company will carry out development measures to further improve its production efficiency in the challenging defence sector. Millog has also invested in enhancing production efficiency by renewing its premises.

Expansion of the Parola Main Battle Tank repair shop was taken into use in 2016. The new repair facility in Pori Brigade was completed in February 2017. The new work shop in the Kainuu Brigade is scheduled to be functional in 2018.

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As a strategic partner of the Army and Navy, Millog is responsible for the maintenance of materiel and equipment.

In 2016, Millog celebrated its tenth anniversary and is recognized as the trusted partner of the Finnish Defence Forces. Millog's cost-effective concept is also regarded as having potential on the international markets.

Senop focuses on sensor systems and system integration

Senop's expertise includes high-tech night vision systems and demanding system integrations. Millog established Senop Oy the 1st of January 2016 as a subsidiary focusing on the development of modern sensor technology and demanding system integration.

Senop is continuing the development and sale of Millog's optical and optoelectronic products. The HUSKY® product



range consists of high-performance image intensifiers, night vision sights, and thermal imagers, as well as target acquisition systems for authority users. The company's product range includes integration of tactical command and control systems, and execution of system modernisation and integration projects. The company's products and services are marketed and sold to customers worldwide. Customers include defence forces, special forces, police, border control and customs authorities of various countries.

The integration business expands its product range

In May, Senop launched a lightweight and high load-carrying capacity container-based platform named Arctic Fox®. It is intended to serve as a platform for demanding tactical command and control systems and is verified to meet STANAG and NATO requirements.

Senop expands its sensor expertise

In June, Senop acquired business operations of Rikola Ltd Oy, a company specialising in optoelectronics. As a result of this transaction, Senop now develops and manufactures hyper-spectral cameras and optoelectrical components for use in industry and research institutes. Combined with Senop's strong optronics know-how, Rikola's expertise reinforces Senop's ability to develop new, high-quality products for customers in the defence, security and civilian sectors. Senop's customer base in the industry and research communities will expand significantly as a result of the transaction. The transaction will open up new business opportunities both in Finland and abroad.



MILLOG

Patria's subsidiary Millog Oy (Patria's share of Millog's stocks is 61.8%) is the FDF's strategic partner, which provides life-cycle support services for Army and Navy materiel in both normal and exceptional conditions. Millog Oy's subsidiary (100%), Senop Oy, manufactures optoelectronic systems and provides system integration services.

Personnel
 **1,093**

Net sales as a share of group net sales
 **41%**

Personnel as a share of group personnel
 **40%**

Nammo – high-technology ammunition

The Nammo Group is owned in equal shares by Patria and the state of Norway. The group operates internationally. Its broad portfolio includes ammunition, rocket motors for military and space applications, as well as environmentally friendly demilitarisation services.

Nammo specializes in high-technology products and services. The group is present in 12 countries and more than 70% of its turnover comes from outside the Nordic countries, especially from North America.

Nammo Group operates through six business units: Commercial Ammunition, Small and Medium Caliber Ammunition, Large Caliber Ammunition, Shoulder Fired Systems, Aerospace Propulsion and Demil, Sea Safety and Services.

The Nammo Group is driven by precision engineering, a dedication to safeguarding the environment, and the development of innovative, global solutions.

The company seeks growth in its current markets, both organically and through acquisitions.

In Patria's financial statements, Nammo Group was redefined at the beginning of 2013 as a joint venture and consolidated using the equity method instead of the previously used proportionate method. Nammo AS publishes its own annual report and corporate responsibility report, available on the company's website at www.nammo.com.



The Nammo Group is driven by precision engineering, a dedication to safeguarding the environment, and the development of innovative, global solutions.



NAMMO

Nammo AS develops and manufactures high-technology ammunition for military and commercial purposes. Other products include shoulder-fired systems and rocket motors for military and space applications. Nammo is a leading global provider of environmentally friendly demilitarisation services. Nammo is present in Australia, Canada, Finland, Germany, India, Norway, Poland, Sweden, Switzerland, Spain, the US and the UAE. Nammo is owned in equal shares by Patria (50%) and the state of Norway (50%).

Financial statement 2016

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Board of Directors' Report 2016

New orders and order stock

The value of new orders received during the financial period was EUR 268.5 million (EUR 299.0 million in 2015). Defence material and life cycle support accounted for 88% (92%) and civilian products for 12% (8%) of the new orders. At the end of December, the Group's order stock was EUR 857.7 million (EUR 1,056.4 million).

Net sales and profitability

The Group's net sales for the financial period increased as predicted 14.6% from 2015 and totalled EUR 489.9 million (EUR 427.7 million in 2015 and EUR 462.0 million in 2014). Defence material and maintenance accounted for 95% (93%) and civilian products for 5% (7%) of the net sales. Sales outside Finland for the financial period accounted for 41% (31%) of the net sales.

The Group's operating profit for the financial period was EUR 74.6 million, representing 15.2% of net sales (2015: EUR 46.8 million, 10.9%; 2014: EUR 56.0 million, 12.1%). The consolidated income before taxes for the financial period amounted to EUR 71.7 million (2015: EUR 44.4 million; 2014: EUR 54.7 million). The Group's return on equity for the financial period was 26.2% (2015: 19.0%; 2014: 18.7%).

Patria Group's earnings for the financial year 2016 measured up to expectations. Net sales grew and profitability was at a good level. During the financial period many projects and strategic partnerships important for the future of the Group proceeded as planned. The AMV 8x8 armoured wheeled vehicle project to the United Arab Emirates announced in January 2016 was a significant new project and it proceeded as planned with co-operation between the UAE Armed Forces and Patria.

During the financial year signs of revival were evident in the defence industry market due to the changes in the global

political security. At the same time increasing competition in many markets prolonged some ongoing tenders.

Financing and ownership

The Group's equity ratio at the end of December was 58.3% (2015: 49.8%; 2014: 45.3%) and net gearing 8.9% (2015: 15.9%; 2014: 17.0%).

Consolidated liquid funds at the end of December amounted to EUR 6.6 million (EUR 8.0 million). The Group's interest-bearing liabilities totalled EUR 29.8 million (EUR 42.1 million) at the end of December. The interest-bearing liabilities included finance lease liabilities of EUR 21.4 million (EUR 22.9 million).

In May the competition authorities approved the share transaction in which the State of Finland sold 49.9 percent of Patria Oyj to Norwegian Kongsberg Defence & Aerospace AS.

After the transaction the shareholders of Patria Oyj are the State of Finland with 50.1% stake and Kongsberg Defence & Aerospace AS with 49.9% stake.

The company has one series of shares comprising of a total of 27,841,889 shares.

Capital expenditure and acquisitions

The Group's capital expenditure for the financial period totalled EUR 12.6 million (EUR 23.9 million). Capital expenditure was mainly related to facilities and equipment, IT and production. In addition, a total of EUR 3.9 million (EUR 0.0 million) was spent on acquisitions.

In May 2016 Patria Oyj acquired a minority stake (25%) of Silverskin Information Security Oy which is specialized in cyber security. This acquisition allows Patria to expand its cyber security business, and it opens up new business opportunities both in the international market and in Finland.

In June Senop Oy, a subsidiary of Millog Oy, focusing on modern sensor technology and advanced system integration,

acquired the operations of Rikola Ltd Oy, an optoelectronics company. The acquisition supports Senop Oy further to expand its optoelectronics business.

Research and development

The Group's expenditure on research and development for the financial period amounted to EUR 7.3 million (EUR 7.3 million), representing 1.5% (1.7%) of the net sales. The most significant research and development areas included armoured wheeled vehicles, turret systems, composite structures for aircraft and their manufacturing processes, aeronautical research, data links, fire control systems, electronic intelligence, simulators, optronics and digitalization.

Personnel

During the financial period the Group employed an average of 2,765 (2015: 2,806; 2014: 2,546) persons. At the end of December, the personnel totalled 2,750 (2015: 2,754; 2014: 2,445).

The salaries and wages of Patria Group's employees are determined on the basis of local collective and individual agreements as well as employee performance and job evaluations. Basic salaries and wages are complemented by performance-based compensation systems. All Patria employees are part of a yearly bonus plan. In 2016, the total amount of salaries and wages paid was EUR 136.9 million (2015: EUR 138.2 million; 2014: EUR 125.0 million).

The objective of the personnel strategy is to help the Business Units to meet their business targets and to ensure future competitiveness, and to maintain and secure strategically important functions and competences. During the financial period, special emphasis was given to employee well-being and safe and healthy working environment. In Patria, employee well-being is measured against e.g. sickness absence rates and

the number of work-related accidents. Monitoring of these key performance indicators was further developed in 2016.

A long term programme, established in 2013 to further develop management resources, continued. The goal of the programme is to identify and develop future talents for leading positions in the Business Units as well as on Group-level. Hence, participants are offered motivational career development opportunities through non-traditional learning and strategy work. In addition, business units' managers have been coached to improve the quality of performance management.

Key events during year 2016

In January 2016, Patria announced an order for Patria AMV 8x8 armoured wheeled vehicles to be delivered to the United Arab Emirates. This agreement continues the co-operation between the UAE Armed Forces and Patria.

In July the AMV35 vehicle offered by BAE Systems Australia and Patria was selected to take part in the 12-month Risk

Mitigation Activity for the Australian Army's Land 400 Phase 2 combat reconnaissance vehicle program.

In September Patria signed a contract on the upgrading of the avionics systems of two Border Guard Agusta/Bell 412 EP helicopters. This system upgrade comprises the integration of the avionics and mission systems, patient stretchers, infrared camera (FLIR) and video data link.

Patria Pilot Training and ASTCO Finland signed a partnership agreement on aviation security training that meets mandatory EASA requirements.

In October Finnair and Patria Pilot Training signed an agreement for training of new commercial pilots. According to the agreement, Patria will run an MPL-training program (Multi-Crew Pilot License) for Finnair together with the Finnair Flight Academy.

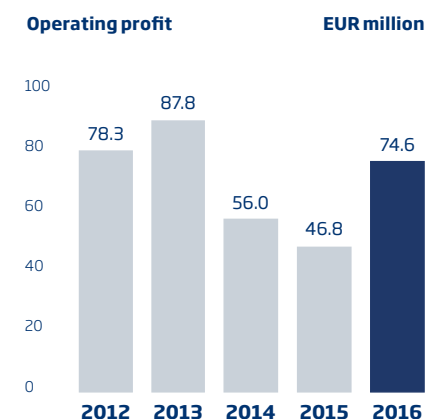
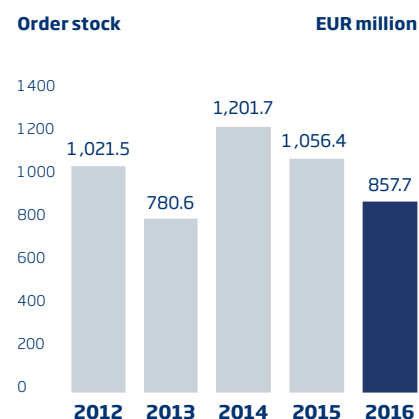
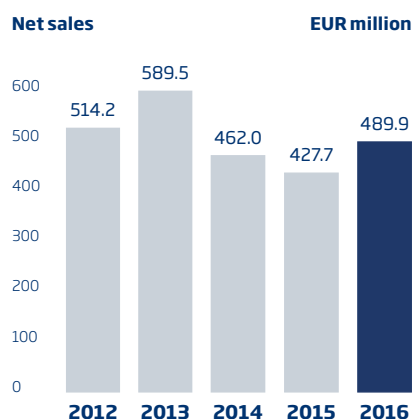
In October Patria signed a contract with Airbus for the manufacture of Airbus A320 Vertical Tail Plane components. The agreement covers the re-industrialization activities and the manufacture of the A320 VTP Ribs during the life of the aircraft programme.

In December the last F/A-18 Hornet multi-role fighter to be upgraded to Mid-Life Upgrade 2 was handed over to the Finnish Air Force. The upgrade included hardware and system installations and changes required by air-to-ground weaponry.

During the financial period, Patria attended several major defence industry events, eg. DIMDEX event in Qatar, Defence-Services Asia event in Malaysia, Black Sea Defense & Aerospace event in Romania, Eurosatory in France, DVD2016 event in the UK and Helitech International event in Holland.

Administration

Patria Oyj's Annual General Meeting held in Helsinki on 6 April 2016 adopted the Consolidated Financial Statements for the financial period that ended on the 31st December 2015. It was also resolved to discharge the members of the Board of Directors and the President from liability for the financial period of 2015. Furthermore, the Annual General Meeting resolved, according to the Board of Directors' proposal, to distribute a dividend of EUR 0.50 per share, totally EUR 13 920 944.50.



The years 2012-2013 pro forma due to the change of Nammo's consolidation method. From the year 2014 onwards, in Patria's financial statements, Nammo is consolidated using the equity method.

Christer Granskog, MSc (Eng.) continued as the Chairman of the Board of Directors of Patria Oyj, and Kirsi Komi, Master of Laws, as the Vice Chairman. Kari Rimpi, Lieutenant General (ret.), Sari Helander, CFO, Posti Group Oyj and Marko Hyvärinen, Financial Counsellor, Prime Minister's Office, Ownership Steering Department, continued as members of the Board of Directors.

The Extraordinary General Meeting of Shareholders held on 25 May 2016 appointed the new Board of Directors to Patria Oyj. Christer Granskog continued as Chairman of the Board and Marko Hyvärinen continued as member of the Board of Directors. Ari Puheloinen, Päivi Marttila, Harald Aarø, Geir Håøy, Harald Ånnestad and Janne Sølvi Weseth were elected as new members of the Board of Directors.

The Extraordinary General Meeting of Shareholders held after the financial period on 13 January 2017 elected Eirik Lie as a new member of the Board of Directors to Patria Oyj to replace Harald Ånnestad.

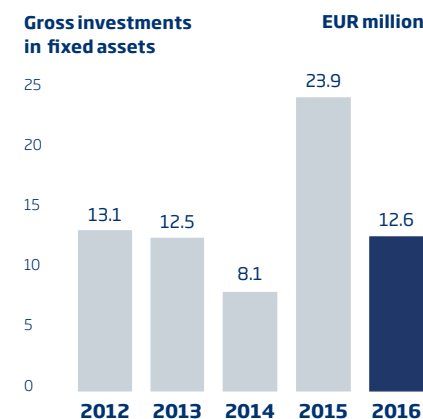
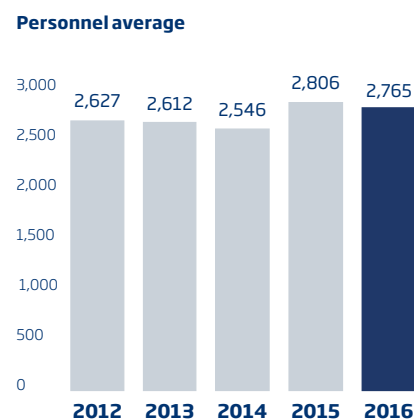
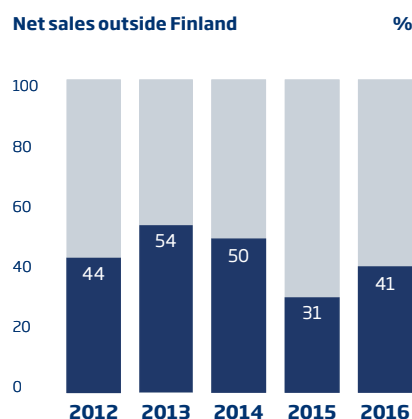
Patria Oyj's Board nominated a Nomination and Compensation Committee and an Audit Committee to assist the Board.

The Nomination and Compensation Committee consisted until May 25 2016 Christer Granskog, MSc (Eng.), Chairman, Kari Rimpi, Lieutenant General (ret.) and Marko Hyvärinen, Financial Counsellor, Prime Minister's Office, Ownership Steering Department. Harald Aarø, Geir Håøy and Ari Puheloinen were elected as new members of the Nomination and Compensation Committee and Kari Rimpi and Marko Hyvärinen left their positions on 25 May 2016. The Nomination and Compensation Committee prepares the compensation structures of the company management, compensation- and benefits programs and decides on the most important management nominations.

The Audit Committee had, during financial period 2016, three members. The members of the Audit Committee until 25 May 2016 were: Kirsi Komi, Master of Laws (Chairman), Sari Helander, CFO, Posti Group Oyj and Marko Hyvärinen, Financial Counsellor, Prime Minister's Office, Ownership Steering Department. On 25 May 2016 Marko Hyvärinen was elected as the new Chairman of the Audit Committee and Päivi Marttila and Janne Sølvi Weseth were elected as new members of the Audit

Committee. The Audit Committee supervises and monitors execution and organization of internal controls within the Patria Group, risk management and financial reporting as well as preparation of the financial statements. In addition to this the Audit Committee is responsible for supervising and monitoring of the Compliance and Ethics issues and related activities within Patria. As regards other duties of the Board no specific sharing of such duties has been agreed upon by the Board.

Sinuhe Wallinheimo, M.P., continued as the Chairman of Patria Oyj's Consultative Committee and Kalle Hyötynen, member of Tampere City Council, continued as the Vice Chairman. Of the other members Mika Kari, M.P., Mikko Savola, M.P. and Kari Takanen Vice Admiral, Chief of Defence Command, Petri Peltonen, Under-Secretary of State at Ministry of Employment and the Economy, Raimo Vistbacka, Master of Laws, Eero Järvinen, Armoured Vehicle Mechanic, Patria, Jussi Karimäki, Equipment Assembler, Patria, Juha Kuusi, System Specialist, Patria and Petri Pitkänen, Workshop Manager, Patria, continued as members.



The years 2012–2013 pro forma due to the change of Nammo's consolidation method. From the year 2014 onwards, in Patria's financial statements, Nammo is consolidated using the equity method.

PricewaterhouseCoopers Oy, Authorised Public Accountants, was appointed as Auditor with Mr Jouko Malinen, APA, as the partner in charge.

Internal audit in Patria Group was carried out by KPMG Oy, Authorised Public Accountants.

Patria's Board of Directors appointed Olli Isotalo, 57, Master of Science (Eng.), as President and CEO as of 15 August 2016. Heikki Allonen, Master of Science (Eng.), retired from the position in August as agreed.

Risks and uncertainties

Patria complies with a risk management policy approved by the Board of Directors that defines, in addition to the objectives and general practices, the tasks and responsibilities related to risk management. Risk management activities cover strategic, operational, and compliance risks as well as financial risks.

Patria develops, offers and delivers technically advanced products, solutions and services to its customers. Main part of the Group's sales is to defence sector – armed forces, ministries, state-owned companies and major publicly listed companies in the defence industry. The operating environment has remained challenging and this may result in some customers reducing, postponing or abandoning their planned procurements or requesting changes to existing contracts.

Owing to the nature of Patria's business, individual sales contracts may be large in relation to the annual net sales of the Group. They may entail product development, require extensive subcontracting and partnering and result in deliveries taking place during several years. In addition, the delivery content and the industrial set-up with the partners involved may be complex. Risks and uncertainties related to such contracts and projects, throughout their lifetime, are typically versatile and material, which requires careful assessment and management. Methods and resources to identify, assess, follow-up and manage risks and uncertainties related to ongoing and new projects have been and are being further strengthened and developed.

Related to the Croatian vehicle project in 2005–2008, the Turku Court of Appeal, in its decision rendered in February 2016, overturned the earlier judgment by the District Court of Kanta-Häme rendered in February 2015, and dismissed all bribery charges and request for company fine. The state was ordered to compensate Patria for legal costs and the prolonged trial. As none of the parties requested for right to appeal to the Supreme Court, the decision of the Turku Court of Appeal became final.

During the financial period, the arbitration proceedings started in 2012 continued in Poland against the Polish State in a dispute related to an offset obligations and issuance of a bank guarantee related to agreements signed in 2003 concerning supply of armoured vehicles, offset obligations and manufacturing licence in Poland.

Corporate social responsibility

Corporate social responsibility is the foundation of Patria's profitable and sustainable business and continuance thereof. Patria's operations are based on and governed by laws, regulations, international agreements and Patria's own policies. The corporate social responsibility report (CSR) is an integral part of Patria's Annual Report 2016.

In Patria, the Board of Management is responsible for steering of the activities concerning corporate social responsibility, and this increases transparency and dialogue within the group. Steering and monitoring of ethics related matters is clearly specified in the Board of Director's Audit Committee's charter. In 2016 the Board of Directors, the Audit Committee and the Board of Management received regular reports on activities and issues relating to Corporate Social Responsibility. As the Norwegian Kongsberg Defence & Aerospace AS became the other shareholder in Patria, cooperation concerning development of ethics and compliance related issues as well as best practices between Patria and Kongsberg has commenced and is ongoing.

The fundamental themes of Patria's corporate social responsibility are good partnership, ethical conduct, being a good employer, and environmental responsibility. For

Patria, being a good partner means long term, constructive collaboration with customers, subcontractors, vendors and other stakeholders. The other stakeholders include owners, personnel, non-governmental organisations (NGOs), schools, students and the media. Good partnership means ensuring open and transparent relationships and achieving the trust and endorsement of the authorities, customers, skilled employees, as well as professional, trustworthy, open and transparent collaboration satisfying to all parties. During 2016 development of internal activities and operations was continued in order to increase competitiveness and efficiency. Improved processes were implemented with respect to suppliers to ensure the level of ethical conduct of the suppliers. Efforts were focused also on group level communication and open dialog with stakeholders to increase transparency for example with regular meetings with NGOs.

Ethical conduct is an implicit foundation for Patria's operations and decision making. It ensures our stakeholders' confidence in the company's operations. During the financial period ethical conduct continued to be developed according to the 18-month rolling plan. During year 2016, a survey was conducted to detect potential serious misconduct in the company. The survey is repeated every other year. The findings of the survey showed that investments in ethics and compliance training and development of the ways of operating have been efficient and according to the respondents serious misconduct is not likely to take place in Patria.

Patria follows Aerospace and Defence Industries Association of Europe's (ASD) standards for ethical operations (Common Industry Standards, CIS) and supports UN's Global Compact initiative. Patria has also signed the Global Compact initiative to enhance anti-corruption. With respect to corruption, Patria has a zero tolerance approach. During year 2016 Patria handed over its membership application to the International Forum on Business Ethical Conduct for the Aerospace and Defense Industry IFBEC.

