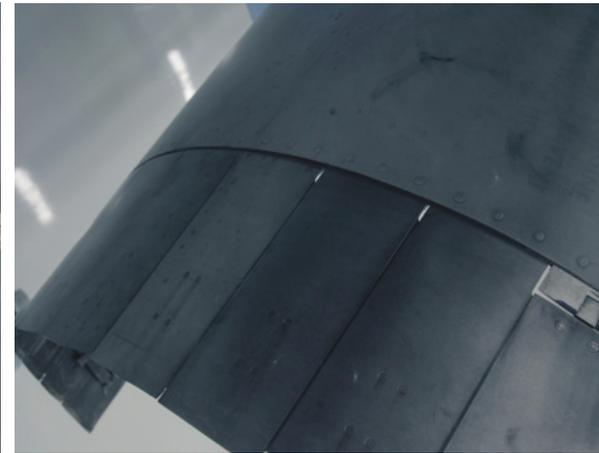
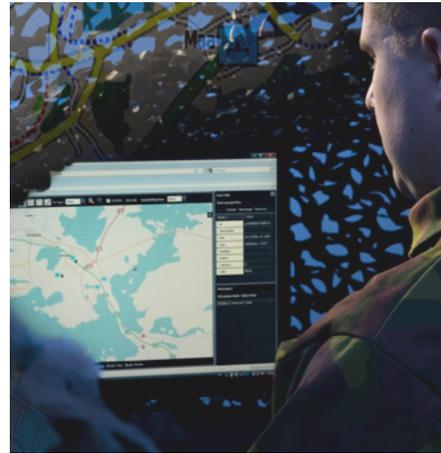


# Patria

## 2017

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](http://www.patria.fi).

## Annual review

- 3 Patria briefly
- 4 Key figures
- 6 Review by the President and CEO
- 10 The operating environment
- 13 Strategy review

## Business

- 15 Aviation
- 18 Systems
- 21 International Support Partnerships (ISP)
- 23 Land
- 26 Aerostructures
- 28 Millog
- 31 Nammo

## Responsibility

- 33 Corporate responsibility
- 37 Financial responsibility
- 40 Social responsibility
- 48 Stakeholder collaboration
- 50 Environmental responsibility
- 55 GRI content index

## Financials

- 58 Board of Directors' report
- 63 Consolidated Financial Statements (IFRS)
- 88 Financial Statements of the Parent Company (FAS)

## Governance

- 97 Corporate governance
- 99 Industrial participation
- 100 Risk management
- 102 Board of directors
- 103 Consultative Committee
- 104 Group management



# Patria briefly

Patria is a trusted provider of defence, security and aviation life cycle support services and technology solutions. Besides Finland, the Group has operations in Sweden, Norway, Estonia, Poland, the United Arab Emirates, the United States and South Africa. Patria employs 2,800 professionals. Patria is owned by the Finnish state (50.1%) and the Norwegian Kongsberg Defence & Aerospace AS (49.9%).

## BUSINESS UNITS AND NET SALES AS SHARE OF GROUP NET SALES

### AVIATION

offers life-cycle support services for aircraft and helicopters, primarily to the authorities and military clients in Northern Europe. Life-cycle support services cover fuselage, engine, and equipment repair; maintenance and modification; and pilot training.

### SYSTEMS

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

### INTERNATIONAL SUPPORT PARTNERSHIPS

offers international life-cycle support services. Services include maintenance, modifications, repairs, spare part supply and technical support.

### LAND

offers cutting-edge armoured wheeled vehicles, mortar systems and related life-cycle support services. Patria AMV product family and Patria Nemo mortar system are the highest-profile products in this range.

### AEROSTRUCTURES

designs and manufactures demanding aerospace composite structures and is actively involved in the development programmes of the new composite technologies. The core competences are the design of composite structures and efficient manufacturing processes.

### MILLOG

provides defence materiel life-cycle support services to military customers and to its strategic partner, the Finnish Defence Forces. Patria owns 61.8% of Millog.

### NAMMO

focuses on developing and producing ammunition and missile products, as well as environmentally sound demilitarization services. Nammo is equally owned by Patria and the State of Norway.

**20%****7%****5%****19%****4%****45%**

# Key figures

Patria Group's sales and profitability for the financial year 2017 decreased from the previous year. Net sales totaled EUR 467.7 million and operating profit EUR 33.9 million.