Patria's CEO clearly communicated his requirement for zero tolerance for unethical practices in various occasions internally and externally. In addition to targeted class room

trainings, Patria carried out an ethical online training for the whole personnel. Furthermore, all new employees received ethical training. External and internal, anonymous, whistle blowing channels were available.

Patria's environmental policy regulates that environmental impact and risks are to be considered in all business planning, operations and management. All Patria's major operational locations are ISO14001 certified.

Patria also conducted an evaluation of its environmental management issues and related activities with respect to legislation and expectations set by various stakeholders and governed by various requirements and foreseen changes therein. The results of this evaluation will be used in further development and monitoring of the action plan made in 2016.

As part of Society's Commitment to Sustainable Development, coordinated by the Ministry of the Environment, in 2015 Patria pledged to develop the energy efficiency of the real estate property it manages and to further enhance occupational safety in order to reduce the number of accidents at work. Activities in this area continued during 2016.

Events after the financial period

On 25 January, Olli Isotalo was appointed as Chairman of AFDA, the Association of Finnish Defence and Aerospace Industries.

In February 2017, Patria purchased five training aircraft and two flight training simulators from the Austrian manufacturer Diamond Aircraft Industries GmbH.

Outlook

Patria's domestic main customer, The Finnish Defence Forces, has significant projects in progress. These projects are extremely important to Patria and to Finland's entire defence industry and its future. The development of the order stock depends on whether certain large export projects, now at the tendering stage, are launched on international markets in Australia and in the Middle East. Internal action will be taken to increase the cost-effectiveness and flexibility of operations.

Board of Directors' proposal for profit distribution

The parent company's non-restricted equity on December 31, 2016 is EUR 258,244,961.28 of which the net profit for the financial period is EUR 30,042,101.80.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.12 per share be paid on the shares owned by the State of Finland and Kongsberg Defence & Aerospace AS. Under the proposal, the total amount of dividends will be EUR 31,182,915.68. The Board of Directors further proposes that the remaining non-restricted equity, EUR 227,062,045.60 be retained and carried forward.

Annual General Meeting 2017

The Annual General Meeting of Patria Oyj will be held on 8 May 2017 in Helsinki, Finland.

Consolidated Balance Sheet

EUR million	Note	31/12/2016	31/12/2015
Assets			
Non-current assets			
Intangible assets	11		
Intangible rights		1.7	2.0
Goodwill	8, 11	25.6	25.0
Other long-term expenditures		5.3	3.4
Advance payments		0.1	0.0
Tangible assets	11		
Land and water		2.0	2.3
Buildings and constructions		45.2	47.7
Machinery and equipment		16.8	18.6
Other tangible assets		0.4	0.2
Advance payments and construction in progress		4.3	7.5
Investments in joint ventures	12	164.4	149.2
Other shares	13	0.2	0.2
Deferred tax assets	10	4.2	6.2
Other receivables		6.9	7.2
Long-term receivables from joint ventures	12	0.5	0.1
Total Non-current assets		277.8	269.7
Current assets			
Inventories			
Raw materials and supplies		40.8	42.4
Work in progress		23.8	22.4
Finished goods		2.1	1.4
Advance payments		1.1	7.9
Receivables			
Accounts receivable	2	113.7	102.1
Receivables from joint ventures	12	0.5	1.5
Other receivables		7.1	1.9
Prepaid expenses and accrued income	14	16.1	18.0
Derivative financial instruments	22	1.6	0.3
Current tax asset		0.5	0.3
Cash and cash equivalents		6.6	8.0
Total Current assets		213.9	206.1
Total Assets		491.7	475.8

EUR million	Note	31/12/2016	31/12/2015
Shareholders' equity and liabilities			
Shareholders' equity	18		
Share capital		38.0	38.0
Revaluation fund	17	-1.1	-1.2
Invested non-restricted equity fund		164.1	164.1
Translation differences		9.4	10.0
Retained earnings		-27.7	-47.9
Net income for the period		62.6	38.4
Equity attributable to shareholders of parent company		245.2	201.4
Non-controlling interests		17.6	12.5
Total Shareholders' equity		262.8	213.9
Non-current liabilities			
Deferred tax liability	10	0.9	1.6
Employee benefits	7	4.4	4.0
Provisions	20	26.5	42.4
Interest bearing liabilities	2, 19	27.5	29.8
Total Non-current liabilities		59.3	77.8
Current liabilities			
Interest bearing liabilities	2, 19	2.3	12.3
Advance payments		41.1	45.1
Accounts payable		19.6	20.1
Liabilities to joint ventures	12	0.0	0.9
Other current liabilities		14.5	12.8
Accruals and deferred income	15	86.7	91.0
Derivative financial instruments	22	0.6	0.9
Current tax liability		4.8	0.9
Total Current liabilities		169.6	184.1
Total Shareholders' equity and liabilities		491.7	475.8

Consolidated Income Statement

EUR million	Note	1–12/2016	1–12/2015
Net sales	4	489.9	427.7
Other operating income	5	7.2	7.6
Share of joint ventures result		16.2	12.8
Change in inventories of finished goods and work in progress		2.1	1.7
Production for own use		0.1	3.1
Raw materials and supplies		-143.5	-131.5
Change in inventories of raw materials		-1.6	11.8
Services purchased		-43.6	-36.8
Employee benefit expenses	7	-169.7	-170.0
Depreciation, amortization and impairments	8	-14.9	-14.0
Other operating expenses	5	-67.8	-65.6
Operating profit		74.6	46.8
Financial income and expenses	9		
Interest and other financial income		0.3	0.1
Interest and other financial expenses		-3.3	-2.4
Exchange gains and losses		0.1	-0.1
Income before taxes		71.7	44.4
Income taxes	10	-9.1	-6.0
Profit for the period		62.6	38.4
Net income attributable to non-controlling interests		7.0	4.7
Net income attributable to equity shareholders		55.6	33.7
Profit for the period		62.6	38.4

Consolidated Statement of Comprehensive Income

EUR million	Note	1–12/2016	1–12/2015
Profit for the period		62.6	38.4
Other comprehensive income			
Items that may be reclassified to profit or loss in subsequent periods			
Cash flow hedges		0.1	-0.8
Change of translation difference		-0.7	0.3
Items that will not be reclassified to profit or loss in subsequent periods			
Actuarial gains/losses on defined benefit plans		-0.1	0.6
Share of comprehensive income in joint ventures		-2.3	0.7
Total comprehensive income		59.6	39.2
Total comprehensive income attributable to non-controlling interests		7.0	4.9
Total comprehensive income attributable to equity shareholders		52.7	34.3
Total comprehensive income		59.6	39.2

The notes are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

EUR million	Notes	1–12/2016	1–12/2015
Net income for the period		62.6	38.4
Depreciation, amortization and impairments	8	14.9	14.0
Capital gains/losses		-1.2	0.0
Other adjustments			
Share of result in joint ventures		-16.2	-12.8
Dividends received from joint ventures		5.8	5.4
Financing items and taxes		-2.9	-3.0
Other adjustments		0.1	0.1
Financing items		3.0	2.2
Taxes	10	9.1	6.0
Change in receivables		-15.1	24.3
Change in payables		-22.8	-15.4
Change in inventories		6.0	-18.8
Cash flow from operations		43.3	40.5
Interest received		0.2	0.2
Interest paid		-1.3	-0.6
Other financial items		-0.8	-0.4
Income taxes paid		-4.3	-3.4
Cash flow from operating activities		37.1	36.3
Acquired associated companies and joint ventures		-3.1	0.0
Acquired business operations		-0.8	0.0
Other capital expenditures		-12.6	-21.3
Sale of other shares		0.0	0.0
Sale of other fixed assets and other changes		4.8	0.9
Other changes and exchange rate differences		-0.4	-0.2
Cash flow from investing activities		-12.0	-20.6
Repayments of long-term loans		-0.7	-0.7
Change in short-term financing		-10.0	-20.8
Financial assets at fair value through income statement		0.0	12.7
Dividends paid to equity shareholders		-13.9	-13.9
Dividends paid to non-controlling interests		-1.9	-1.5
Other changes		0.0	-1.0
Cash flow from financing activities		-26.5	-25.3
Change in liquid funds		-1.4	-9.6
Liquid funds at the beginning of the period		8.0	17.7
Change		-1.4	-9.6
Liquid funds at the end of the period		6.6	8.0

The notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

EUR million	Share capital	Invested non-restricted equity fund	Revaluation fund	Translation differences	Retained earnings	Equity attributable to shareholders of parent company	Non-controlling interests	Total Shareholders' equity
Opening balance	38.0	164.1	-1.2	10.0	-9.5	201.4	12.5	213.9
Dividends paid					-13.9	-13.9		-13.9
Other comprehensive income			0.1	-0.7	-2.4	-3.0		-3.0
Non-controlling interests					-6.9	-6.9	5.1	-1.9
Exchange rate difference					-0.6	-0.6		-0.6
Corrections to previous year's bookings					5.7	5.7		5.7
Net income for the period					62.6	62.6		62.6
31 Dec 2016	38.0	164.1	-1.1	9.4	34.9	245.2	17.6	262.8

EUR million	Share capital	Invested non-restricted equity fund	Revaluation fund	Translation differences	Retained earnings	Equity attributable to shareholders of parent company	Non-controlling interests	Total Shareholders' equity
Opening balance	38.0	164.1	-0.4	9.7	-31.2	180.1	9.2	189.3
Dividends paid					-13.9	-13.9		-13.9
Other comprehensive income			-0.8	0.3	1.3	0.8		0.8
Non-controlling interests					-4.9	-4.9	3.3	-1.5
Exchange rate difference					1.0	1.0		1.0
Corrections to previous year's bookings					-0.1	-0.1		-0.1
Net income for the period					38.4	38.4		38.4
31 Dec 2015	38.0	164.1	-1.2	10.0	-9.5	201.4	12.5	213.9

The notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. Accounting principles for the consolidated financial statements

DESCRIPTION OF BUSINESSES

Patria is a defence and aerospace group with international operations delivering its customers competitive solutions based on own specialist know-how and partnerships. Patria is owned by the State of Finland 50.1% and Kongsberg Defence & Aerospace AS 49.9%.

The operations of Patria Oyj and its subsidiaries (together "Patria" or the "Group") are organised into three business segments: Land Solutions, Systems and Services and Other Operations.

Patria Oyj ("the Company") is a Finnish public limited company organised under the laws of the Republic of Finland and with its registered address at Kaivokatu 10 A, 00100 Helsinki.

BASIS OF PRESENTATION

The Consolidated Financial Statements of Patria have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union including International Accounting Standards ("IAS") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

USE OF ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in accordance with IFRS requires management to make estimates and judgements that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period.

Accounting estimates and judgements are employed in the financial statements to determine reported amounts, including the realizability of certain assets, the useful lives of tangible and intangible assets, income taxes, inventories, provisions, pension obligations and impairment of goodwill and other items. The basis for the estimates and judgements are described in more detail in these accounting principles and in connection with the relevant disclosure to the financial statements.

Although these estimates and judgements are based on management's best knowledge of current events and actions, actual results may differ from the estimates.

PRINCIPLES OF CONSOLIDATION

Subsidiaries

The consolidated financial statements include the parent company Patria Oyj and all subsidiaries where over 50% of the subsidiary's voting rights are controlled directly or indirectly by the parent company. Internal shareholding has been eliminated using the acquisition method. Subsidiaries acquired during the financial year are included in the

consolidated financial statements from the date of their acquisition and disposed subsidiaries are included up to their date of sale.

Associated companies

Associated companies, in which Patria holds voting rights of 20–50% and in which the Group has significant influence, but not control, over the financial and operating policies, are included in the consolidated financial statements using the equity method. When Patria's share of losses exceeds the interest in the associated company, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has made a commitment to fulfil the liabilities of the associated company in question.

Joint ventures

Joint ventures are entities in which a company enters into a contractual arrangement whereby it shares control over the finances and operations together with other parties. The Group's holdings in joint ventures are consolidated using the proportionate method line by line. Accordingly, Patria's consolidated financial statements include an amount of the joint ventures' assets, liabilities, revenue and expenses corresponding to the company's holding in them. Nammo Group has been consolidated using the equity method.

All intra-group transactions, receivables, liabilities and unrealised margins, as well as distribution of profits within the Group, are eliminated. Business combinations between entities under shared control are measured using the purchase prices as such acquisitions do not belong to the scope of application of IFRS 3 Business Combinations.

FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are translated into Euros using the exchange rates prevailing at the dates of the transactions. Receivables, liabilities and derivative instruments in foreign currencies are translated into Euros at the exchange rates prevailing at the balance sheet date. Foreign exchange gains and losses resulting from translating are recognised in the income statement. Foreign exchange gains and losses related to business operations are included in the corresponding items above the operating profit line. Foreign exchange gains and losses related to loans and receivables in foreign currencies are included in financial income and expenses.

The income statements of the Group companies domiciled outside the Euro area are converted into Euro using the average exchange rate of the reporting period while the balance sheets are converted using the exchange rate quoted on the date of the Financial Statements. The exchange rate differences resulting from the conversion of the Financial Statements into Euro are recognised in translation differences under consolidated equity. The translation differences resulting from the movements in exchange rates used to translate equity are likewise recognised directly in translation differences under consolidated equity.

The accumulated translation differences related to divested Group companies, recorded under equity, are recognised in the Income Statement as part of the gain or loss on the sale.

FINANCIAL INSTRUMENTS

Financial instruments are classified as loans and other receivables, held-to-maturity investments, available-for-sale financial assets, financial liabilities at amortised cost and financial assets and liabilities at fair value through income statement.

Unless separately stated in the Notes the carrying value is considered to be equal to the fair value.

Loans and receivables as well as all financial liabilities are recognised at the settlement date and measured at amortised cost using the effective interest rate method.

Available-for-sale financial assets for example investments in mutual funds and commercial papers are measured at fair value and the valuation is based on quoted rates and market prices. Unlisted securities for which fair value cannot be reliably measured are recognised at cost less impairment. Fair value changes of available-for-sale investments are recognised directly in other comprehensive income. In the event such an asset is disposed of, the accumulated fair value changes are released from other comprehensive income to financial income and expenses in the income statement. Impairments are recognized in the income statement. Significant or prolonged decline in the fair value will lead to impairment write-down, which is recognised in profit and loss. Purchases and sales of available-for-sale financial assets are recognised at the settlement date.

All derivatives, including embedded derivatives, are initially recognised at fair value. Determination of fair values is based on quoted market prices and rates, discounting of cash flows and option valuation models.

Hedge accounting is applied while hedging estimated future cash flows with foreign currency derivatives and the loan portfolio with interest rate derivatives (cash flow hedging). Fair value changes of derivatives, which are assigned to hedge forecast transactions (cash flow hedging), are recognised in other comprehensive income to the extent that the hedge is effective. The ineffective portion of the hedging instrument is recognised immediately in the income statement. Such accumulated fair value changes are released into income in the period when the hedged cash flow affects income. Hedge accounting is not applied to derivatives hedging balance sheet items.

All recognised fair value changes to other comprehensive income are net of tax.

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be

objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated income statement.

REVENUE RECOGNITION

Consolidated net sales include income from the sale of goods and services, with adjustments for indirect taxes, discounts and conversion differences resulting from sales in foreign currencies. Income from the sale of goods is recognised when the major risks and benefits from the ownership of the goods have been taken over by the buyer. Income from services is recognised when the service has been rendered.

Sales and cost of sales under the long-term contracts are recorded on a percentage of completion basis. Sales and profits are recorded after considering the ratio of accumulated costs to estimated total costs to complete each contract.

Sales and cost of sales from contracts are recognised on the percentage of completion method when the outcome of the contract can be estimated reliably. A contract's outcome can be estimated reliably when total contract revenue and the costs to complete the contract can be estimated reliably, it is probable that the economic benefits associated with the contract will flow to the Group and the stage of contract completion can be measured reliably.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as they are incurred. Development costs are capitalised when the criteria according to IAS 38 standard are met. Capitalised development expenses, comprising materials, supplies, direct labor and related overhead costs are amortised on a systematic basis over their expected useful lives.

Capitalised development costs are subject to regular assessments of recoverability based on anticipated future revenues. Unamortised capitalised development costs determined to be in excess of their recoverable amounts are expensed immediately.

INCOME TAXES

The Group income tax expense includes taxes of the Group companies based on taxable profit for the period, together with tax adjustments for previous periods and the change in deferred income taxes. The income tax effects of items recognised in other comprehensive income are similarly recognised. The share of results in associated companies is reported in the income statement as calculated from net profit and thus including the income tax charge.

Deferred income taxes are stated using the balance sheet liability method, as measured with enacted tax rates, to reflect the net tax effects of all temporary differences between the financial reporting and tax bases of assets and liabilities. The main temporary differences arise from the depreciation difference on property, plant and equipment, fair valuation of net assets in acquired companies, fair valuation of available-for-sale financial assets and derivatives, intra-group inventory profits, pension and other provisions, untaxed reserves and tax losses and credits carried forward. Deductible temporary differences are recognised as a deferred tax asset to the extent that it is probable that future taxable profits will be available, against which the deductible temporary difference can be utilised.

PROPERTY, PLANTS AND EQUIPMENT

Property, plants and equipment are measured at their historical cost, less depreciation and impairment. The assets are depreciated over their economic life using the straight-line depreciation method. The economic life of assets is reviewed if necessary, adjusting it to correspond to possible changes in the expected economic use.

The assessed economic lives are as follows:

- Buildings 10 to 30 years
- Machinery and equipment 3 to 15 years
- Other tangible assets 3 to 20 years

Land areas are not subject to depreciation. Repair and maintenance costs are recognised as expenses for the financial year in question. Improvement investments are capitalised if they will generate future economic benefits. Capital gains and losses resulting from the sale of tangible assets are recognised in the income statement.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill is measured at historical cost, less impairment. The Group assesses the carrying value of goodwill annually or, more frequently, if events or changes in circumstances indicate that such carrying value may not be recoverable. Impairment losses are recognised immediately in the profit and loss account.

Intangible assets include, capitalised development cost, trademarks, patents, software licences as well as product and marketing rights. Intangible assets originating through development are recognised in the Balance Sheet only if the criteria of the IAS 38 standard are met.

Acquired intangible assets are measured at their historical cost, less depreciation. With the exception of goodwill, the assets are depreciated over their economic life, normally three to twenty years, using the straight-line depreciation method. Development costs are depreciated using the straight-line method or in accordance with the deliveries of the end product. If the economic life exceeds twenty years, depreciation may be, case by case calculated using the straight-line depreciation method over the economic life. In aerospace industry, the time between launching of research and product development processes and commercial launching of complete products is long, as are the lifecycles of products. In addition, investments in technology have a long-term effect.

GRANTS RECEIVED

Government or other grants are recognised as income on a systematic basis over the periods necessary to match them with the related costs, which they are intended to compensate. Grants related to the acquisition of tangible or intangible assets are recognised as decreases of their acquisition costs.

IMPAIRMENTS

Property, plant and equipment and other non-current assets, including goodwill and intangible assets, are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Goodwill is in all cases tested annually. For the purposes of assess-

ing impairment, assets are grouped at the lowest cash generating unit level. An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount. However, the reversal must not cause that the adjusted value is higher than the carrying amount that would have been determined if no impairment loss had been recognised in prior years. Impairment losses recognised for goodwill are not reversed.

LEASES

Leases, on the basis of which the Group takes over a material part of the risks and benefits related to the ownership of such assets, are classified as finance leases. Finance leases are recorded in the Balance Sheet under assets and liabilities, mainly at the time when the lease period starts, either at the fair value of the assets or the lower present value of the minimum lease payments.

The assets acquired through finance lease agreements will be depreciated as any non-current assets, either over the economic life of the assets or over a shorter lease term. Finance lease liabilities are recorded under the non-current and current interest-bearing liabilities in the Balance Sheet.

If the lessor maintains the ownership risks and benefits, the lease agreement is treated as an operating lease, and the lease paid on the basis of such agreement is recognised as an expense, allocated over the entire lease term.

EMPLOYEE BENEFITS

Group companies in different countries have various pension plans in accordance with local conditions and practices. The plans are classified as either defined contribution plans or defined benefit plans. The contributions to defined contribution plans are charged to the income statement in the year to which they relate. The present value of the obligation under defined benefit plans is recorded in the balance sheet on the balance sheet date. Disability and retirement components of the Finnish Statutory Employment Pension Scheme (TyEL) have been accounted for as a defined contribution plans and unemployment component as a defined benefit plans.

INVENTORIES

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out (FIFO) method or weighted average cost that is sufficiently close to the factual cost calculated on FIFO basis.

The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads.

ACCOUNTS RECEIVABLE

Accounts receivable are carried at their anticipated realizable value, which is the original invoice amount less an estimated impairment of these receivables. An impairment of accounts receivable is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, bank deposits. Bank overdrafts are included within borrowings in current liabilities in the balance sheet.

PROVISIONS

Provisions are recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions arise from restructuring plans, onerous contracts, guarantee and claim works.

DIVIDENDS

The dividend proposed by the Board of Directors is not deducted from distributable equity until approved by the Annual General Meeting of Shareholders.

SEGMENT REPORTING

The Group has decided not to apply the voluntary IFRS 8 standard and will not disclose financial information by segment in the financial statements.

APPLICATION OF NEW AND AMENDED IFRS STANDARDS AND IFRIC INTERPRETATIONS

The new and amended standards in 2016 did not have any material impact on financial statements.

The new and amended standards in 2017 are not expected to have any material impact on financial statements.

The new and amended standards and interpretations effective after the year 2017 and onwards are currently being evaluated in terms of their impact on the Group's profit for the period, financial position and presentation of the financial statements. The International Accounting Standards Board has issued three new standards, IFRS 15, Revenue from Contracts with Customers, IFRS 9, Financial Instruments and IFRS 16, Leases which are relevant to the Group. IFRS 15 and IFRS 9 are effective starting on January 1, 2018 and IFRS 16 on January 1, 2019.

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue is recognized when, or as, the customer obtains control of the goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, IFRS 15 requires a set of quantitative and qualitative disclosures.

IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements.

IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts.

2. Financial risk management

MAIN PRINCIPALS OF FINANCIAL RISK MANAGEMENT

The Board of Directors of Patria has approved the Treasury Management Policy, according to which treasury management and management of financial risks of the parent company and the subsidiaries are conducted.

The key tasks of the Group Treasury Function are the following: securing sufficient funding at all times for the parent company and the subsidiaries, arranging funding and credit lines, liquidity management, optimising net financial costs, organising and implementing management of financial risks, offering and providing subsidiaries with financial services and informing the Group management about the Group's financial position and risks.

Financial risks are later divided into currency risk, interest rate risk, liquidity and refinancing risk, credit and counterparty risk and operational risk. Subsidiaries and business units are responsible for hedging their financial risks according to Group guidelines and instructions given by Group Treasury.

CURRENCY RISKS

The objective of currency risk management is to hedge against exchange rate fluctuations affecting the future cash flow, result and balance sheet. Foreign currency exposures, which include binding sales, purchase and finance contracts (transaction position), are hedged by project or transaction by using foreign exchange derivatives. The subsidiaries are responsible for determining and hedging their exposures against Patria Finance Oyj, which makes the necessary hedging transactions with banks.

Patria applies hedge accounting according to IAS 39 while hedging estimated future cash flows with foreign currency derivatives (cash flow hedging). Fair value changes of derivatives, which are assigned to hedge forecast transactions (cash flow hedging), are recognised in other comprehensive income to the extent that the hedge is effective. The ineffective portion of the hedging instrument is recognised immediately in the income statement. Such accumulated fair value changes are released into income in the period when the hedged cash flow affects income. Hedge accounting is not applied to derivatives hedging balance sheet items.

A sensitivity analysis, in accordance with IFRS 7 shown later, aims to demonstrate the sensitivity of the consolidated income before taxes and equity to foreign exchange rate fluctuations. Net exposures include foreign currency denominated financial assets and liabilities in the balance sheets of the companies and the derivatives used to hedge these as well as derivatives for which hedge accounting is not applied. The change in fair value of these items is recognised in the income statement.

The change in fair value of derivatives to which hedge accounting is applied is recorded directly in the revaluation fund in equity. The change in fair value is expected to be offset by time as the opposite changes in the values of highly probable future forecasted cash flows materialise. The next table presents the net exposures as well as the effects based on the sensitivity analysis on result before the taxes and shareholders' equity, assuming that euro would have strengthened or weakened against the currency in question on the balance sheet date. The sensitivity is calculated for a five percent exchange rate change.

The most significant currency exposures on 31 December 2016 were in the Swedish krona (SEK), and United States dollar (USD).

IFRS 7 Sensitivity analysis – sensitivity to exchange rate fluctuations 2016

EUR million	SEK	USD
Net exposure	0.1	1.2
Euro strengthens / weakens 5% - Effect on income before taxes	-0.0 / 0.0	-0.1 / 0.1
Euro strengthens / Effect on equity	-0.0 / 0.0	0.7 / -0.8

IFRS 7 Sensitivity analysis – sensitivity to exchange rate fluctuations 2015

EUR million	SEK	USD
Net exposure	0.7	1.4
Euro strengthens / weakens 5% - Effect on income before taxes	-0.0 / 0.0	-0.1 / 0.1
Euro strengthens / Effect on equity	-0.0 / 0.0	0.7 / -0.8

Consolidating the Group's subsidiaries and joint venture companies domiciled in non-euro-countries results in translation differences, which are recorded in shareholders' equity (translation risk). Patria's policy is not to hedge translation risks.

INTEREST RATE RISK

Fluctuations in interest rates have an effect on Group's interest expenses and income as well as fair value of interest-bearing liabilities and receivables and derivatives. The objective of interest rate risk management is to hedge against interest rate fluctuations affecting the future cash flow, result and balance sheet. Interest rate risk is managed by monitoring the average interest fixing term (duration) of receivables and liabilities as well as by using derivatives, if needed.

On 31 December 2016, the average interest fixing term of the liabilities was 4.9 years (3.8) and that of the receivables one day.

EUR million	0-6 mths	6-12 mths	12-24 mths	24-36 mths	Later	Total
Finance lease liabilities	4.1	3.7		0.8	12.8	21.4
Loans from financial institutions			0.4	1.2		1.6
Other interest-bearing liabilities				6.9		6.9
Interest-bearing receivables	-6.6					-6.6
Total 2016	-2.5	3.7	0.4	8.9	12.8	23.2

EUR million	0-6 mths	6-12 mths	12-24 mths	24-36 mths	Later	Total
Finance lease liabilities	4.6	0.3	3.5		14.5	22.9
Loans from financial institutions			0.5		1.7	2.1
Other interest-bearing liabilities	10.0				7.1	17.1
Interest-bearing receivables	-8.0					-8.0
Total 2015	6.6	0.3	4.0	0.0	23.2	34.1

On 31 December 2016, Group's interest-bearing liabilities totalled EUR 29.8 million (42.1) out of which EUR 20.8 million (32.2) was fixed rate and EUR 9.0 million (9.9) was floating rate. Interest-bearing receivables were EUR 6.6 million (8.0) out of which EUR 6.6 million (8.0) was floating rate.

A sensitivity analysis in accordance with IFRS 7 and assuming a one percentage point increase in interest rates and the interest bearing liabilities and receivables in the balance sheet as of 31 December 2016, would lead to an increase in annual net interest expenses of EUR 0.02 million (0.02). A corresponding decrease in interest rates would result in an equal effect of opposite sign. Open interest derivatives totalled EUR 0.4 million (0.5) on 31 December 2016.

LIQUIDITY AND REFINANCING RISKS

Liquidity risk is minimised by maintaining sufficient liquidity reserves, so as to secure the operational liquidity requirements at all times.

Refinancing risk is defined as a risk of a high proportion of loans or credit facilities maturing at a time when refinancing may be difficult or its terms are unattractive. The risk is minimised by balancing the maturities of loans and credit facilities.

On 31 December 2016 the average maturity of the Group's interest-bearing liabilities was 3.7 years (3.4). The values on the following maturity distribution table are undiscounted.

Maturity distribution of financial instruments

EUR million	2017	2018	2019	2020	2021	2022–	Yhteensä
Finance lease liabilities	1.6	1.6	1.6	1.6	1.6	13.3	21.4
Loans from financial institutions	0.6	0.6	0.3	0.1	0.0		1.6
Other interest-bearing liabilities	0.1	0.1	6.7				6.9
Derivative financial liabilities	0.6	0.0					0.6
Derivative financial assets	-1.3	-0.3					-1.6
Interest payments	0.4	0.4	0.4	0.0			1.1
Total 2016	1.9	2.4	9.0	1.7	1.7	13.3	29.9

EUR million	2016	2017	2018	2019	2020	2021–	Yhteensä
Finance lease liabilities	1.6	1.6	1.6	1.6	1.6	15.0	22.9
Loans from financial institutions	0.6	0.6	0.6	0.3	0.1	0.0	2.1
Other interest-bearing liabilities	10.2	0.2	0.2	0.3	0.3	6.0	17.1
Derivative financial liabilities	0.9	0.0	0.0				0.9
Derivative financial assets	-0.1	-0.1	-0.1				-0.3
Interest payments	0.4	0.4	0.4	0.3	0.3	1.5	3.4
Total 2015	13.5	2.6	2.6	2.5	2.3	22.5	46.1

As a part of its liquidity reserves on 31 December 2016, Patria Oyj had the following unused financial reserves: commercial paper program totalling EUR 100.0 million (90.0), credit facilities totalling EUR 25.0 million (25.0), as well as overdraft facilities totalling EUR 15.5 million (15.5).

CREDIT AND COUNTERPARTY RISKS

Patria is not exposed to significant credit risk due to the structure of customer base. Credit risks are mainly managed by agreeing in sales contracts on terms and conditions, which reduce these risks.

Credit risk related to investing liquid funds is managed by defining the acceptable counterparties with good credit rating as well as the maximum allowed exposure by counterparty. The Group does not have material loan receivables.

Accounts receivable by age

EUR million	2016	2015
Undue accounts receivables	58.3	59.9
Accounts receivables 1–30 days overdue	16.3	34.9
Accounts receivables 31–60 days overdue	8.3	3.1
Accounts receivables more than 60 days overdue	30.7	4.2
Total	113.7	102.1

OPERATIONAL RISKS OF THE TREASURY FUNCTIONS

The management of operational risks aims to eliminate losses or increased risk levels due to errors in procedures or insufficient monitoring. The risks are minimised by implementing efficient processes and other procedures with related controls, maintaining a high level of proficiency, defining and documenting routine procedures and properly organising the work. Risks relating to transactions are minimised by monitoring trading limits and trade confirmations and conducting regular general assessments.

OTHER MARKET RISKS

In addition to financial risks, Patria is exposed to price risks related to raw materials and components. The Business Units are responsible for identifying and hedging of these risks. Hedging takes primarily place by applying relevant terms and conditions to sales and purchase contracts. Patria does not use derivatives to hedge these risks.

CAPITAL MANAGEMENT

The Group's capital management objectives are to secure the ability to continue as going concern, maintain a healthy balance sheet structure, maintain adequate financial reserves at all times, manage the maturity structure and other terms of interest bearing debt and credit lines and, at the same time, to optimize the cost of capital in order to enhance value to shareholders. The exact target for the capital structure of Patria has not been specifically defined, but the target is to ensure good credit rating and thus adequate financing possibilities to support the growth strategy of the Group. Some of the Group's financial contracts include an equity ratio covenant.

INSURANCES

Patria has sought to prepare for the materialisation of risks by continuously improving its preparedness to deal with various potential crisis situations and through various insurance programs. Property damage, business interruption and aviation liability are the most important insurance lines, which account for a major part of the insurance premiums for all non-statutory insurances.

3. Acquisitions and divestments

In 2016 there were no significant business arrangements.

4. Items related to percentage of completion method

EUR million	2016	2015
Products	216.4	155.0
Services	273.5	272.6
Total	489.9	427.7

EUR million	2016	2015
Delivery based net sales	363.3	329.2
Percentage of completion method invoicing	126.6	98.5
Total	489.9	427.7

EUR million	2016	2015
Aggregate amount of costs incurred and recognised profits (less losses) to date	893.5	1,283.2
Less progress billings and advances	-924.6	-1,315.1
Construction contracts in progress, net position	-31.1	-31.9
Osatuloutussaamiset asiakkailta	10.8	13.4
Osatuloutusvelat asiakkaille	-41.9	-45.3
Construction contracts in progress, net position	-31.1	-31.9
Advances received	21.5	29.2
Construction contracts remaining order stock	171.6	303.8

5. Other operating income and expenses

Other operating income

EUR million	2016	2015
Rental income	2.1	2.4
Capital gain on sale of fixed assets	1.4	0.5
Service revenues	0.4	0.4
Other operating income	3.2	4.0
Grants received	0.1	0.3
Total	7.2	7.6

Other operating expenses

EUR million	2016	2015
Research and development	-0.4	-0.3
Rents	-10.5	-10.4
Losses on sale of fixed assets	-0.2	0.0
Travel expenses	-7.8	-7.6
Real estate expenses	-18.0	-18.9
Other operating expenses*	-30.9	-28.4
Total	-67.8	-65.6

*Includes other costs related to marketing and sales, external services as well as IT and other miscellaneous costs.

Principal independent auditor's fees and services

EUR million	2016	2015
Audit fees	-0.2	-0.2
Other audit related fees	-0.0	-0.0
Other services	-0.1	-0.1
Total	-0.3	-0.4

6. Research and development expenses

EUR million	2016	2015
Research and development expenses, total	-7.3	-7.3
Research and development costs expensed during financial period	-6.0	-5.2

7. Personnel expenses

EUR million	2016	2015
Salaries and fees paid to Members of Board, Consultative Committee and President and CEO	-0.8	-0.7
Other wages and salaries	-136.1	-137.5
Pension and pension insurance expenses	-22.9	-22.8
Other employer costs	-9.9	-9.0
Total	-169.7	-170.0

Compensation to Board of Directors and attendance at meetings

2016	1,000 EUR	Board	Audit Committee	Nomination and Compensation Committee
Board members 31 December 2016				
Christer Granskog, Chairman	43	13/13		3/3
Marko Hyvärinen	30	13/13	5/5	1/1
Ari Puheloinen ¹⁾	15	6/6		2/2
Päivi Marttila ¹⁾	16	6/6	3/3	
Harald Aarø ¹⁾	0	6/6		2/2
Geir Håøy ¹⁾	0	6/6		2/2
Janne Sølvi Weseth ¹⁾	16	5/6	2/3	
Former Board members				
Kirsi Komi, Vice Chairman ²⁾	15	7/7	2/2	
Sari Helander ²⁾	13	7/7	2/2	
Kari Rimpä ²⁾	12	6/7		1/1
Harald Ånnestad ³⁾	6	2/2		
Total	166			

¹⁾ Starting 25 May 2016

²⁾ Until 25 May 2016

³⁾ Starting 25 May and until 29 August

2015	1,000 EUR	Board	Audit Committee	Nomination and Compensation Committee
Board members 31 December 2015				
Christer Granskog, Chairman	42	12/12		4/4
Kirsi Komi, Vice Chairman	32	12/12	4/4	
Sari Helander ¹⁾	20	10/10	3/3	
Marko Hyvärinen ¹⁾	22	10/10	3/3	3/3
Kari Rimpä	26	12/12		3/3
Former Board members				
Arto Honkaniemi ²⁾	9	2/2	1/1	1/1
Total	151			

¹⁾ Starting 24 March 2015

²⁾ Until 24 March 2015

Compensation to the Board of Directors includes a monthly remuneration to Chairman EUR 2,750, Vice Chairman EUR 1,850 and members EUR 1,500 each, as well as meeting fees of EUR 600 paid to each member of the board for each meeting attended as well as for meetings of the Board committees attended. As per the minority shareholders' policy, Executive Directors are not entitled to compensation for attending board meetings.

Compensation to Consultative Committee and attendance at meetings

2016	1 000 EUR	Attendance at meetings
Consultative Committee members 1 January - 31 December 2016		
Sinuhe Wallinheimo, Chairman	3	3/3
Kalle Hyötynen, Vice Chairman	1	2/3
Mika Kari	1	3/3
Petri Peltonen	1	2/3
Mikko Savola	1	2/3
Kari Takanen	1	3/3
Raimo Vistbacka	1	2/3
Total	9	

Personnel representatives attendance at meetings: Eero Järvinen (3/3), Jussi Karimäki (3/3), Juha Kuusi (3/3) and Petri Pitkänen (3/3). Separate meeting fees were not paid for their participation.

2015	1 000 EUR	Attendance at meetings
Consultative Committee members 1 January - 31 December 2015		
Sinuhe Wallinheimo, Chairman ¹⁾	0	1/1
Kalle Hyötynen, Vice Chairman ¹⁾	1	1/1
Mika Kari ¹⁾	1	1/1
Petri Peltonen	3	3/3
Mikko Savola ¹⁾	1	1/1
Kari Takanen ¹⁾	1	1/1
Raimo Vistbacka (Chairman until 4 November 2015)	5	3/3
Thomas Blomqvist, Vice Chairman ²⁾	2	1/2
Seppo Kääriäinen ²⁾	2	2/2
Tuula Peltonen ²⁾	3	2/2
Juha Rannikko ²⁾	1	1/2
Kari Tolvanen ²⁾	2	1/2
Total	22	

¹⁾ Starting 4 November 2015

²⁾ Until 4 November 2015

Personnel representatives attendance at meetings: Eero Järvinen (2/2), Ilkka Kokko (1/1), Jussi Karimäki (3/3), Juha Kuusi (3/3) and Petri Pitkänen (3/3). Separate meeting fees were not paid for their participation.

Compensation to the Consultative Committee includes following meeting fees: Chairman EUR 800, Vice Chairman EUR 600 and members EUR 500 paid for each meeting attended.

COMPENSATION TO CEO AND MANAGEMENT

Olli Isotalo was appointed as President and CEO of Patria as of 15 August 2016. Salaries, fees and benefits paid to the President and CEO Olli Isotalo during 2016 totalled EUR 159,782.51 consisting of salary (EUR 151,938.45) and benefits (EUR 7,844.06).

The yearly bonus to be paid to the CEO Olli Isotalo in 2017 for the earning period 2016 is EUR 77,360.00 (48.4% of base salary of year 2016 and 80.7% of the maximum bonus payout, which is 60% of base salary of year 2016).

The retirement age for Olli Isotalo the President and CEO of the parent company follows the statutory pension rules. The CEO's contract of employment may be terminated with 6 months' notice by either the CEO or the Company. In case the Company gives notice to the CEO, the company shall pay, in addition to the 6 months' salary for the notice period, an additional compensation corresponding to the amount of 6 months' salary.

The former President and CEO Heikki Allonen retired in August 2016 as agreed. Salaries, fees and benefits paid to Heikki Allonen during 2016 totalled EUR 506,287.82 (EUR 511,131.48) consisting of

- base salary of EUR 278,424.14 (EUR 360,179.07) (including salary of EUR 266,784.14 and benefits of EUR 11,640.00),
- yearly bonus earning period 2015 was EUR 131,825.53. The yearly bonus represents 36.6% of the CEO's base salary and reflects a payout ratio of 61.0% of the maximum bonus of 60% available for the CEO for 2015. (Yearly bonus earning period 2014 was EUR 99,843.00; represents 27.7% of the CEO's base salary and reflects a payout ratio of 46.2% of the maximum bonus of 60% available for the CEO for 2015.)
- based on the long term incentive plans a total of EUR 96,038.15 (EUR 51,109.41) was paid. EUR 30,665.65 (EUR 51,109.41) based on years 2012–2014 long term incentive plan and EUR 65,372.50 based on years 2013–2015 long term incentive plan.

The yearly bonus to be paid to the former CEO in 2017 for the earning period 2016 is EUR 84,537.27 (30.4% of base salary of year 2016 and 50.6% of the maximum bonus payout).

The retirement age for the President and CEO Heikki Allonen was 62. The CEO's retirement arrangement was based on a fixed and defined contribution plan and it was complemented with an insurance policy. The cost of the arrangement was EUR 137,135 (EUR 137,135).

The President and CEO is assisted in Group management by the Board of Management, which included as of 1, September 2016 8 (7) members. The salaries, fees and benefits paid to the members of the Board of Management totalled EUR 2,174,008.98 (EUR 1,845,450.30).

The remuneration of the President and CEO and the other members of the Board of Management for 2016 were based on a fixed monthly salary (including fringe benefits) and a performance-based compensation. Annual performance-based compensation plan can provide a bonus corresponding to a maximum of 50% annual salary, except for the CEO where the maximum is 60% of annual salary. The remunerations are agreed using the 'one above' principle, and the remuneration of the CEO is agreed by the Board of Directors.

During the financial period the members of the Board of Management of Patria as well as eight other key personnel have been participants in at least one of the three separate three-year performance-based Long Term Incentive Plans i.e. for the years 2014–2016, 2015–2017 and 2016–2018. In addition, bonuses were paid based on the 2012–2014 and 2013–2015 incentive plans during the financial period. Incentive plans have been set up by the Board of Directors in accordance with the respective Finnish State ownership policy.

The on-going Long Term Incentive Plans consist of a number of strategic targets set and the financial performance of the Company over the programme period. The highest potential remuneration in each program depending on the participant's organisational standing is 40%, 50% or 60% of a participant's annual base salary per year during the whole three-year period of each program. The outcome of the plan is subject to the Board of Directors' approval.

The remunerations will be paid to the participants during three financial periods after each program has ended. The outcome of the 2013–2015 plan was 60.5% of the highest potential remuneration and will be paid to the participants in three instalments during the years 2016, 2017 and 2018 subject to the terms of the plan. The Group has made a relating cost provision in the balance sheet totalling EUR 1,124,509 (EUR 868,652).

All Patria employees are part of a yearly bonus plan. The plan can provide at maximum a bonus corresponding to between 1.8 to 3 months' salary depending on the employee's organisational standing.

The contributions to defined contribution plans are charged to the income statement in the year to which they relate. The present value of the obligation under defined benefit plans is recorded in the balance sheet at their fair value on the balance sheet date. Disability and retirement components of the Finnish Statutory Employment Pension Scheme (TyEL) have been accounted for as defined contribution plans and unemployment component as defined benefit plans (termination benefit). In addition, Millog Oy's additional retirement arrangement relating to unemployment component has been accounted as a defined benefit plan.

Defined benefit contribution plans expose the Group to various risks which may have influence to the amount of defined benefit obligations. Such risks are changes in corporate bond yields, inflation and life expectancy. If corporate bond yields used as a reference to the discount rate change, the Group may have to change the discount rates used. This will have an effect both on the defined benefit obligation and the recognized remeasurement in other comprehensive income. Some of the Group's defined benefit obligations are linked to general inflation and higher general inflation will increase the present value of the defined benefit obligation. The defined benefit obligations of the Group are related to producing benefits to both employed and retired personnel. Increase in life expectancy may increase the defined benefit obligation of the Group.

Expenses of employment benefits

EUR million	2016	2015
Pension expenses - Defined contribution plans	-22.8	-22.7
Pension expenses - Defined benefit plans	-0.1	-0.1
Total	-22.9	-22.8

Expense recognised in profit or loss

EUR million	2016	2015
Service cost	-0.0	-0.0
Net interest	-0.1	-0.0
Expense recognised in profit or loss	-0.1	-0.1

Statement of financial position

EUR million	2016	2015
Defined benefit obligation	14.4	12.7
Fair value of plan assets	-10.0	-8.7
Funded status	4.4	4.0
Liability in the balance sheet	4.4	4.0

Changes in the present value of the defined benefit obligation are as follows:

Defined benefit obligation (DBO)

EUR million	2016	2015
Opening defined benefit obligation	12.7	9.6
Addition of defined benefit obligation	0.0	0.0
Current service cost	0.0	0.0
Interest cost	0.3	0.1
Benefits paid	-0.2	-0.1
Actuarial gain(-) / loss (+)	1.6	3.0
Past service cost	0.0	0.0
Settlements	0.0	0.0
Closing defined benefit obligation	14.4	12.7

Changes in the fair value of plan assets are as follows:

Fair value of plan assets

EUR million	2016	2015
Opening fair value of plan assets	8.7	5.0
Interest income	0.2	0.1
Contribution paid	-0.2	0.1
Benefits paid	-0.2	-0.1
Actuarial gain(+) / loss (-)	1.5	3.6
Settlements	0.0	0.0
Closing fair value of plan assets	10.0	8.7

Expected contribution paid in the next fiscal period:

Expected contribution

EUR million	Estimate 2017	2016	2015
Expected contribution	0.1	0.0	0.1

Changes in other comprehensive income

EUR million	2016	2015
Recognised remeasurements in other comprehensive income in the beginning of the period	0.3	-0.3
Actuarial gain(+) or loss(-) on obligation	-1.6	-3.0
Actuarial gain(+) or loss(-) on plan assets	1.5	3.6
Recognised remeasurements in other comprehensive income in the end of the period	0.2	0.3

Plan assets

EUR million	2016	2015
Qualifying insurance policies	100%	100%

SENSITIVITY ANALYSIS

This analysis explains which actuarial assumptions are key assumptions. The figures in the sensitivity analysis have been calculated by changing one assumption and keeping the other assumptions constant and by using the same method and the same census data which is applied when calculating defined benefit obligation and fair value of plan assets.

Sensitivity analysis of actuarial assumptions as of 31.12.2016

EUR million	Change in defined benefit obligation	Change in plan assets	Change in defined benefit obligation, %	Change in plan assets, %
Change in discount rate, +0.5 percent point	-1.3	-0.8	-9%	-8%
Change in salary increase, +0.5 percent point	0.0	0.0	0%	0%
Change in mortality, +1 year in life expectancy	0.4	0.2	3%	3%
Change in benefit increase, +0.5 percent point	1.5	0.0	10%	0%
Change in Insurance Company's bonus index, +0.5 percent point	0.0	0.9	0%	9%

Census data

	2016	2015
Number of actives	119	70
Number of pensioners	129	60
Number of deferred	943	702
Average age actives (years)	51	53
Average remaining service time	9	7
Average serving time	6	7

8. Depreciation, amortization and impairments

Depreciation according to plan and impairments

EUR million	2016	2015
Development expenses	0.0	-0.1
Intangible rights	-0.9	-1.1
Other long-term expenditures	-2.5	-0.9
Buildings and constructions	-4.4	-4.1
Machinery and equipment	-7.0	-7.8
Other tangible assets	-0.0	-0.0
Total	-14.9	-14.0

IMPAIRMENT TESTS

The recoverable amount of a cash generating unit is determined based on value-in-use calculations. The tested cash generating units were Land, Aviation, Systems and Millog business units. The calculations are based on the cash flow projections in the strategic plans approved by the management covering a three-year period. The assumptions related to the price and cost level development used in the strategic plans and cash flow estimates of the business units are based on the management's estimates of the development of markets. Previous actual development has been taken into consideration while evaluating the assumptions used in the calculations. The cash flow estimates are based on existing fixed assets. Cash flows beyond the period approved by management are calculated using terminal value method, where the figures for the final planning period are calculated with 0% eternal growth and discounted using the WACC described below.

Discount rate is the weighted average pre-tax cost of capital (WACC) as defined for Patria. The components of WACC are risk-free yield rate, market risk premium, industry specific beta, cost of debt, average capital structure of the industry and a premium for asset specific risk. The WACC used in the calculations was 9.75% p.a. in 2016 (10%).

In connection with the impairment testing a sensitivity analysis was performed in which the cash flows of the cash generating units were decreased and the discount rates were increased. Based on the performed sensitivity analysis it seems unlikely that a reasonably possible change in cash flows (10%-20%) or in the discount rate (1-3 percent point) while other assumptions remain constant would lead to impairment.

According to the impairment test, there was no need for goodwill impairment.

Goodwill by Business Unit

EUR million	2016	2015
Land	8.9	8.9
Aviation	7.8	7.8
Systems	1.7	1.7
Millog	7.2	6.6
Total	25.6	25.0

EUR million	2016	2015
1 Jan	25.0	25.0
Additions	0.6	0.0
Translation differences	-0.0	-0.0
31 Dec	25.6	25.0

9. Financial income and expenses

EUR million	2016	2015
Interest income		
Deposits and investments	0.1	0.1
Other	0.1	0.0
Other financial income	0.0	0.0
Interest expenses		
Interest bearing liabilities	-0.5	-0.6
Financial lease	-1.4	-1.4
Other financial expense	-1.4	-0.3
Exchange rate difference		
Foreign exchange derivatives, non-hedge accounted	-0.3	-1.9
Other	0.5	1.8
Total	-2.9	-2.4

Aggregate foreign exchange gains and losses included in consolidated income statement

EUR million	2016	2015
Net sales	-0.9	-0.4
Expenses	0.1	-0.2
Financial income and expenses	0.1	-0.1
Total	-0.7	-0.7

Net gains/losses include realized and unrealized gains and losses on derivative financial instruments.

Net gains/losses on derivative financial instruments included in operating profit

EUR million	2016	2015
Foreign exchange rate derivative contracts under hedge accounting	-0.8	-0.1
Total	-0.8	-0.1

10. Income taxes

EUR million	2016	2015
Income taxes	-10.1	-4.3
Income taxes previous period	2.1	-0.0
Change in deferred tax receivable	-1.9	-1.4
Change in deferred tax liability	0.7	-0.3
Total	-9.1	-6.0

Differences between income tax expense calculated at statutory rates compared to the income statement (tax rate in Finland 2015: 20%, 2014: 20%)

EUR million	2016	2015
Income tax expense at statutory rate	-14.3	-8.9
Effect of statutory tax rates of foreign companies	0.0	0.0
Untaxed income	0.1	1.3
Non-deductible expenses	-0.2	-0.3
Utilization of confirmed losses	0.0	0.5
Fiscal losses of the period	-0.1	-0.5
Effect of associated company result	3.2	2.6
Returns from previous tax years	2.2	0.0
Other items	-0.0	-0.6
Income taxes	-9.1	-6.0

Reconciliation of deferred tax receivables

EUR million	2016	2015
Fixed assets depreciation differences	1.1	1.0
Untaxed reserves	2.8	3.9
Fair value of derivative financial instruments	0.3	0.3
Other temporary differences	0.0	1.0
	4.2	6.2
1 Jan	6.2	7.3
Income statement	-1.9	-1.4
Fair value of derivative financial instruments	-0.0	0.2
Equity	0.0	0.0
31 Dec	4.2	6.2

Reconciliation of deferred tax liabilities

EUR million	2016	2015
Fixed assets depreciation differences	0.9	1.6
Fair value of derivative financial instruments	0.0	0.0
	0.9	1.6
1 Jan	1.6	1.3
Income statement	-0.7	0.3
Fair value of derivative financial instruments	0.0	0.0
31 Dec	0.9	1.6

11. Intangible and tangible assets

Intangible assets

EUR million	Goodwill	Develop- ment ex- penses	Intangible rights	Other long- term ex- penditure	Advance payments	Total
Acquisition cost 1 Jan 2016	29.0	44.8	17.9	10.7	0.0	102.4
Translation differences	-0.1	0.0	0.0	0.0	0.0	-0.1
Reclassifications	0.0	0.0	0.2	4.3	-0.1	4.4
Scrapping	0.0	-32.6	-0.4	0.0	0.0	-33.0
Additions	0.6	0.0	0.4	0.2	0.2	1.4
Disposals	0.0	0.0	0.0	-1.5	0.0	-1.5
Acquisition cost 31 Dec 2016	29.5	12.3	18.1	13.7	0.1	73.7
Accumulated amortization and impairment losses 1 Jan 2016	-4.0	-44.8	-15.9	-7.3	0.0	-72.0
Translation differences	0.1	0.0	0.0	0.0	0.0	0.1
Reclassifications	0.0	0.0	0.0	-0.0	-0.0	-0.0
Scrapping	0.0	32.6	0.4	0.0	0.0	33.0
Disposals	0.0	0.0	0.0	1.4	0.0	1.4
Amortization for the period incl. exchange rate diff. in P&L	0.0	0.0	-0.9	-2.5	0.0	-3.4
Accumulated amortization and impairment losses 31 Dec 2016	-3.9	-12.3	-16.4	-8.4	-0.0	-40.9
Net book value at 31 Dec 2016	25.6	0.0	1.7	5.3	0.1	32.8



EUR million	Goodwill	Develop- ment ex- penses	Intangible rights	Other long- term ex- penditure	Advance payments	Total
Acquisition cost 1 Jan 2015	28.9	44.8	22.1	10.3	0.3	106.5
Translation differences	0.1	0.0	0.0	0.0	0.0	0.1
Reclassifications	0.0	0.0	0.2	0.5	-0.3	0.4
Scrapping	0.0	0.0	-1.9	-0.2	0.0	-2.1
Additions	0.0	0.0	0.4	0.3	0.0	0.7
Disposals	-0.0	0.0	-3.1	-0.2	0.0	-3.2
Acquisition cost 31 Dec 2015	29.0	44.8	17.9	10.7	0.0	102.4
Accumulated amortization and impairment losses 1 Jan 2015	-3.9	-44.8	-19.8	-6.8	0.0	-75.3
Translation differences	-0.1	0.0	0.0	0.0	0.0	-0.1
Scrapping	0.0	0.0	1.9	0.2	0.0	2.1
Disposals	0.0	0.0	3.1	0.2	0.0	3.2
Amortization for the period incl. exchange rate diff. in P&L	0.0	-0.1	-1.1	-0.9	0.0	-2.0
Accumulated amortization and impairment losses 31 Dec 2015	-4.0	-44.8	-15.9	-7.3	0.0	-72.0
Net book value at 31 Dec 2015	25.0	0.0	2.0	3.4	0.0	30.4

Tangible assets

EUR million	Land and water	Buildings and constructions	Machinery and equip- ment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost 1 Jan 2016	2.3	108.0	85.8	1.7	7.5	205.2
Translation differences	0.0	-0.4	-0.2	-0.0	0.0	-0.6
Reclassifications	0.0	2.0	3.7	0.1	-10.3	-4.5
Scrapping	0.0	0.0	-7.0	0.0	0.0	-7.0
Additions	0.0	0.9	4.0	0.0	7.0	11.9
Disposals	-0.2	-4.0	-3.8	-0.0	-0.0	-8.0
Acquisition cost 31 Dec 2016	2.0	106.5	82.3	1.8	4.3	197.0
Accumulated amortization and impairment losses 1 Jan 2016	0.0	-60.2	-67.2	-1.4	0.0	-128.8
Translation differences	0.0	0.3	0.1	0.0	0.0	0.4
Reclassifications	0.0	0.0	0.1	0.0	-0.0	0.1
Scrapping	0.0	0.0	6.9	0.0	0.0	6.9
Disposals	0.0	3.1	1.4	0.0	0.0	4.5
Amortization for the period incl. exchange rate diff. in P&L	0.0	-4.4	-7.0	-0.0	0.0	-11.5
Accumulated amortization and impairment losses 31 Dec 2016	0.0	-61.4	-65.5	-1.4	-0.0	-128.3
Net book value at 31 Dec 2016	2.0	45.2	16.8	0.4	4.3	68.7

EUR million	Land and water	Buildings and constructions	Machinery and equip- ment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost 1 Jan 2015	2.2	100.1	100.7	1.6	2.2	206.8
Translation differences	0.0	0.2	0.1	0.0	0.0	0.3
Reclassifications	0.0	1.4	0.5	-0.0	-2.4	-0.5
Scrapping	0.0	-1.7	-11.5	-0.1	0.0	-13.3
Additions	0.1	8.2	8.2	0.1	8.4	25.0
Disposals	-0.0	-0.3	-12.2	0.0	-0.6	-13.1
Acquisition cost 31 Dec 2015	2.3	108.0	85.8	1.7	7.5	205.2
Accumulated amortization and impairment losses 1 Jan 2015	0.0	-57.8	-81.9	-1.5	0.0	-141.2
Translation differences	0.0	-0.1	-0.1	0.0	0.0	-0.2
Scrapping	0.0	1.7	11.5	0.1	0.0	13.3
Disposals	0.0	0.2	11.1	0.0	0.0	11.3
Amortization for the period incl. exchange rate diff. in P&L	0.0	-4.1	-7.8	-0.0	0.0	-12.0
Accumulated amortization and impairment losses 31 Dec 2015	0.0	-60.2	-67.2	-1.4	0.0	-128.8
Net book value at 31 Dec 2015	2.3	47.7	18.6	0.2	7.5	76.4

Tangible assets include capitalized finance leases as follows:

EUR million	Buildings and constructions	Machinery and equipment	Total
Acquisition cost 31 Dec 2016	38.9	6.8	45.8
Additions	0.0	0.0	0.0
Accumulated depreciation	-18.3	-6.8	-25.1
Net book value at 31 Dec 2016	20.6	0.0	20.6

EUR million	Buildings and constructions	Machinery and equipment	Total
Acquisition cost 31 Dec 2015	36.3	6.8	43.2
Additions	2.6	0.0	2.6
Accumulated depreciation	-16.6	-6.8	-23.5
Net book value at 31 Dec 2015	22.3	0.0	22.3



12. Joint ventures

	Domicile	Ownership %
Nammo AS	Raufoss, Norway	50,0
Patria Hägglunds Oy	Tampere, Finland	50,0
Svensk Försvarslogistik AB	Stockholm, Sweden	50,0
Patria Special Programmes Oy	Helsinki, Finland	50,0
Silverskin Information Security Oy	Helsinki, Finland	25,0

2015

EUR million	Domicile	Ownership %	Assets	Liabilities	Net sales	Profit/Loss
Nammo AS	Raufoss, Norway	50.0	483.3	236.5	423.1	24.3

Shares in joint ventures

EUR million	2016	2015
1 Jan	149.2	139.6
Share of results in joint ventures	16.2	12.8
Share of comprehensive income in joint ventures	-2.3	0.7
Acquisitions	3.1	0.0
Dividend income	-5.8	-5.4
Exchange rate differences and other changes	4.1	1.6
31 Dec	164.4	149.2

Business operations with joint ventures

EUR million	2016	2015
Sales to joint ventures	1.3	1.7

Receivables and liabilities, joint ventures

EUR million	2016	2015
Subordinated loan receivable	0.5	0.1
Accounts receivables	0.5	1.5
Accounts payable	0.0	0.0
Advance payments	0.0	0.9

13. Other shares

EUR million	2016	2015
Book value	0.2	0.2

The fair value of other shares does not differ materially from the book value.

14. Receivables

Group does not have material interest-bearing receivables. Fair values of receivables do not differ materially from the book value. No major credit losses were booked during the financial periods.

Prepaid expenses and accrued income

EUR million	2016	2015
Receivables related to POC method	10.8	13.4
Other items	5.3	4.5
Total	16.1	18.0

Other items of prepaid expenses and accrued income consists of accrued interest income and other accrued income, but no amounts which are individually significant.

15. Accruals and deferred income

EUR million	2016	2015
Accrued wages, salaries and social security costs	22.0	22.2
Liabilities related to POC method	41.9	45.3
Other items	22.8	23.4
Total	86.7	91.0

Other items of accruals and deferred income consists of interest and other accrued expense, but no amounts which are individually significant.

16. Financial assets available for sale

EUR million	Shares	Commercial papers	Total
1 Jan 2016	0.2	0.0	0.2
Exchange rate differences and other changes	0.0	0.0	0.0
31 Dec 2016	0.2	0.0	0.2

EUR million	Shares	Commercial papers	Total
1 Jan 2015	0.2	12.7	12.9
Deductions	0.0	-12.7	-12.7
31 Dec 2015	0.2	0.0	0.2

17. Financial instruments

Revaluation fund

Revaluation fund including forward contracts

EUR million	2016	2015
Fair value	-1.4	-1.5
Deferred taxes	0.3	0.3
Revaluation fund 31 Dec	-1.1	-1.2
Fair value changes recognized in equity	0.8	-0.9
Fair value changes recognized in income statement	-0.6	-0.0
Deferred taxes	-0.0	0.2
Change	0.1	-0.8
Fair value	-1.5	-0.6
Deferred taxes	0.3	0.1
Revaluation fund 1 Jan	-1.2	-0.4

Carrying amounts of financial assets and liabilities by measurement categories and fair value hierarchy

2016

EUR million	Financial assets/ liabilities at fair value through in- come statement Level 2	Loans and other	Available for sale financial assets Level 2	Other financial liabilities	Book value
Non-current financial assets					
Long-term receivables from joint ventures		0.5			0.5
Other shares		0.0	0.2		0.2
Other receivables		0.7			0.7
Current financial assets					
Accounts receivable		113.7			113.7
Receivables from joint ventures		0.5			0.5
Derivative financial instruments	1.6				1.6
Cash and bank balances		6.6			6.6
Carrying amount by category	1.6	122.0	0.2	0.0	123.8
Non-current financial liabilities					
Interest-bearing liabilities				27.5	27.5
Current financial liabilities					
Interest-bearing liabilities				2.3	2.3
Accounts payable				19.6	19.6
Liabilities to joint ventures				0.0	0.0
Derivative financial instruments	0.6				0.6
Carrying amount by category	0.6	0.0	0.0	49.4	50.0

2015

EUR million	Financial assets/ liabilities at fair value through in- come statement Level 2	Loans and other	Available for sale financial assets Level 2	Other financial liabilities	Book value
Non-current financial assets					
Long-term receivables from joint ventures		0.1			0.1
Other shares		0.0	0.2		0.2
Other receivables		0.7			0.7
Current financial assets					
Accounts receivable		102.1			102.1
Receivables from joint ventures		1.5			1.5
Derivative financial instruments	0.3				0.3
Cash and bank balances		8.0			8.0
Carrying amount by category	0.3	112.5	0.2	0	113.0
Non-current financial liabilities					
Interest-bearing liabilities				29.8	29.8
Current financial liabilities					
Interest-bearing liabilities				12.3	12.3
Accounts payable				20.1	20.1
Liabilities to joint ventures				0.9	0.9
Derivative financial instruments	0.9				0.9
Carrying amount by category	0.9	0.0	0.0	63.1	64.1

Financial instruments that are measured in the balance sheet at fair value are presented according to the following fair value measurement hierarchy:

Level 1) quoted prices (unadjusted) in active markets for identical assets or liabilities,

Level 2) inputs other than quoted price included within Level 1 are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

18. Shareholders' equity

The company has a total of 27,841,889 shares and one series of shares.

DISTRIBUTABLE FUNDS

The parent company's non-restricted equity on December 31, 2016 is EUR 258,244,961.28 of which the net profit for the financial period is EUR 30,042,101.80.

DIVIDEND PER SHARE

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.12 per share be paid on the shares owned by the State of Finland and Kongsberg Defence & Aerospace AS. Under the proposal, the total amount of dividends will be EUR 31,182,915.68. The Board of Directors further proposes that the remaining non-restricted equity, EUR 227,062,045.60 be retained and carried forward.

The dividends paid for 2016 will be decided at the Annual General Meeting on 28 April 2017. This dividend payable is not reflected in these financial statements.

19. Liabilities

FINANCE LEASE LIABILITIES

Patria has finance leasing agreements relating mainly to buildings. Agreements mature between 2017 and 2033 and capital costs of EUR 20.6 million (22.3) are included in Buildings and constructions; the depreciation thereon was EUR 1.7 million (1.5). The aggregate leasing payments amounted to EUR 3.0 million (3.0), the interest element being EUR 1.4 million (1.5).

Finance lease liabilities minimum lease payments

EUR million	2016	2015
Not later than 1 year	3.0	3.0
1-5 years	11.9	11.9
Later than 5 years	19.6	22.5
Total	34.5	37.4
Future finance charges	-13.1	-14.5
Present value of minimum lease payments	21.4	22.9

Present value of minimum lease payments

EUR million	2016	2015
Not later than 1 year	1.6	1.6
1-5 years	6.5	6.4
Later than 5 years	13.3	15.0
Present value of minimum lease payments	21.4	22.9

20. Provisions

EUR million	2016	2015
Warranty provision	13.6	23.5
Other provision	12.9	18.9
Total	26.5	42.4

During the warranty period the claimed faults will be corrected at Patria's expense. The warranty provisions amounted to EUR 13.6 million (23.5) at the end of 2016. Provisions are based on best estimates on the balance sheet date. The provision for warranties covers the expenses due to the repair or replacement of products during their warranty period. The warranty liability is based on historical realised warranty costs and best estimates on the balance sheet date. The usual warranty period is two to four years. Other provisions include various items, such as those related to defects in quality, litigations and offset obligations. The Group has made employees redundant based on economic reasons. Some of the employees have been made redundant to unemployment pension. The related liability has been treated as pension arrangement (IAS 19:159).

21. Commitments and contingent liabilities

Contingent liabilities

EUR million	2016	2015
Guarantees given on behalf of associated companies	1.8	2.7
Guarantees given on behalf of others	7.0	2.0
Other own contingent liabilities	8.7	4.6
Total	17.5	9.3

Operating lease commitments

EUR million	2016	2015
Payments due next year	10.7	10.2
1-5 years	20.4	18.6
Payments due in thereafter	22.0	22.5
Total	53.1	51.3

22. Derivative instruments

2016

EUR million	Nominal value	Positive fair values	Negative fair values	Net fair value
Derivative financial instruments designated as cash flow hedges				
Forward foreign exchange contracts	41.3	1.0	-0.4	0.6
Buy	10.1	0.6	-0.0	0.6
Sell	31.1	0.5	-0.4	0.1
Interest rate swap	0.4	0.0	-0.0	-0.0
Cash flow hedge	41.6	1.0	-0.4	0.6
Non-hedge accounting derivative financial instruments				
Forward foreign exchange contracts	29.9	0.6	-0.2	0.4
Buy	3.1	0.1	-0.1	0.0
Sell	26.8	0.5	-0.1	0.4
Non-hedging	29.9	0.6	-0.2	0.4
Total	71.5	1.6	-0.6	1.0

2015

EUR million	Nominal value	Positive fair values	Negative fair values	Net fair value
Derivative financial instruments designated as cash flow hedges				
Forward foreign exchange contracts	35.1	0.3	-0.8	-0.5
Buy	11.3	0.2	-0.1	0.2
Sell	23.7	0.0	-0.7	-0.7
Interest rate swap	0.5	0.0	-0.0	-0.0
Cash flow hedge	35.5	0.3	-0.8	-0.6
Non-hedge accounting derivative financial instruments				
Forward foreign exchange contracts	26.5	0.1	-0.1	-0.0
Buy	2.4	0.1	-0.0	0.0
Sell	24.1	0.0	-0.1	-0.1
Non-hedging	26.5	0.1	-0.1	-0.0
Total	62.0	0.3	-0.9	-0.6

Offsetting of financial instruments 2016

EUR million	Gross amounts in balance sheet	Financial instruments - Related amounts not set off in the balance sheet	Net amount
Derivative financial assets	1.6	-0.6	1.0
Derivative financial liabilities	0.6	-0.6	0.0

2015

EUR million	Gross amounts in balance sheet	Financial instruments - Related amounts not set off in the balance sheet	Net amount
Derivative financial assets	0.3	0.1	0.3
Derivative financial liabilities	0.9	0.1	0.9

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Group and the counterparty allows each party to have the option to settle the relevant financial assets and liabilities on a net basis in the event of default of the other party.

23. Related party transactions

Patria Oyj's subsidiaries are as follows:

Subsidiaries	Domicile	Ownership %
Patria Aviation Oy	Jämsä, Finland	100.0
Patria Aerostructures Oy	Jämsä, Finland	100.0
Patria Helicopters AS	Bardufoss, Norway	100.0
Patria Pilot Training Oy	Helsinki, Finland	100.0
Patria Svenska AB	Sigtuna, Sweden	100.0
Patria Helicopters AB	Sigtuna, Sweden	100.0
Patria Estonia Oü	Tallinna, Estonia	100.0
Patria Finance Oyj	Helsinki, Finland	100.0
Patria Land Services Oy	Hämeenlinna, Finland	100.0
Patria Vammas AB	Uddevalla, Sweden	100.0
Patria Polska Sp. z o.o.	Varsova, Poland	100.0
Patria Land Systems Oy	Hämeenlinna, Finland	100.0
Patria Land Middle East Limited	Abu Dhabi, United Arab Emirates	100.0
Patria Land Sverige AB	Tukholma, Sweden	100.0
Patria Land Systems SA (Pty) Ltd	Pretoria, South Africa	100.0
Millog Oy	Tampere, Finland	61.8
Oricopa Kiinteistöt Oy	Orivesi, Finland	100.0
Senop Oy	Kangasala, Finland	100.0

Net sales and purchases between the Group companies

EUR million	2016	2015
Total	74.9	50.5

The policy of internal transfer pricing is to use at arm's length prices.

Information concerning business operations between the Group and its associated companies is included in Note 12. Management's employment benefits are included in Note 7.

Key management consists of the members of the Board of Directors, CEO and other members of the Board of Management. There was no outstanding loans receivable from key management on 31 December 2016. Members of the Group management and their immediate circle have not had any essential business relations with the Group companies.

24. Disputes and litigations

An Austrian company which has been acting as Patria's consultant in certain countries has in 2009 initiated two cases against Patria claiming, inter alia, payment of certain commissions and/or damages. The aggregate amount of these claims (which amount has been clarified by the plaintiff during the proceedings) is EUR 21.3 million (not including legal expenses or penalty interest). Patria considers the claims groundless. The Helsinki Court of Appeal dismissed the claims in December 2016. The judgment is appealable.

In February 2016, the Turku Court of Appeal in its decision overturned the earlier judgment by the District Court and dismissed all bribery charges and corporate fine related to the Croatian export project. The state was ordered to compensate Patria for legal costs and the prolonged trial. As none of the parties requested right of appeal from the Supreme Court, the decision of Turku Court of Appeal became final.

25. Events after the balance sheet date

Patria management does not have knowledge of any significant events after the balance sheet date, which would have had an impact on the financial statements.

Financial Statements of the Parent Company (FAS)

Balance Sheet, Parent Company

Assets

EUR million	Note	31.12.2016	31.12.2015
Non-current assets			
Investments			
Shares in group companies	8	222.0	222.0
Shares in joint ventures		191.6	188.5
Receivables from associated and joint venture companies		0.4	0.0
Other shares		0.0	0.0
Total Non-current assets		414.0	410.5
Current assets			
Receivables			
Accounts receivable	9	0.0	0.0
Receivables from group companies		36.1	0.0
Other receivables		0.1	0.0
Prepaid expenses and accrued income	9	0.1	0.5
Total Current Assets		36.4	17.8
Total Assets		450.4	428.3

Shareholders equity and liabilities

EUR million	Note	31.12.2016	31.12.2015
Shareholders' equity	10		
Share capital		38.0	38.0
Other funds			
Reserve for invested unrestricted equity		164.1	164.1
Retained earnings		64.1	63.5
Net income for the period		30.0	14.5
Total Shareholders' equity		296.3	280.1
Current liabilities			
Accounts payable		1.2	0.2
Liabilities to group companies	9	149.2	146.2
Other current liabilities		0.0	0.1
Accruals and deferred income	9	3.7	1.7
Total Current liabilities		154.1	148.2
Total Shareholders' equity and liabilities		450.4	428.3

Income Statement, Parent Company

EUR million	Note	1-12/2016	1-12/2015
Net sales	2	4.0	3.9
Other operating income	3	0.0	0.0
Employee benefit expenses	4	-2.0	-3.1
Other operating expenses	3	-7.4	-6.3
Operating profit		-5.4	-5.5
Financial income and expenses	5		
Dividend income from group companies		8.8	7.9
Interest and other financial income		0.0	0.0
Interest and other financial expenses		-1.6	-2.4
Exchange gains and losses		0.0	-0.0
Income before appropriations and taxes		1.80	-0.0
Appropriations	6	33.6	16.3
Income taxes	7	-5.4	-1.7
Net income		30.0	14.5

Cash Flow Statement, Parent Company

EUR million	1–12/2016	1–12/2015
Income before appropriations and taxes	1.8	-0.0
Financing items	-7.2	-5.5
Change in receivables	-1.5	1.4
Change in liabilities	1.4	-3.2
Cash flow from operations	-5.5	-7.4
Interests paid	-2.2	-2.4
Other financial items paid	-0.0	-0.0
Dividends received	8.8	7.9
Interests received	0.0	0.0
Taxes paid	-2.4	-1.8
Cash flow from operating activities	-1.4	-3.7
Acquired group companies	-0.0	0.0
Acquired associated companies and joint ventures	-3.1	0.0
Granted loans	-0.4	0.0
Cash flow from investing activities	-3.5	0.0
Change in short-term loans	28.7	-2.5
Change in long-term loans	-26.1	0.0
Dividends paid	-13.9	-13.9
Paid and received group contributions	16.3	20.1
Cash flow from financing activities	4.9	3.7
Change in liquid funds	0.0	0.0
Liquid funds 1 Jan	0.0	0.0
Liquid funds 31 Dec	0.0	0.0
Change in liquid funds	0.0	0.0

Notes to the Financial Statements, Parent Company

1. Accounting principles, Parent company

The financial statements of the parent company have been prepared in accordance with Finnish accounting procedures and regulations.

REVENUE RECOGNITION

Net sales include income from the sale of goods and services, with adjustments for indirect taxes, discounts and conversion differences resulting from sales in foreign currencies. Income from the sale of goods is recognised when the major risks and benefits from the ownership of the goods have been taken over by the buyer. Income from services is recognised when the service has been rendered.

USE OF ESTIMATES

The preparation of the financial statements requires management to make estimates and assumptions that affect the financial statements. Actual results may differ from the estimates. Accounting estimates are employed in the financial statements to determine reported amounts.

FIXED ASSETS AND DEPRECIATION

Property, plants and equipment are measured at their historical cost, less depreciation and impairment. The assets are depreciated over their economic life using the straight-line depreciation method. The economic life of assets is reviewed if necessary, adjusting it to correspond to possible changes in the expected economic use.

The assessed economic lives are as follows:

Machinery and equipment 3 to 15 years

Other tangible assets 3 to 5 years

Other tangible assets are not subject to depreciation.

Investments in subsidiaries and other companies are measured at cost or fair value in case the fair value is less than cost.

FINANCIAL ASSETS

Financial assets are measured at the lower of cost or net realisation value. Derivative instruments are measured at fair value. Accounts receivable are carried at their anticipated realizable value, which is the original invoice amount less an estimated impairment of these receivables. An impairment of accounts receivable is made when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are translated into Euros using the exchange rates prevailing at the dates of the transactions. Receivables, liabilities and derivative instruments in foreign currencies are translated into Euros at the exchange rates prevailing at the balance sheet date. Foreign exchange gains and losses resulting from translating are recognised in the income statement. Foreign exchange gains and losses related to business operations are included in the corresponding items above the operating profit line. Foreign exchange gains and losses related to loans and receivables in foreign currencies are included in financial income and expenses.

DERIVATIVE INSTRUMENTS

Exchange differences from derivative agreements, which are used to hedge against risks in operating transactions in other currencies, are included in the corresponding items above the operating profit line. Exchange differences from derivative agreements, which are used to hedge foreign currency liabilities and receivables are included in financial income and expenses. When hedged items are not included in the balance sheet, the exchange rate differences of the derivative agreements have been recorded in liabilities and receivables and the profit impact is directed to the same financial period in which the exchange rate of the hedged operative transaction is booked.

GRANTS RECEIVED

Government or other grants are recognised as income on a systematic basis over the periods necessary to match them with the related costs, which they are intended to compensate. Grants related to the acquisition of tangible or intangible assets are recognised as decreases of their acquisition costs.

INCOME TAXES

The income statement includes direct taxes accrued on the basis of the results for the financial period as well as taxes payable or refunded for previous financial periods. Deferred taxes are not included.

PROVISIONS

Future costs in which the parent company has committed to and which probably will not contribute in future revenues are recognised in provisions.

EMPLOYEE BENEFITS

An external pension insurance company manages the parent company pension plan. Possible supplementary pension commitments are insured. The company has no non-funded pension obligations.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as they are incurred, with the exception of potential related other capital expenditures. Development costs are capitalised when the criteria in accordance with Finnish accounting procedures and regulations are met.

LEASING

All leasing payments have been expensed in the income statement.

APPROPRIATIONS

Appropriations include group contributions.

2. Net Sales

Net sales by product segment

EUR million	2016	2015
Civilian products	4.0	3.9
Total	4.0	3.9

Revenue recognition

EUR million	2016	2015
Civilian products	4.0	3.9
Total	4.0	3.9

3. Other operating income and expenses

Other operating income

EUR million	2016	2015
Other operating income	0.0	0.0
Total	0.0	0.0

Other operating expenses

EUR million	2016	2015
Rental expenses	-0.1	-0.1
Sales and marketing expenses	-1.0	-1.1
Other operating expenses	-6.2	-5.1
Total	-7.4	-6.3

4. Employee benefits

EUR million	2016	2015
Salaries and fees paid to members of the Board of Directors, Consultative Committee and President and CEO	-0.8	-0.7
Other wages and salaries	-0.8	-1.9
Pension and pension insurance costs	-0.4	-0.5
Other indirect personnel expenses	-0.1	-0.1
Total	-2.0	-3.1

Number of personnel, average	2016	2015
Salaried staff	15	15
Total	15	15

5. Financial income and expenses

EUR million	2016	2015
Dividend income, group	8.8	7.9
Interest income, other	0.0	0.0
Other financial income, group	0.0	0.0
Other financial income, other	0.0	0.0
Total	8.8	7.9

EUR million	2016	2015
Interest expenses, group	-1.6	-2.4
Interest expenses, other	0.0	-0.0
Other financial expenses, other	-0.0	0.0
Total	-1.6	-2.4

6. Appropriations

EUR million	2016	2015
Group contributions	33.6	16.3
Total	33.6	16.3

7. Direct taxes

EUR million	2016	2015
Income tax from continuing operations	1.4	1.6
Income tax from extraordinary items	-6.7	-3.3
Total	-5.4	-1.7

EUR million	2016	2015
Income taxes	-5.4	-1.7
Total	-5.4	-1.7

8. Investments

Shares in subsidiaries

EUR million	2016	2015
1.1.	222.0	222.0
Additions	0.0	0.0
Total 31.12.	222.0	222.0

Shares in joint ventures

EUR million	2016	2015
1.1.	188.5	188.5
Additions	3.1	0.0
Total 31.12.	191.6	188.5

9. Receivables and liabilities

Current receivables from group companies

EUR million	2016	2015
Accounts receivable	1.2	0.0
Prepaid expenses and accrued income	35.0	17.3
Total	36.1	17.3

Receivables from associated companies

EUR million	2016	2015
Subordinated loans receivable	0.4	0.0
Total	0.4	0.0

Prepaid expenses and accrued income

EUR million	2016	2015
Taxes	0.0	0.3
Other receivables	0.1	0.1
Total	0.1	0.5

Current liabilities to group companies

EUR million	2016	2015
Accounts payable	0.9	0.0
Other liabilities	146.7	144.1
Accruals and deferred income	1.6	2.1
Total	149.2	146.2

Accruals and deferred income

EUR million	2016	2015
Accruals related to wages and salaries	1.1	1.7
Tax liabilities	2.6	0.0
Other liabilities	-0.0	0.0
Total	3.7	1.7

10. Shareholders' equity

Changes in Shareholders' Equity

EUR million	2016	2015
Share capital 1 Jan	38.0	38.0
Share capital 31 Dec	38.0	38.0
Invested non-restricted equity fund 1 Jan	164.1	164.1
Invested non-restricted equity fund 31 Dec	164.1	164.1
Retained earnings 1 Jan	78.1	77.4
Dividends paid	-13.9	-13.9
Retained earnings 31 Dec	64.1	63.5
Net income	30.0	14.5
Total shareholders' equity 31 Dec	296.3	280.1

Distributable funds

EUR million	2016	2015
Invested non-restricted equity fund 31 Dec	164.1	164.1
Retained earnings 31 Dec	64.1	63.5
Net income	30.0	14.5
Distributable funds	258.2	242.1

11. Commitments and contingent liabilities

Commitments and contingent liabilities

EUR million	2016	2015
Guarantees given on behalf of Group companies	82.7	107.5
Guarantees given on own behalf	4.2	1.0
Guarantees given on behalf of others	5.3	0.0
Total	92.1	108.5

Leasing commitments

EUR million	2016	2015
Payments due next year	0.4	0.0
1-5 years	2.4	2.1
Payments due in thereafter	8.6	9.2
Total	11.4	11.4

Board of Directors' proposal for profit distribution

The parent company's non-restricted equity on December 31, 2016 is EUR 258,244,961.28 of which the net profit for the financial period is EUR 30,042,101.80

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 1.12 per share be paid on the shares owned by the State of Finland and Kongsberg Defence & Aerospace AS. Under the proposal, the total amount of dividends will be EUR 31,182,915.68. The Board of Directors further proposes that the remaining non-restricted equity, EUR 227,062,045.60 be retained and carried forward.

Signing of the Report of the Board of Directors and the Financial Statements

Helsinki, 2nd March 2017

Christer Granskog
Chairman

Harald Aarø

Marko Hyvärinen

Geir Håøy

Eirik Lie

Päivi Marttila

Ari Puheloinen

Janne Sølvi Weseth

Olli Isotalo
President and CEO

A report has been given today on the audit performed.

Helsinki, 9th March 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jouko Malinen
Authorised Public Accountant

Corporate responsibility

Corporate responsibility is part of, and a solid ground for, business. This is also true of the defence industry, whose ethical grounds are often questioned in the public eye. Also, good corporate citizenship is a prerequisite for the operations of the company, which is majority-owned by the Finnish state. This is why it is important for Patria to inform its stakeholders of the responsibility of its operations in an open and transparent manner. Patria will assess and update its new corporate responsibility objectives and their target levels based on a new strategy approved at the beginning of 2017.

Responsible conduct is part of the daily work of every Patria employee. This means abiding by laws, decrees, different statutes and agreements, identifying and preventing risks related to one's own actions, and developing ethical conduct within the company and, more broadly, throughout the industry.

As a company, Patria has acquainted itself with the UN's sustainable development procedures (Agenda 2030), and is now assessing procedures for the attainment of such objectives. Patria has signed the United Nations Global Compact Initiative through which, within their own spheres of influence, companies commit to adopting, supporting, and implementing the basic values related to human rights, working life principles, the environment, and the fight against corruption. Patria participates in the meetings and interaction of the Nordic network.

Patria is a member of Society's Commitment to Sustainable Development, coordinated by the Ministry of the Environment, being committed, via this, to developing the energy efficiency of the real estate property it manages and to further enhancing occupational safety in order to reduce the number of accidents at work. During 2016, Patria submitted a membership application to the IFBEC, an international organisation focusing on anti-corruption work in the defence and aviation industries.

Corporate responsibility management at Patria

Corporate responsibility is the responsibility of the General Counsel (who is also the Chief Compliance Officer), the Chief

Strategy Officer together with the Chief Communications Officer and the Vice President Human Resources. Together with a group of experts representing various fields, they form the Corporate Responsibility Team whose activities rest on four cornerstones: good partnership, being a good employer, ethical conduct, and the environment.

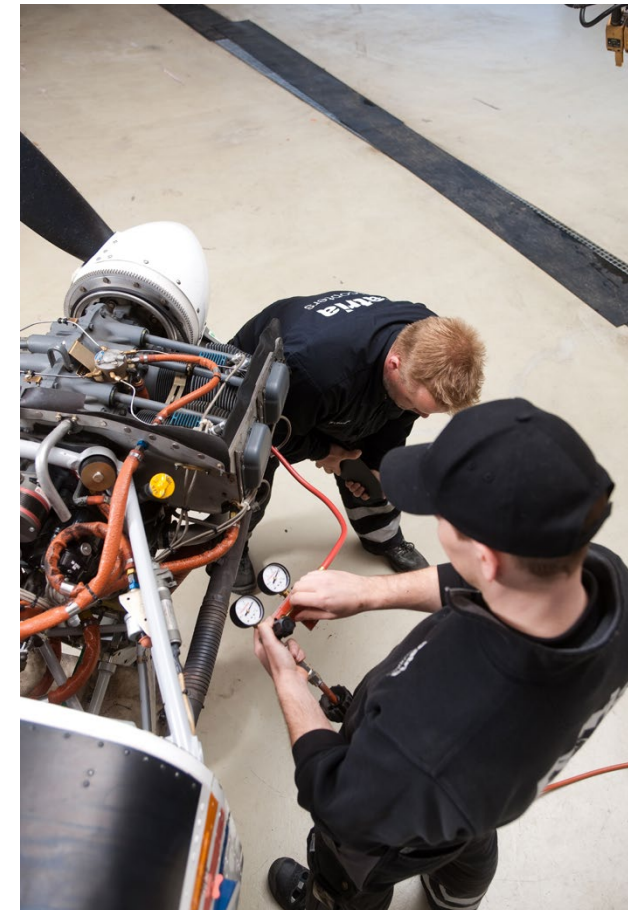
Issues involving corporate responsibility are reported on a regular basis to the Board of Management, the Board of Directors and the Audit Committee of Patria, which, in turn, is in charge of managing and steering these areas.

Corporate responsibility forms part of the work and duties of each Patria employee.

Key CSR themes

Patria's corporate responsibility focus areas are described in the Essentiality Chart, which takes account of the views of both staff and stakeholders. The key themes are partnership, security of supply and various issues related to ethical conduct. The stakeholders' views support the policies of Patria's Board of Directors and management. The Essentiality Chart will be updated in 2017, to bring it into line with the new strategy, and the views of stakeholders will next be surveyed in 2018.

The Essentiality Chart is available for viewing at www.patria.fi/en/corporate-responsibility/management-and-organisation.



Corporate responsibility reporting trends

The number of companies submitting reports is increasing, both in and outside Finland. Similarly, the GRI framework is increasingly used in reporting. The new reporting themes include the UN's sustainable development objectives, the Paris Agreement and reporting on taxes.

Reporting on corporate responsibility is an established practice in state-owned companies. In May 2016, the Finnish Government published a resolution on state ownership, which required state-owned companies, too, to report on sustainability. Patria's other new main shareholder is a highly active and informed actor with which Patria has begun close collaboration, including on sustainability.

An EU directive on sustainability reporting within companies with more than 500 employees entered into force in early 2016. In its reporting, Patria has complied with GRI guidelines as well as the guidelines for the state-owned companies. Along with the GRI guideline reform, reporting increasingly focuses on the Essentiality Chart. Patria's Essentiality Matrix was updated at the end of 2015.

The use of integrated reporting is becoming more commonplace in corporate life. This trend reflects the importance of sustainability in everyday work at every corporate level. This is also one of the guiding principles of Patria.

Reporting and calculation principles

The report covers the parent company, Patria Oyj, its majority-owned subsidiaries in Finland: Patria Finance Oyj, Patria Aviation Oy, Patria Land Systems Oy and Millog Oy, as well as their majority-owned subsidiaries operating in Finland. No figures for outsourced functions are included in Patria's report. Nammo AS, which is jointly and equally owned by Patria and the state of Norway, reports independently on sustainability.

Personnel statistics apply to all the above-mentioned companies, excluding the subsidiaries operating abroad. The personnel on average includes also the subsidiaries abroad.

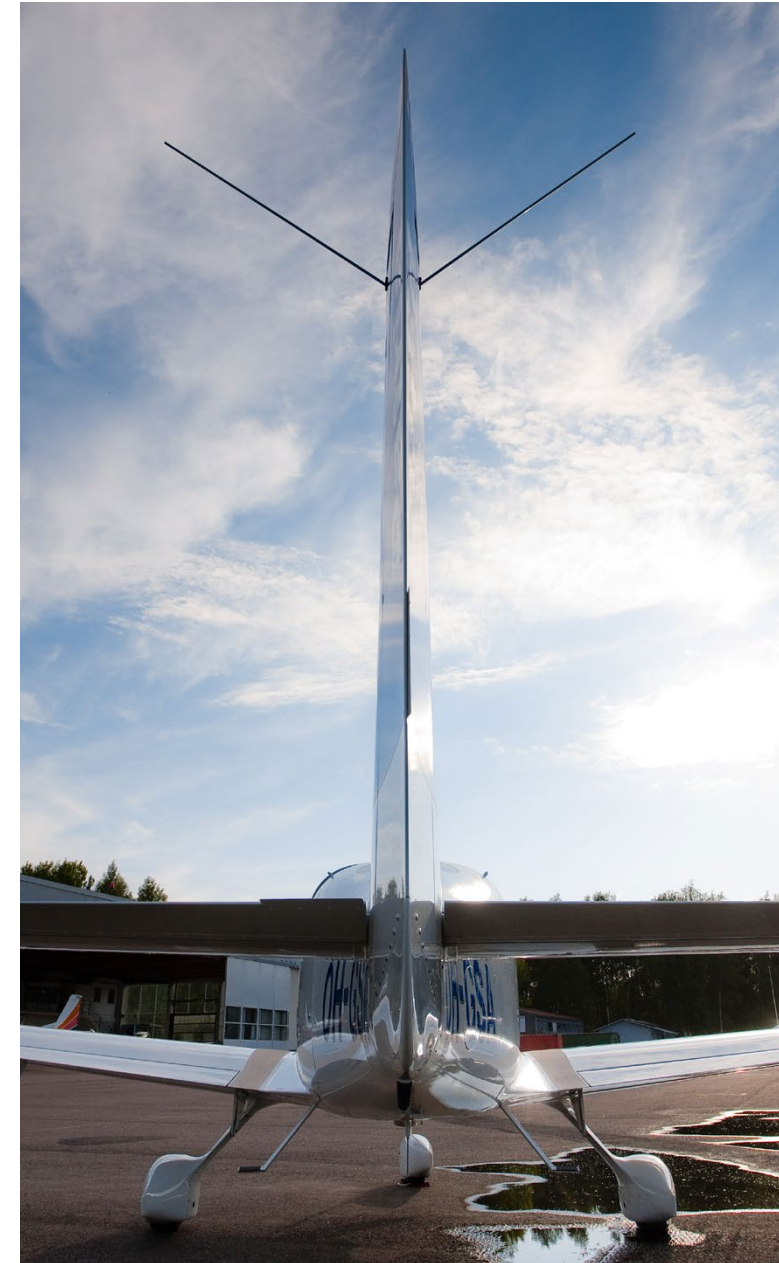
The environmental statistics contain business-specific differences, which have been itemised under each statistic.

In its external environmental responsibility reporting, Patria focuses on selected key target areas of environmental responsibility, which are energy, water and waste. These target areas were chosen on the basis of their significance for all of Patria's business operations. Their selection also took account of the environmental impact and Patria's opportunities to affect this, legislative requirements, Patria's commitments, and the views of stakeholders.

Patria's environmental responsibility reports cover the company's key production and office sites. Properties where Patria has operations at the customer facilities are not included. Millog relies on waste management arranged by the Defence Forces at sites which are located within garrison areas. Waste volumes are only reported for such sites where applicable. Patria seeks to improve the comparability of data from different years, and the reliability and accuracy of reported data in the coming reporting periods.

Information sources, measurement and calculation methods used in the report

The report data was gathered from Patria Group's internal data systems. With respect to measurement and calculation methods, recommendations in accordance with the GRI guidelines have been followed whenever possible and appropriate. The statistics always include a note on the measurement and/or calculation method used. Personnel data is obtained from the Patria HR system. Accident statistics are obtained from an insurance company. Economic statistics are mainly derived from Patria's financial statements.



Ethical conduct as the basis of our operations

At Patria, ethical conduct is founded on the absolute requirement for zero tolerance of unethical conduct set by the Board of Directors and the senior management. Ethical conduct is part of every working day at Patria. It encompasses the unconditional prevention, detection and assessment of identifiable industry risks.

The focus areas for 2016 were the development of ethical practices concerning all partners, and the further development of training for personnel special groups. Over the course of the year, these focus areas were developed in accordance with an 18-month rolling action plan and, after the new minority owner was confirmed, in cooperation with its representatives.

Patria will assess and update its new ethical conduct objectives and their target levels based on a new strategy approved at the beginning of 2017.

Sharing of the best practices through collaboration

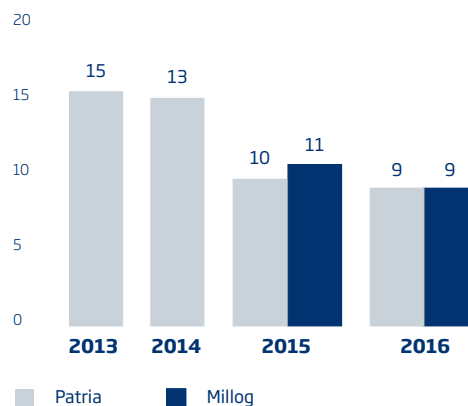
Collaboration on ethical conduct with the new minority owner, the Norwegian Kongsberg, began immediately after the share transaction was confirmed. Through collaboration the companies are seeking common, Nordic policies and practices for shared ethical conduct – which is already at a high level. At the initial meetings, decisions were taken on the sharing and development of best practices on a regular basis, four times a year. Three such meetings were held in 2016, in one of which Nammo, a company 50-50 jointly owned by Patria and the state of Norway, also participated.

Patria began the process of joining IFBEC, an international organisation for anti-corruption work in the defence and aviation industries. The company also participated in a seminar arranged by IFBEC in London in November. Patria is already

a member of several other organisations, such as Global Compact.

The development of shared practices continued with the updating of Patria's guidelines entitled "Business Partner Selection." Regarding the activities described in

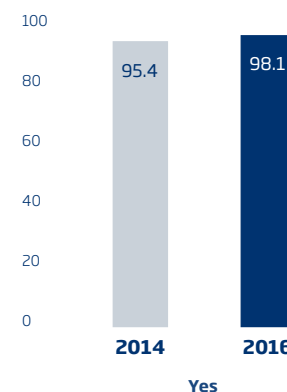
Reporting on suspected misconduct



Reports on suspected misconduct show a downward trend. They mainly concern issues falling under the responsibility of HR management, such as managerial duties, recruitment and inappropriate behaviour. The number of reports in proportion to the headcount is at a good level.

the guidelines, two process descriptions were also drafted to facilitate the overall management and understanding of the issue within the company and among licensed manufacturers.

Do you know how to act if you detect possible misconduct?



A total of 98.1% of Patria employees know how to act if they detect possible unethical conduct.



Responsibility describes the way in which each Patria employee shall act

All Patria personnel are being trained in ethical conduct. Training is provided on a general level, and makes personnel aware of the correct procedures, valid guidelines and the importance of having the right ethical mindset. Training was transferred to a new online training system. This postponed the training, which was scheduled for 2015, to early 2016, at which point 98% of all personnel participated in it. Due to this delay, the next training opportunity will be arranged in the spring of 2017.

All new Patria employees receive such training during their orientation. Within the scope of advanced training the company continued to provide internal training on issues such as contract and competition law.

A survey on the potential for serious misconduct, scheduled for every second year, was conducted for the second time. According to the survey, personnel see little danger of serious misconduct such as bribery and fraud within the company. Compared with the previous survey, trust has increased by 1.5% and now stands at 98.1%. Similarly, 98.1% of those who responded indicated that they would know how to act if they detected serious misconduct. A total of 90.8% of the respondents indicated that misconduct can be reported safely.

The whistle blowing channel enabling anonymous reporting was developed further in order to better meet new data protection requirements and provide guidance to whistle blowers while they are submitting a report, on determining the seriousness of the issue in question. Personnel are encouraged to submit reports that do not concern serious misconduct to their immediate supervisors, or employee representatives. Fewer reports were submitted last year than in the previous year, and most concerned problems falling under the responsibility of HR management.

The sponsorship guidelines were also updated to cover support provided by external parties for events organised by Patria. In accordance with the guidelines, Patria will not request support for any events that it organises. Nor should

local entrepreneurs and partners be requested, as a rule, to provide sponsorship or prizes for staff recreational events and competitions.

Arms export and ethical conduct

Patria observes the official export policy of Finland and other countries relevant to its operations. The company also participates in the development of its operations via various national (AFDA) and international (ASD) organisations.

In Finland, in all cases the export, transfer, transit and brokering of defence material requires an export licence issued by the Government or the Ministry of Defence. Such licences are granted on a case-by-case basis. A licence is granted if it is in line with Finland's foreign and defence policy and does not compromise Finland's national security. Finland applies Council Common Position (2008/944/CFSP) to permit applications. A further prerequisite for obtaining a licence is submitting a reliable account of the final end user of the materiel.

Active anti-corruption work

Patria's anti-corruption activities form part of its work aimed at developing its ethical conduct. Patria has absolute zero tolerance for corruption. Guidelines, training and continuous operational development foster responsible operations. Clear communication of the management's aims, maintenance of awareness among personnel, and careful partner selection strengthens the level of responsibility of operations. At Patria, personnel are encouraged to report all unethical activity, and this can be done anonymously.

Patria reviews the compliance of its operations with the new ISO37000 standard and participates in the study of anti-corruption work conducted by Transparency International, which is repeated every three years. The previous Defence Companies Anti-Corruption Index 2015 study ranked Patria in category C, the third-highest category. Companies were evaluated on a scale of A-F on the basis of information available from public websites. Separately submitted internal material raised Patria's ranking to category B.

Responsible employer

Patria holds transparent cooperation in high regard, values skills and experience, treats its personnel equally and fairly and attends to its personnel's wellbeing at work.

In 2016, focus areas included ensuring the ability to work through various measures and using social media to construct the company's employer image. An occupational health survey was carried out at Patria, on the basis of which measures specific to various individuals were defined, including efforts to promote ergonomics at work and the adoption of an early intervention model. One of the metrics used to describe occupational health was the sick leave percentage. While the number of sick leaves remained at the level of 2015, that of disability cases was less than in the previous year. By taking active measures, the company managed to reduce the frequency of accidents. The social media channels were used in recruitment, among other issues. Also the development of staff competences has been emphasized.

Patria will assess and update its new human resources related objectives and their target levels based on a new strategy approved at the beginning of 2017.

Personnel

No significant cooperation negotiations were conducted at Patria in 2016. The average headcount was 2,765, as compared to 2,804 in the previous year. Patria recruited 149 new employees and provided summer/training jobs to 18 students.

Responsible supervisory duties

At Patria, responsible supervisory duties include stepping in should problematic situations occur, while taking advantage of the problem solution model. At Millog, supervisors have been trained in accordance with the Fair Management theme. Millog



has also adopted an operational model entitled Fair Work Community.

Supervisors have been trained in setting objectives and conducting appraisal discussions with employees on the achievement of objectives. They have been encouraged to use motivational management tools and have been helped, among other things, in recognising the factors that motivate personnel.

The theme at Patria's Manager's Day was entitled What are an energising supervisor and working community like? The expert at the event was Helena Åhman. A total of 180 supervisors participated in the event.

Employee satisfaction at Patria is surveyed every two years, with the next survey due to be conducted in 2017.

Learning and reinventing oneself

Personnel development will be agreed on with managers during the annual appraisal discussions. The development

discussion rate was 92% (80%). The new e-learning environment supports employees in their preparations for development discussions and the setting of goals, as well as for conducting personal development discussions

Patria's Talent Management programme finished in February. The goal of the programme is to identify and nurture future talent in relation to business unit and group-level management tasks. A total of 16 employees participated in the programme. The following training programme will begin in April 2017.

Supervisors have been trained in using various methods of on-the-job learning such as mentoring, benchmarking, job rotation, work shadowing and modelling in the development of staff competences.

During 2016, 18 supervisors underwent a training programme providing them with personnel management skills. Information sessions open to all supervisors were arranged, covering issues such as the employment relationship, the management of competences and performance, meeting procedures and early

intervention. One business unit also continued Future Production Manager training for a specialised vocational qualification. A total of 23 experts participated in a group-level training programme entitled Pro Point training emphasising expertise at the customer interface, which provides customers with added value and Patria with new business opportunities.

Personnel were trained, among other things, in corporate security and the use of data systems using the e-learning environment. For the orientation of new employees, a new online game named On the Road with Patria was introduced. A day-long orientation session dubbed I – Patria Employee was arranged twice and was attended by a total of around 100 new employees.

A training day for the entire personnel, Patria Day, was arranged in December. This session brought together all staff to discuss the outlines and management of Patria and its business units, including the wellbeing of each and every employee, and challenged all present to apply out-of-the-box thinking to the related issues. A total of 1,300 personnel participated in Patria Day.

At Patria, the number of days spent on personnel training amounted to 2.9 days/employee, as opposed to 2.4 days in the previous year.

Compensation

The compensation of blue-collar and white-collar workers is determined by the pay systems of collective agreements. The compensation of senior salaried employees is agreed individually, and job evaluation is performed using the IPE system. Periods of notice are as specified by law and/or personal agreements.

Successes and good performance are also rewarded through the performance bonus and profit-sharing scheme. At Patria, the entire personnel is within the scope of the performance bonus and profit-sharing scheme and is eligible to receive an annual performance and profit-sharing bonus worth a maximum of 1.8 months of salary. While the amount of the performance and profit-sharing bonus has varied from year to year, it has amounted to approximately 50% per year.



The compensation paid is revealed in the annual financial statement.

Patria has a compensation fund in place, pursuant to the Act on Personnel Funds in which 20% of Patria personnel invested their bonuses and profit-shares paid in 2015.

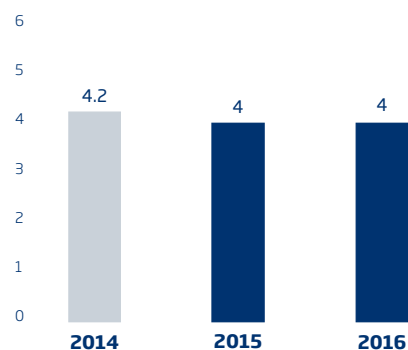
Patria offers flexitime to its entire personnel. The organisation has been able to arrange part-time work, job rotation and study leave opportunities.

Personnel leisure activities were supported to the tune of €105/person. In addition to this, Patria offers free coffee and subsidised lunches to all its employees.

Occupational health and safety

At Patria, occupational health services are the responsibility of Finla occupational health which manages such services in a centralised fashion at all Patria sites. Under this operational

Sick leave trend at Patria Group



In most cases, sick leave was due to musculoskeletal disorders, while accidents during leisure-time, a common cause of absences in the previous year, fell in number. Occupational health costs amounted to €645 per person (€619) of which anticipatory action (Kela I) comprised 52%.

model, Patria's shared operating principles are observed at all sites, with reporting and cost management being handled in a centralised fashion.

At Patria, sick leave remained at the level of the previous year, being 4.0%. The sick leave rate for blue-collar employees rose by 0.2% to 5.4%, while that of white-collar staff fell from 3.0% to 2.9%. A total of 50% of the personnel did not take any sick leave (49%). Sick leave exceeding 30 days in duration accounted for 64% of the cases (65%).

Measures taken to reduce sick leave levels

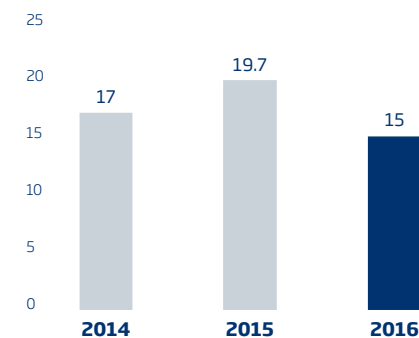
An occupational health survey took stock of employees' health and ability to cope with work. Occupational health care processed the results in small groups, contacting individuals whose health or ability to work exhibited discernible changes or problems, and agreeing on measures specific to individual employees in order to resolve any problems. Following recommendations issued by a workplace physical therapist, workstations were developed to meet individual needs (including illumination, electric tables and different mice.)

Patria has practices in place for early intervention and, depending on the case, for modifying an employee's job description in the case of reduced ability to work. Occupational health negotiations are conducted when necessary.

A new operating model for replacement work was deployed in early 2016. Employees' return to work was supported by measures such as partial sickness benefit, rehabilitation support, adjusted and lightened work as well as changes in duties. Examinations by age group were carried out in accordance with the occupational health blanket plan as well as pre-employment medical examinations, health checks for employees who travel a great deal, and working place reports.

To prevent musculoskeletal diseases, the ergonomics of production methods were improved and back rehabilitation, exercise during breaks, and neck and shoulder rehabilitation were organised. The ergonomics of the working places of office workers were improved, for instance by obtaining electrical desks. The Aslak rehabilitation of both white-collar and blue-collar workers was terminated. Rehabilitation known as

Frequency of accidents at Patria Group, broken down by the number of accidents per million working hours



The frequency of accidents has been calculated according to the guidelines provided by the Federation of Accident Insurance Institutions relating to accidents at work resulting in costs. The figure does not include occupational diseases or accidents at work.

Kiila, which is supported by Kela, the social Insurance Institution of Finland, will begin in 2017.

Patria has taken out comprehensive health insurance to complement occupational health services in such a manner that all personnel receive treatment without delay, avoiding lengthy absences due to sickness.

Accident-prevention measures

As part of Society's Commitment to Sustainable Development, coordinated by the Ministry of the Environment, Patria is committed to reducing the number of accidents at work by 25% by 2018, compared with a baseline set in 2014. A company-external expert analysed the state of occupational safety at Patria, presenting proposals for corrective action. Patria managed to reduce the frequency of accidents in 2016, bringing the figure down to 15 compared to 19.7 in the previous year. According to the statistics of the Federation of Accident Insurance Institutions, the frequency of accidents in

motor vehicle and trailer manufacturing companies in 2015 was 57. The 2016 figure was not available when the annual report was being created.

Discussions during the internal development day for occupational safety professionals, Patria's development projects and best practices were adopted. The 5S +S method was introduced in two business units. For example in the Land business unit, as a result, the number of accidents at work fell to 32 from 1627.

In collaboration with the Finnish Institute of Occupational Health, Patria analysed the blue-collar job tasks at one unit in order to gain an insight into practices that would help to prevent human errors and accidents at work, and to achieve the desired quality level and product safety. Personnel participated in the modelling of their work phases and in seeking solutions.

Employee influence

Patria honours the negotiation arrangements in force. All employment matters are primarily dealt with between the employee and the manager. This basic relationship is supported by the shop steward and negotiation systems in accordance with the collective agreement. Local agreements are part of established cooperation. Local agreements are made at different levels of the organisation, depending on the issue. Business units agreed locally on the extension of working hours, among other issues.

At Patria, employees are involved in advisory councils, the corporate meeting and the management teams of business units. There are also business unit-specific general meetings and occupational health committee meetings, where matters required by the Act on Co-operation within Undertakings are handled on a regular basis. Traditional initiatives have been replaced with the Lean operational model, by business unit.

Equality and diversity

At Patria, the equality plan and non-discrimination plan have been combined into an Equality Plan, which has been added to the HR plan. The company guarantees equal rights and opportunities to all personnel. Everyone has the right and responsibility to intervene if any grievances are observed.

The management creates the conditions for and is committed to promoting the implementation of impartiality and equality.

The company seeks to promote multiform collaboration, including a range of competencies, experiences and backgrounds. No discrimination based on gender, age, origin, language, religion, conviction, opinion, medical condition, disability or other personal reason is tolerated. Through employing management methods, Patria promotes a corporate culture that approves of different perspectives and allows the participation of all employees.

Employer image

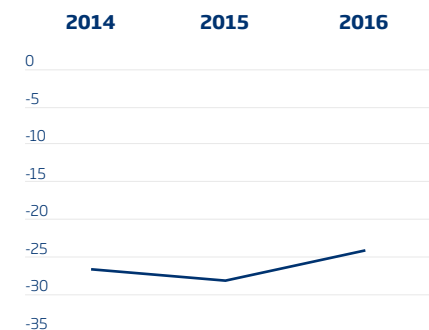
According to a personnel survey last carried out in 2015, Patria personnel were enthusiastic with regard to their work, saw their work as being meaningful, did not want to change employer, and would recommend Patria as an employer.

The employer image that Patria presents outside the company is measured through regular participation in employer image surveys conducted by Universum. Among technology students, Patria's ranking in terms of employer image rose from 33 to 28. Correspondingly, in the technology sector, Patria's image rose from position 28 to 22.

Patria's experts worked as lecturers in universities and polytechnics and attended various events in addition to their work. Patria actively participates in various recruitment events and supports vocational schools by offering students work training schemes and the opportunity to attend lessons and complete practice and final projects. Patria offers students who are about to complete their studies a Trainee programme. In 2014, eight students participated in the Trainee programme. Efforts made through the social media have paid off, enabling the company to reach new potential employees. Patria has used Facebook, LinkedIn, Instagram and Twitter.

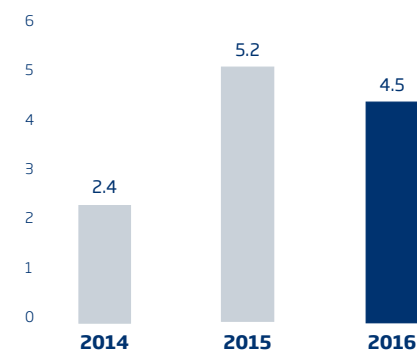
Personnel turnover was 4.5%, compared to 5.2% in the previous year. The target level is a turnover of 3%, which enables an optimal level of renewal in the organisation. Adjustment measures have no effect on the statistic calculated in this way.

Development of employer image according to measurements carried by Universum



Among technology students, Patria's employer image has developed in a positive direction, according to the results of a study conducted by Universum.

Personnel turnover at Patria Group %



The turnover percentage is calculated by taking the lesser figure of started and ended temporary employment contracts and dividing that figure by the mean number of personnel during the period. This figure takes account of employment that has ended, where a new person was hired to replace the old one.

Diversified duties motivate

Patria employs 2,800 skilled professionals in the defence, security and aerospace industry. Unique technology expertise and decades of experience are the foundation for successful product and service concepts in the future.

Managerial skills and competence development are the key priority areas in human resources management.

We asked Patria employees, what kinds of skills are important in their work and what motivates them.



Jukka Havusto
Program Manager, Aerostructures

I work as a program manager in the Airbus A320 VTP Ribs and Center Spar project. Keeping the project on schedule and customer satisfaction are of great importance. The tasks require an ability to coordinate inside the organisation and with the customer. It is highly rewarding when a great result is achieved and making the customer satisfied even in the most challenging projects.



Hannu Mäkelä
System Engineer, Aviation

I think that the key skills in specialist work are seeing the big picture and being able to create a strong social network and team spirit in the working community, in support of my own technical expertise. This is because the overall issues I need to manage are often so extensive that no one could manage all of the details alone. I am inspired in my work by tasks in which I can develop myself and feel able to have a genuine impact on the bigger picture.



Tuula Pekkala
**Group Manager, Naval Systems,
NAVCOM-group, Millog**

To me, interpersonal skills are the most important ones as well as working conditions and well-being at work. There should be always time to stop and listen. It motivates me when people are dedicated to their work and want to perform successfully. I think a superior has to be able to delegate tasks to others to ensure that resources are used efficiently. In our unit I'm a key SAP user and I participate in numerous projects related to life-cycle support of systems.



Kimmo Jämsen
Product manager, Training systems, Systems

When designing a training system, you have to understand the customer's training needs, since they serve as the starting point for the technical implementation. Simulator functions are implemented with software, so you need a good understanding of software development. Organisational and communication skills are also essential for the successful lead-through of several parallel projects at the same time. Thinking up new projects, designing training systems from idea to implementation and selling and delivering the product is an intriguing process.

Stakeholder collaboration

Patria offers reliable, professional and long-term collaboration to its customers and stakeholders. At the heart of operations lies the continuous development of operations in a cost-effective manner together with customers, subcontractors, suppliers and other stakeholders. Excellent examples of this can be found in various partnership agreements such as the one signed between the Finnish Defence Forces and Patria regarding life cycle support services for military aviation systems, and the extended partnership agreement between Millog and the Finnish Defence Forces.

Collaborative focus areas in 2016 included the development of shared operating methods and transparency related to shareholder interfaces, assurance of security of supply, and promotion of a sense of community. While actual metrics are hard to set for these objectives, development work has progressed according to plan. Patria will assess and update its new stakeholder collaboration objectives and their target levels based on a new strategy approved at the beginning of 2017.

Developing cooperation

Patria aims to build constructive and open interaction with stakeholders. The company maintains and develops its relationships with its stakeholders on the basis of feedback. Patria's key stakeholders are owners, personnel, customers, suppliers, the authorities, organisations and media. A summary table of stakeholder relationships can be found on [page 76](#). The rules applied to the company's lobbying strategy concerning stakeholders have been combined into a single set of guidelines in the internal ERP system, improving the openness and transparency of operations and interaction with various stakeholders. The guidelines are also available at www.patria.fi.

A practical and effective procurement chain

The development of procurement chain management continued with the launching of "From procurement to Payment"



P2P project. The amount of suppliers and their contracts were actively monitored and the reporting of procurement was developed onwards.

Patria strives to operate only with suppliers, subcontractors, consultants and representatives that are ready to comply with the principles of Patria's Ethical Code of Conduct. Patria requires that all suppliers, subcontractors, consultants and representatives abide by local legislation in all countries in which they operate. The risks associated with procurement, including those involving ethical conduct, are evaluated in a multi-layer fashion within the scope of the group's overall risk assessment, including supplier risk assessment during tendering projects, development of the range of suppliers, and the evaluation of offers submitted by suppliers.

Patria has approximately 3,200 suppliers in 40 countries. Around 65% of procurement is from Finnish companies. Other significant supplier countries include Poland, France, Great Britain, Sweden, Holland, Germany and The United States.

Influencing the defence materiel industry

The President and CEO of Patria is the Chairman of the Association of Finnish Defence and Aerospace Industries AFDA. Patria employees are also active on the AFDA's Board of Directors and various subcommittees. Through AFDA, Patria also takes part in NORDEFECO, which is expanding Nordic defence cooperation.

Sense of community

In Finland, Patria has operations at many sites and is therefore an important local employer. Patria does not support any political parties.

During 2016, Patria met representatives of non-governmental organisations at various events. The company organised a morning event for the representatives of domestic organisations, continuing an established tradition of engaging in the related discussions. The company also continued its discussion on responsibility with Transparency International UK.

Patria continued its cooperation with the Finnish Aviation Museum Society, the Aviation Museum of Central Finland and the Finnish Aviation Museum, with the objective of restoring the VL Myrsky fighter plane to its original appearance. Patria is the main sponsor of the project. Young people studying at a number of technical colleges and youth workshops, in locations such as Jyväskylä and Vantaa, are also involved in the restoration project. A key element of the project involves combating the marginalisation of young people.

Patria continued its long-term cooperation with the Finnish Military Sport Federation. This involves promoting a sports-oriented lifestyle among young people, including after their period of conscription. Patria has supported the Finnish national biathlon team since 2011 and continued to do so during the 2015–2016 season. Patria's previous CEO was the Deputy Chairman of the Biathlon Association; as such, he excluded himself from any decision-making concerning the sponsorship.

In addition to this, Patria takes part in the United Nations Global Compact and supports its work through voluntary donations. Patria supported the Vamos youth services of the Helsinki Deaconess Institute by donating funds for Christmas presents. The Vamos services support training and young people who have dropped out of working life in Espoo, Turku, Kuopio and Lahti. Such work seeks to provide young people with additional resources and to help them enter training and working life. The charity is annually chosen by the Patria Consultative Committee.





STAKEHOLDER	INTERACTION	ASSESSMENT
Owners	Board work, Annual General Meetings, management meetings and interaction with the owner, the Patria Magazine, briefings, press releases, Annual Reports, financial reviews, web sites	Feedback from the Board of Directors and the owner, feedback from the Audit Committee of the Board of Directors
Personnel	Open and continuous communication, Group meetings, annual development conversations, PR info and internal communication, intranet, Patria Day, staff magazine, training, occupational safety, initiatives and continuous improvement	Personnel satisfaction questionnaires, satisfaction and follow-up questionnaires of different business units, intranet questionnaires, internal feedback channels
Customers	Regular customer contact, life-cycle customer support for products, customer events and seminars, customer magazines, the internet, conferences and fairs, product documentation, customer feedback system, customer satisfaction surveys	Customer questionnaires, feedback, QA system, audits
Suppliers	Open and active interaction between the purchasing organisation and the suppliers, the ERP system, supplier days	Suppliers evaluations, audits
Authorities	Cooperation and reporting with the authorities regarding, e.g. the environment, occupational safety and security, CSR reports, company presentations, communication and the internet	Stakeholder questionnaires, feedback
Industry and business organisations	Membership in and active involvement with industry organisations (such as AFDA, NORDEFCO, ASD, ELDIG, Technology Industries of Finland)	Interaction, meetings, stakeholder feedback, visibility
Civic and other organisations	Open cooperation and meetings with civic organisations, memberships, support (e.g. Transparency UK, the UN Global Compact, FIBS, different civic organisations in Finland), CSR reporting, other reports, sponsorships, donations such as funding for Christmas presents to prevent the marginalisation of young people	Stakeholder feedback, quantity of communication and meetings, visibility
Educational establishments, students	Offering training and working opportunities, research and development projects, guest lectures, recruitment events, general presentations, visits, seminars, supporting student activities, the internet, the social media, campaigns and open door events	Employer image surveys, stakeholder feedback, number of recruitment event participants and questionnaires, feedback received
Media	National and international publications, magazines, online media, fairs and events, interviews, bulletins, Patria's stakeholder magazine and the online version, the internet, the material bank, the social media, meetings, visits, tours	Sounding questionnaires, interaction, feedback, media follow-up, the reach and correctness of messages, the tone of messages in the media, industry follow-up, social media activity and number of clicks on posts

Environmental responsibility

Patria's environmental responsibility is guided by the group's environmental policy, and the international principles for environmental responsibility to which the company is committed. Patria has promised to promote sustainable development in its operations by means of concrete measures.

In 2016, Patria's focus areas were the development of energy efficiency on properties and bringing Millog's new sites within the scope of a certified environmental management system. Patria also sought to identify and take account of the impact of the new ISO14001:2015 standard in its operations.

In addition to the environment objectives at the group level, Patria's business areas have targets specific to each business area and site, and taking account of the special characteristics of their operations and environmental impact. On the whole, the objectives were achieved and operations were developed by setting up an environmental work group tasked with furthering collaboration and the sharing of information between various business areas, and with developing and reporting on the group's environmental responsibility.



In 2016, Patria's focus areas were the development of energy efficiency on properties and bringing Millog's new sites within the scope of a certified environmental management system.





Patria will assess and update its new environmental objectives and their target levels based on a new strategy approved at the beginning of 2017.

Environmental systems

Patria's key production sites have certified environmental management systems which must meet the requirements of the revised ISO 14001:2015 standard by 9 November 2018.

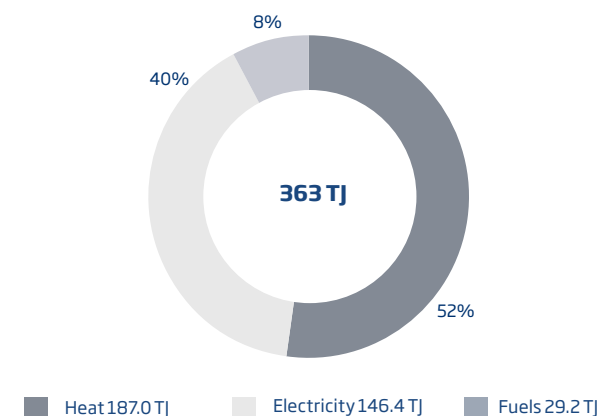
In 2016, Millog's environmental management system was updated and certified in accordance with the revised ISO 14001:2015 standard. In connection with this, the environmental management system was expanded to cover all operations, including the sixteen new sites transferred from the Defence Forces (1 January 2015) and Oricopa (1 January 2016). The certification was under preparation for almost two years. A new certificate was granted to Millog in November 2016.

The Aerostructures business unit began to construct an environmental management system in 2016 by conducting a survey on the effectiveness of the system. The objective involves the implementation, monitoring and reporting of operations in accordance with the ISO 14001 standard. However, the certification of an environmental management system is not an objective.

Energy

Patria's indirect energy consumption consists of electricity and heat consumption, with direct primary energy consumption deriving from fuel consumption by aircraft, vehicles, gas turbines and diesel engines.

Energy consumption between 2014 and 2016



Energy consumption increased by 16 % from the year 2015. This is mainly due to Millog's new sites covered by the reporting.

Heat

As part of Society's Commitment to Sustainable Development, coordinated by the Ministry of the Environment, Patria (excluding Millog) seeks to reduce the energy consumption of the key properties that it manages by 3 per cent by 2018, measured on the basis of the 2014 level.

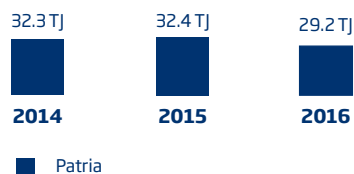
Weather-normalized heat consumption by the properties managed by Patria was reduced by two per cent from 2015 to 2016. Specific heat consumption, which refers to energy consumption in proportion to the number of heated building

Specific consumption of electricity and heat by Patria*

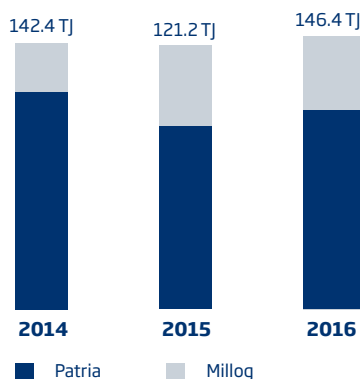
Consumption of specific energy	2014	2015	2016	Change -% 2015-2016
Heat kWh/rm³L	32.5	35.4	34.7	-2
Electricity kWh/rm³S	28.1	27.5	28.7	+4

* Figures do not include Millog's sites. Consumption of heat energy includes key properties managed by Patria in Halli, Hämeenlinna, Linnanvuori, Malmi, Tikkakoski and Utti.

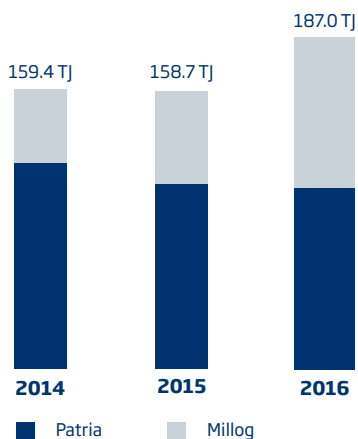
Fuels



Electricity



Heat



cubic metres, was also reduced by two per cent. Despite this, Patria is behind schedule in achieving its energy efficiency objective, since it consumed less thermal energy in 2014 than in 2015 and 2016.

Of Patria's sites, Halli in Jämsä has the largest energy consumption. Heat consumption in the area and loss of heat in the regional heating network was reduced in 2016 by adjusting the heating networks and ventilation and their settings, and by taking measures to decrease heat loss attributable to the large overhead doors of the hangars. Furthermore, with regard to the maintenance of properties at all sites, the effectiveness of measures taken during previous years to enhance the efficiency of energy consumption was ascertained.

To develop the monitoring of energy consumption, measurements of thermal energy have been enhanced by increasing the number of measuring instruments in the premises and measurements performed each hour. Measurement errors were detected while improving the measurements, which is why the figures for energy consumption in 2014 and 2015 were corrected retroactively.

Consumption of thermal energy as reported by Millog increased by 46 per cent in 2016, on account of the new sites covered by the reporting.

Electricity

The sale of ammunition production at Sastamala to Nammo in late 2014 reduced Patria's electricity consumption by more than a quarter. In 2016, Patria's electricity consumption increased by four per cent compared to 2015. Specific consumption of electric energy, which covers energy consumption in proportion to the number of electrified building cubic metres, increased by four per cent.

Electricity consumption increased especially at a Halli site due to production volume, increased ventilation and increased loss of electricity in the regional electrical network. Patria has taken various measures, in collaboration with Caverion Suomi Oy, the company responsible for its properties, to decrease energy consumption by adjusting the building automation of properties and modernising their lighting.

Electrical power consumption reported by Millog increased by 49 per cent in 2016. This is attributable to the increase in the number of sites reporting on their consumption.

Fuels

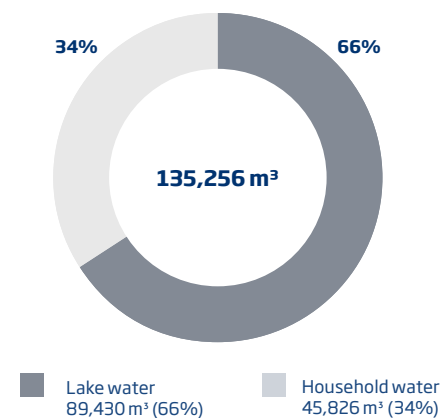
Patria's fuel consumption decreased by 9.8 per cent in 2016 compared to the previous year. This was mainly due to the decrease in the number of flight hours flown during civilian flight training and the variation in the number and types of gas turbine and diesel engines undergoing maintenance.

The consumption of aviation fuel and jet fuel by Finnish Defence Forces aircraft in military flight training and maintenance test flights is monitored by the Defence Forces.

Water

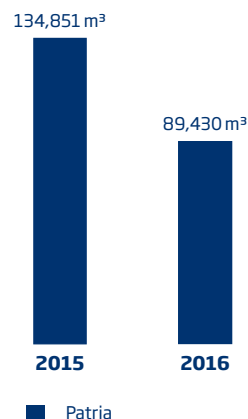
Total water consumption has decreased by 24 per cent since 2015. The consumption of lake water, in particular, has decreased by 34 per cent during the course of one year, due to the variation in the number and types of engines being overhauled in different years. At the Linnavuori site, lake

Water consumption between 2014 and 2016

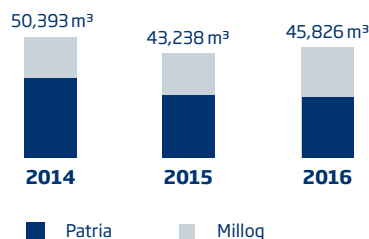


The water consumption decreased by 24 per cent since 2015.

Lake water



Household water



water is used in cooling during test runs of engines, as well as in drying ovens and vacuum furnaces. Used cooling water is fed back into Lake Jokinen.

Total consumption of household water increased by six per cent compared to 2015. Patria's water consumption decreased by five per cent, while that of Millog increased by twenty per cent during the same period. The increase in water consumption reported by Millog is attributable to the increase in the number of sites reporting on consumption.

At Patria, water consumption has been lowered by carefully planning the changeover of water in sinks, and by introducing

new water equipment which consumes less water. Production volumes also affect water consumption.

Waste

The operations of the group produce common municipal waste, scrap metal, hazardous waste and construction and industrial waste. The total volume of such waste increased by 25 per cent in 2016. Scrap metal and reported construction and industrial waste produced by Millog, in particular, contributed to the increase in waste volumes compared to the previous year. The volume of scrap metal greatly depends on the volume of equipment discarded by the customer.

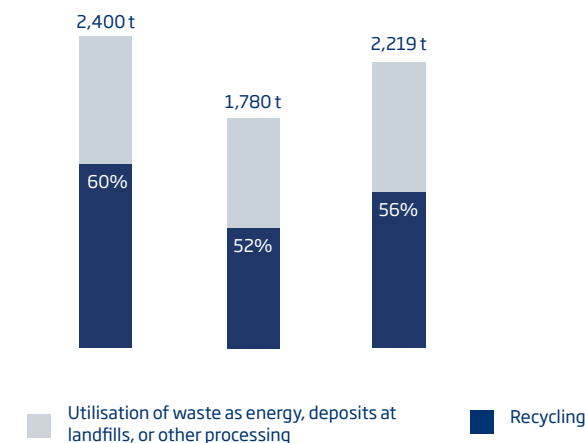
Calculated on the basis of the total waste volume, the recycling ratio of waste was 56 per cent in 2016. The recycling ratio improved by four percentage units compared with the previous year. The recycling ratio was raised by an increase in metal scrap and measures taken to promote recycling.

There was a major reduction in the volume of waste produced by Patria after 2014, following the sale of Sastamala's ammunition production operations. The volume of waste continued to decrease by two per cent from 2015 to 2016. The recycling ratio increased by nine percentage units during the corresponding period. The high recycling volume in 2014 can be attributed to the large volume of metal scrap produced by Sastamala.

The group seeks to raise awareness of waste utilisation and processing methods, and to promote waste recycling. In 2016, Patria began the systematic gathering of information on the utilisation and processing of waste. Information for the years 2014 and 2015 was also gathered retroactively.

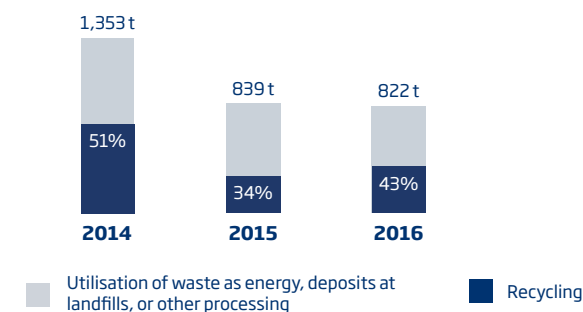
The sorting of waste at Patria's Tampere site, with its approximately 300 employees, was enhanced by introducing the separate collection of new waste categories. New sorting practices were communicated to the personnel by providing employees with sorting instructions and guidance, and by arranging information meetings. Separate collection of clear plastic was begun at the production and logistics premises on the Hämeenlinna site. The entire personnel (150 employees) participated in training on waste management and environmental protection.

The total volume of waste and recycling ratio between 2014 and 2016 Patria and Millog



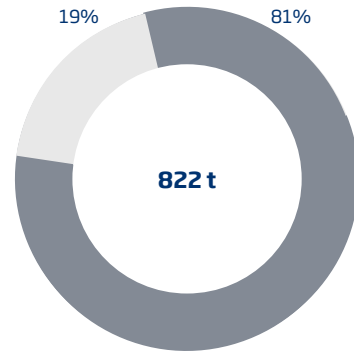
The total volume of waste increased by 25 per cent and the recycling ratio by 4 percentage points.

The total volume of waste and recycling ratio between 2014 and 2016 Patria



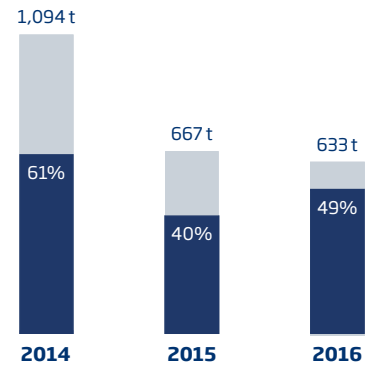
The total volume of waste decreased by 2 per cent and the recycling ratio increased by 9 percentage points.

Volume of waste produced by Patria (excluding Millog) between 2014 and 2016



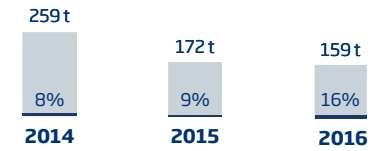
- Municipal waste, metal scrap and construction and industrial waste 663 t (81%)
- Hazardous waste 159 t (19%)

Municipal waste, metal scrap and construction and industrial waste



- Utilisation of waste as energy, deposits at landfills, or other processing
- Recycling

Hazardous waste



- Utilisation of waste as energy, deposits at landfills, or other processing
- Recycling



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Corporate governance

Applicable statutes, guidelines and recommendations

Administration and governance of Patria is subject to the provisions of the Finnish Companies Act and other legislation relevant to its operations. In addition, Patria follows other guidelines and recommendations concerning good corporate governance applicable to companies in which the Finnish state is the majority shareholder.

Group organisation and administrative system

Patria is operationally divided into business units. Patria Group consists of the parent company, Patria Oyj, and its wholly owned subsidiaries. In addition to the wholly owned subsidiaries, Patria owns 61.8% of Millog Oy, 50% of Nammo AS, and 25% of Silverskin Information Security Oy. The statutory bodies of Patria Oyj – the General Meeting of Shareholders, the Board of Directors, and the President and CEO – are responsible for the company's administration and operations.

The Group's operating activities are managed by the President and CEO, assisted by the Board of Management. Each business unit and the group services has a management group of its own. The statutory boards of wholly owned Group companies other than the parent company are only responsible for the statutory minimum duties specified in the relevant legislation. The Consultative Committee of Patria Oyj is an advisory body serving the Board of Directors and as such does not have statutory duties.

Consultative committee

According to the Articles of Association, Patria Oyj must have a Consultative Committee appointed by the General Meeting of Shareholders. The Articles of Association further state that the Board of Directors shall consult the Consultative Committee on matters that concern major decrease or increase of operational activities, material changes in the

company's organization, and on issues which are otherwise of material importance to the industry that the company is engaged in, either in Finland or internationally. The Consultative Committee consists of a Chairman, a Vice-Chairman, and a maximum of ten other members. During 2016 the committee had 11 members. As a general rule, the Consultative Committee convened three to four times a year. In 2016, the Consultative Committee convened three times. The average attendance of the members of the Consultative Committee was 87%.

Composition of the board of directors and the election procedure

The General Meeting of Shareholders elects the Chairman, the Vice-Chairman, and other Board members, and decides on their remuneration. The Board members are elected for one year at a time, their terms of office ending at the close of the first Annual General Meeting held subsequent to their election. The Board of Directors of Patria Oyj consists of a minimum of three and a maximum of eight members.

In 2016 the Board had five members as of 6 April 2016 and the General Meeting of the Shareholders the Board had five members. After Kongsberg Defence & Aerospace AS became a shareholder in Patria and after an extraordinary shareholders meeting, the Board has had eight members, of which seven members have continued as board members as of 30 August 2016. The Board of Directors meets at least eight times a year. During 2016 the Board convened fourteen times. The average attendance of Board members was 98%.

Principal duties of the board of directors and distribution of duties

The Board of Directors is responsible for the governance of Patria and the appropriate organization of Patria's operations in accordance with applicable legislation, the Articles of Asso-

ciation and any instructions issued by the General Meeting of Shareholders. In addition to its statutory duties, the Board's principal duty is to make decisions on the Group's strategic focus, to monitor and steer the Group's business operations, to ensure that the Group complies with legal provisions applicable to its operations and conducts business in a commercially sustainable manner, providing added value to its owner.

The Board also makes decisions on the Group's key operating principles, approves annually the Group's financial targets and operational objectives, as well as its financial statement and any interim reports, and decides on material investments of the Group. The Board confirms the ethical values and operational principles of the Group and monitors compliance with these values and principles.

The Board also approves the general setup of the Group's organizational and operational structure. The Board of Directors has set up a Nomination and Compensation Committee as well as an Audit Committee. The Nomination and Compensation Committee consists of three members. It prepares the Group's and the management's payroll structures as well as any bonus and incentive systems. It also approves key appointments and nominations. The Audit Committee also consists of three members. Its responsibility is to monitor e.g. implementation of the Group's internal controls, risk management, financial reporting and it is responsible for supervising the Group's compliance and ethics related (including specifically anti-corruption related) program and activities. No other particular distribution of duties has been agreed upon among Board members. As of the beginning of 2016 the Nomination and Compensation Committee consisted of three members and since August 2016 of two members.

The President and CEO and the group management

Patria Oyj's president and CEO is responsible for managing the company's and the Patria Group's business activities

and administration, in accordance with the provisions of the Companies Act and any instructions and guidelines issued by the Board of Directors. The President and CEO is assisted in Group management by the Board of Management, which convenes monthly and which consists of each Business Unit's Presidents, Chief Financial Officer, General Counsel & Chief Compliance Officer, Chief Communications Officer and Chief Strategy Officer. In addition, the Group management meets in other combinations as and when necessary for management purposes.

Patria also has an Administrative Management Group chaired by the Chief Financial Officer. The purpose of the Administrative Management Group is to develop and rationalize Patria's administration and to ensure the quality and efficiency of administrative services required by Patria's business operations. The Administrative Management Group members are heads of Patria's HR, Finance, ICT, Procurement, and Risk Management.

The General Counsel & Chief Compliance Officer, the Vice President of Human Resources, the Chief Communications Officer, and the Chief Strategy Officer form a Corporate Responsibility Team and are responsible for corporate responsibility. Patria's General Counsel & Chief Compliance Officer and Patria's Ethics Officer are responsible for the ethics- and compliance issues and activities in the Corporate Responsibility Team. Corporate responsibility related major issues are reviewed by Patria's Board of Management and major issues in this field are reported to the Board of Directors as well as the Audit Committee by the General Counsel & Chief Compliance Officer. Responsibility for ethics and compliance related issues rests with the Audit Committee.

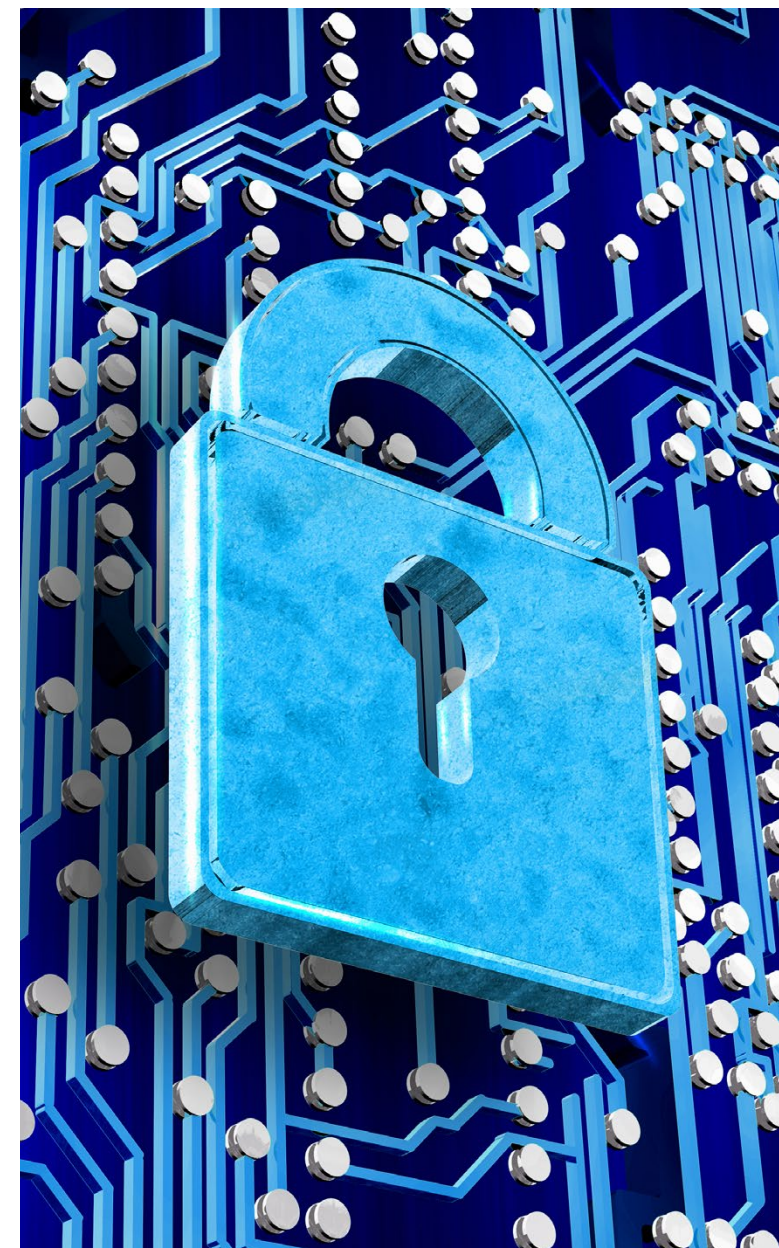
Compensation and benefits

Information regarding compensation and benefits of the management is available in the attachment of the Financial Statement, see [chapter 7](#) (Personnel expenses).

Monitoring and controls

In accordance with the Companies Act, the Board of Directors is responsible for ensuring that the monitoring and controls of accounts and funds management has been organized appropriately. The president and CEO is responsible for ensuring that the company's accounting complies with legislation and that the funds management is reliably organized. Patria's management is responsible for ensuring that the Group's day-to-day operations comply with all applicable legal requirements and Board decisions, and that the Group's risk management has been organized in an appropriate manner.

The Group's division into business units increases efficiency and focus of management thereof and facilitates organization of efficient monitoring and control thereof. An operational reporting system has been set up for the Group's financial monitoring and control. It produces versatile information on the Group's financial standing and development on a monthly basis. The Group also has clearly defined decision-making authorizations related to investments. Patria has an independent, external Internal Audit function, which evaluates and contributes to ensuring the efficiency and feasibility of risk management and internal controls, the reliability of financial reporting and the compliance of the operations, and which reports to the Audit Committee. The Internal Auditors comply with the International Standards for the Professional Practice of Internal Auditing. Internal Audit reports on its activities and findings to the Audit Committee and Patria's management. The Audit Committee confirms the audit plans annually. The company's auditors report their observations at least once a year to the relevant business units and to the Group's financial management, as well as to the Board of Directors and the Audit Committee. The auditors also submit a statutory auditors' report to the company's shareholders.



Offsets

In the field of defense procurement offset is a common requirement and usually a prerequisite of defense contracts. In an offset agreement a company is committed to industrial participation and other possible compensation obligations as a consequence of the supply agreement. The offset requirements depend on country-specific rules and procurement specific requirements. Offset requirements set by the State of Finland are in a key position in creating security of supply when the state is procuring new systems. From this point of view the requirements set by the State of Finland may impact Patria.

In its export activities Patria may participate in direct or indirect offset arrangements and activities where such are required by the specific government procuring defense equipment from Patria, and where such activities and arrangements create and add value directly (activities related to performance of the main agreement) or indirectly (activities unrelated to performance of the main agreement).

Patria may decide to participate in offset arrangements where participation is in the business interest of Patria Group as a whole, where the value of offset engagements is proportionate to the value of the main agreements or transaction, and provided that such activities are steered and monitored by executive management with clear accountability. Participation in offset arrangements and activities are carried out according to the rules and policies

of concerned countries. These offset arrangements may also include externally created offset activities as well as actions on behalf of other entities having offset liabilities when this is possible under applicable rules and policies. Mutual abatements or swaps of offsets are also possible, where performed under applicable regulations and with consent of relevant authorities and agreements.

Patria's offset obligations are duly reported to management, board of directors and audit committee nominated by board of directors of Patria Oyj.

The absolute requirements for Patria's all offset arrangements and activities

The requirement for the Patria's all offset arrangements and activities is that applicable laws, regulations and international treaties allow offset arrangements. The arrangements must be in compliance with Patria Group's ethical and compliance policies and guidelines related to offset, Patria Group's Ethical Guidelines, and subject to applicable due diligence on any and all partners and vendors related to such offset arrangements and transactions, with special focus on ensuring anti-corruption.

Patria conducts a thorough legal analysis of the applicable offset regulations in the specific country in question to mitigate legal risks and to ensure compliance of Patria's offset activities. All the relevant financial and non-financial risks are assessed and mitigated.

The offset engagements must be proportionate to the value of the main agreement or transaction.

Performance of offset obligations of Patria

Patria Group's offset obligations are conducted materially within Patria's Land business unit. The offset obligations of the other business units are minor and are conducted mainly within Patria's Systems and Aviation business units. The Land business unit has specific processes and defined roles and responsibilities concerning offset activities during marketing and as well as sales activities and concerning implementation of offset contracts.

EU directives have an effect on the markets

The European markets are closely monitoring the effects of EU directives intended to open up defence materiel markets. Change was sparked by the EU Defence and Security Procurement Directive of 2009 (2009/81/EC), which was integrated into the national legislation of member states. In Finland, national legislation (1531/2011) putting the directive into effect was enacted at the beginning of 2012. The directive opened up a considerable share of formerly national defence materiel procurement to international competitive bidding.

The aim of the directive is to open up markets and increase competition. However, many member states of the European Union have continued to support their domestic defence industries by setting offset requirements.



Risk management

Risk management and internal control are an important part of Patria's management and control systems. Risk management and internal control also help to ensure that operational and profitability targets can be achieved. Furthermore, risk management and internal control help to ensure appropriate reporting, compliance with laws and regulations and to protect Patria's reputation.

Risk management framework

Patria has a risk management and internal control policy, approved by the Board of Directors, which specifies the related tasks, objectives, components, responsibilities and authorities.

The primary responsibility for risk management and internal control lies with the business units and Group services in their area of responsibility. The CEO of Patria is responsible for the proper functioning and monitoring of risk management and internal control. The Board provides the ultimate oversight and direction for risk management and internal control.

Patria's Group services provide guidelines for risk management and internal control, and perform monitoring on different levels. Patria has a risk management steering group, which supports the Group and business unit management in the planning, development, and implementation of risk management processes. The internal audit function and the auditor, security and quality auditors, as well as customers, evaluate the effectiveness of risk management and internal control.

Risk is understood as the effect of uncertainty, negative or positive, on objectives of Patria's operations, profitability and other areas. Risk management is a process which ensures that the risks and opportunities are identified, assessed and treated in an appropriate way and extensively enough. Risk management helps to ensure achievement of the objectives and avoidance of losses to the resources.



Risks are categorized in strategic and business risks, operational risks, financial risks and safety, security and hazard risks.

Risk management in Patria is based on the COSO ERM framework, ISO 31000:2009 standard and industry specific standards and requirements.

Main risks and opportunities

Key areas and issues in Patria's businesses, operations and risk management, which may cause or be exposed to risks and opportunities, are described below. Financial risks are discussed in the notes to the Financial statements.

Change in the defense industry and export licenses

The international defense industry is going through a change. Acquisitions and mergers are taking place, new operators are emerging, the complexity of customer requirements and utilization of new technologies are increasing and competition is getting harder. Patria responds to the competition by improving anticipation and understanding of customer needs and changes in them, as well as developing and commercializing new competitive products, services and solutions.

A prerequisite for exporting defense materiel is an export or transfer license, which in Finland is granted by the Ministry of Defence. The conditions in the potential export target



Risk management is a process which ensures that the risks and opportunities are identified, assessed and treated in an appropriate way and extensively enough.

country may hinder the granting of an export license, or the conditions in the country to which exports have been approved may change in such a way that the license will be cancelled totally or temporarily.

Strategic partnerships

Building strategic partnerships with customers, contractors and suppliers is important for the success of Patria. Patria is constantly striving to identify new business opportunities and for creating, maintaining and developing strategic partnerships.

Quality and cost effectiveness of operations processes

Effective and flexible processes and improving cost competitiveness are also prerequisites for the success of Patria. Continuous and systematic work for process development and improvement of cost competitiveness is ongoing.

Sales and delivery projects

Due to the nature of some of Patria's businesses, individual sales and delivery projects can be very large in relation to the Group's annual turnover. They may include product development, require extensive subcontracting and other co-operation with third parties, and result in deliveries that take place over several years. Moreover, the contents of deliveries and the forms of industrial co-operation implemented together with partners can be complex in nature. The risks involved in such projects are typically versatile and significant, requiring thorough assessment and management. Project and project risk management is further developed and enhanced.

Ensuring and developing know-how and expertise

Patria's business units need versatile know-how, often also in very narrow special areas, where the required special expertise may be scarcely available. Ensuring and developing timely the required resources and knowledge is important and strived for by means of long-term and systematic planning.

Compliance

Patria is committed to adhere to ethical conduct and the laws and regulations applied in the countries in which Patria operates as well as its agreements and commitments. In Patria considerable effort is put on ensuring ethical and compliant operations by means of communication, guidelines and processes for ethical conduct as well as regular training.

As Patria's operating environment is complex and Patria operates in many countries and under different jurisdictions and complex regulations, violations may occur despite the good intentions and Patria's efforts to ensure ethical conduct. Violations may result in reputation damage and financial losses.

Patria's ethical principles have been detailed in the "Patria Ethical Code of Conduct" guidelines. The guidelines define the ethical principles, which are applied to Patria and all Patria's employees. The adherence to ethical guidelines is monitored internally and violations are investigated and dealt with.

Patria's partners and critical suppliers are thoroughly reviewed in advance and contractual obligations concerning ethical conduct are defined for these parties.

Information and cyber security

Managing and handling of own and third party secret and confidential information is a significant part of Patria's operations, which among other things exposes Patria to cyber-attacks. It may be very detrimental to Patria and a third party if an external party gets access to such secret or confidential information and if such information is inappropriately used. Patria constantly maintains and develops high level of information security.

Other safety, security and hazard risks

Patria's business units and Group services assess regularly person, environment and other safety, security and hazard risks as part of management systems and normal operations. Based on the assessments, annual development programs are defined for ensuring the security and safety as well as continuity of the operations.

**RISK CATEGORIES****Strategic and business risks**

Business environment
Business development
Market and customers
Competitors
Technology
Political, economical, cultural and legislative

Operational risks

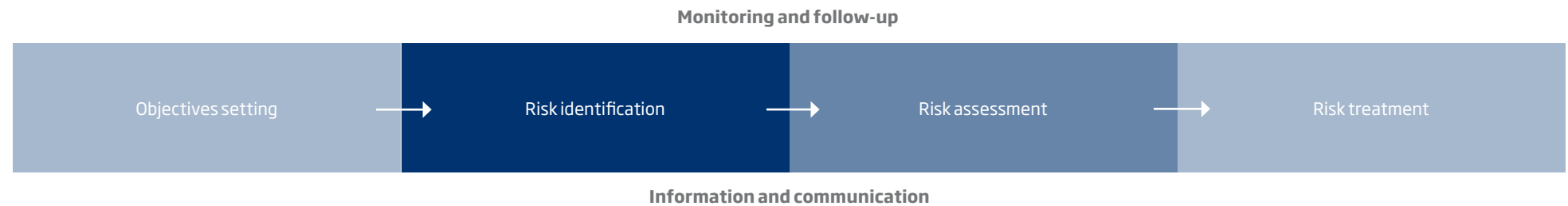
Organization and management
Processes and competences
Projects
Partners and subcontractors
Products and product safety
Corporate responsibility
Compliance

Financial risks

Currency risk
Interest rate risk
Credit and counterparty risk
Liquidity risk

Safety, security and hazard risks

Health and safety
Information security
Premises security
Environmental damage
Fire, natural phenomena
Business continuity

RISK MANAGEMENT PROCESS

Board of Directors

The Board of Directors is responsible for the management of Patria Group and the appropriate organisation of its operations, in accordance with legislation, the Articles of Association and any instructions issued by the General Meeting of Shareholders. The Board's principal duty is to make decisions on the Group's strategic policy, as well as to guide and monitor the Group's business operations. During the 2016 accounting period the Board convened fourteen times. In the Board of Directors the Audit Committee is responsible for ethics and compliance issues.



Christer Granskog
Chairman
Master of Science
(Eng.)
Board member since
2010



Harald Aarø
Executive Vice
President Business
Development,
Kongsberg
Board member since
2016



Geir Håøy
President & Chief
Executive Officer of
Kongsberg
Board member since
2016



Marko Hyvärinen
Financial Counsellor,
Prime Minister's
Office, Ownership
Steering Department
Board Member since
2015



Eirik Lie
Executive Vice
President,
Kongsberg.
President,
Kongsberg
Defence Systems
Board member since
2017



Päivi Marttila
Board member since
2016



Ari Puheloinen
General, ret
Board member since
2016



**Janne Sølvi
Weseth**
Head of Finance and
Administration,
Kongsberg
Aerostructures
Board member since
2016

Group management 2017

Patria Group's president and CEO is assisted in Group management by the Board of Management, which convenes monthly. Operational transparency and responsible operations form part of the management system and provide the basis for the strategic planning of operations from the outset.



Olli Isotalo
b. 1959
President and CEO
Master of Science
(Eng.)
Employed by Patria
since 15 August, 2016



Jukka Holkeri
b. 1962
Chief Strategy Officer,
Deputy to the Presi-
dent and CEO
Master of Science
(Eng.)
Employed by Patria
since 1988



Ville Jaakonsalo
b. 1971
Chief Financial Officer
LL.M./MBA
Employed by Patria
since 2010



Mika Kari
b. 1969
President, Land
Master of Science
(Eng.)
Employed by Patria
since 2013



Hanna Kyrki
b. 1962
General Counsel,
Chief Compliance
Officer
Master of Laws,
EMBA
Employed by Patria
since 2014



Lassi Matikainen
b. 1961
President, Interna-
tional Support
Partnerships
Master of Science
(Eng.)
Employed by Patria
since 2008



Pasi Niinikoski
b. 1961
President, Systems
Doctor of Science
(Techn.)
Employed by Patria
since 2006



Leena Olkkonen
b. 1962
Chief Human Resources
Officer (CHRO)
Master of Economic
Sciences
Employed by Patria
since 3 April, 2017



Birgitta Selonen
b. 1964
Chief Communications
Officer
Employed by Patria
since 2010



Martti Wallin
b. 1963
President, Aviation
Master of Science
(Eng.)
Employed by Patria
since 1989

Consultative Committee

Patria Oyj has a Consultative Committee appointed by the General Meeting of Shareholders. The Articles of Association further state that the Board of Directors shall consult the Consultative Committee on matters that concern major decrease or increase of operational activities, material changes in the company's organization, and on issues which are otherwise of material importance to the industry that the company is engaged in, either in Finland or internationally. The Consultative Committee consists of a Chairman, a Vice-Chairman, and a maximum of ten other members. During the financial period, the committee had 11 members. In 2016, the Consultative Committee convened three times.

Sinuhe Wallinheimo
Chairman
Member of Parliament
Member since 2015

Kalle Hyötynen
Vice Chairman
Member of Tampere
city council
Member since 2015

Eero Järvinen
Armoured Vehicle
Mechanic, Patria
Member since 2015

Mika Kari
Member of Parliament
Member since 2015

Jussi Karimäki
Equipment Assembler,
Patria
Member since 2009

Juha Kuusi
System Specialist, Patria
Member since 2011

Petri Peltonen
Under-Secretary of State
at the Ministry of
Employment and the
Economy
Member since 2012

Petri Pitkänen
Logistics Manager, Patria
Member since 2013

Kari Takanen
Vice Admiral, Chief of
Defence Command
Finland
Member since 2015

Mikko Savola
Member of Parliament
Member since 2015

Raimo Vistbacka
Master of Laws
Member since 2012

Patria

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