Net sales

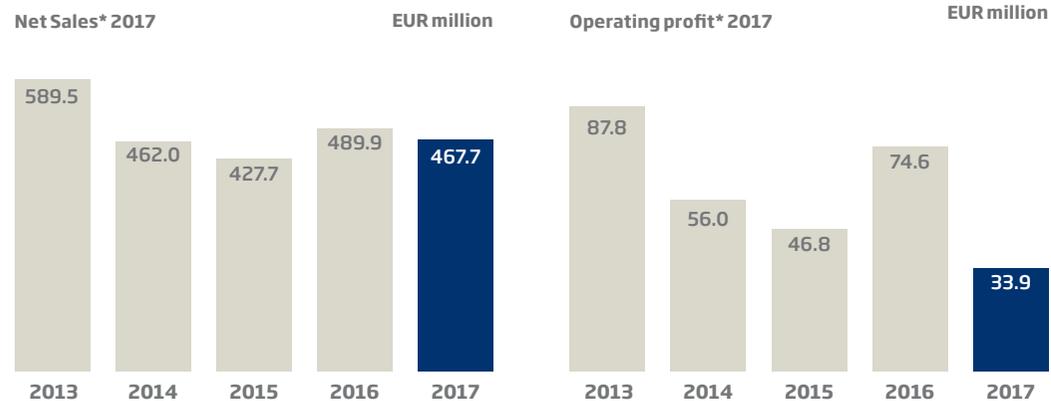
**467.7 EUR million**

Operating profit

**33.9 EUR million**

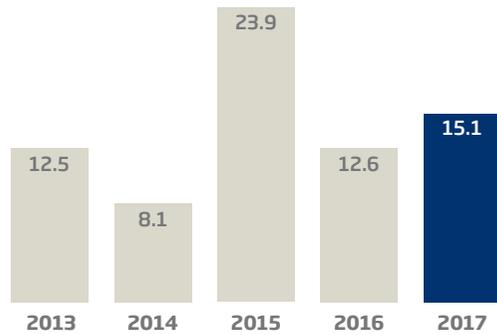
Personnel average

**2,792**

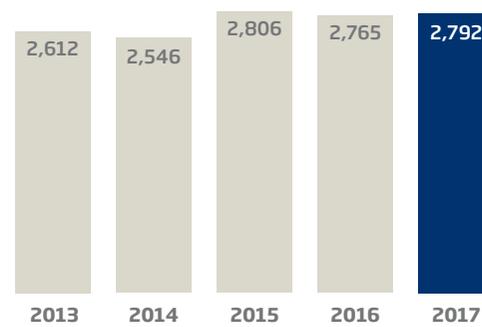


\* The year 2013 pro forma due to the change of Nammo's consolidation method. From the year 2014 onwards, in Patria's financial statements, Nammo is consolidated using the equity method.

Gross investments in fixed assets\* 2017



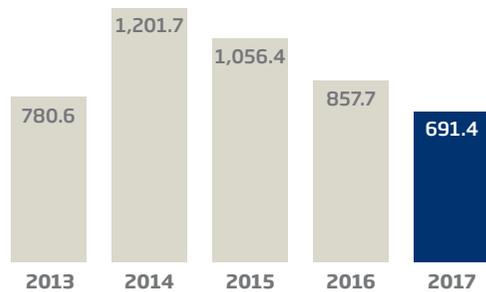
Personnel average\* 2017



The order stock is influenced mainly by the large export projects' annual fluctuation and the long tendering stages of new projects.

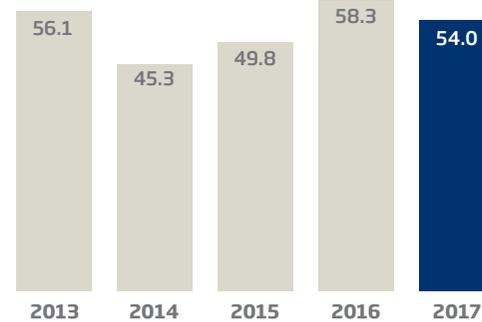
Order stock\* 2017

EUR million



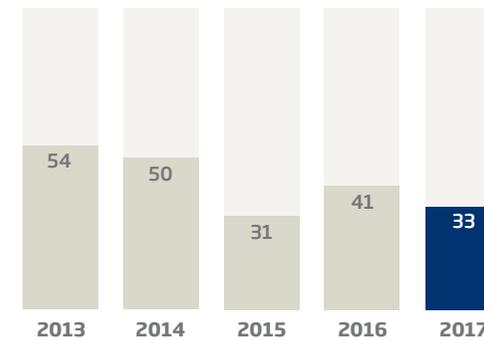
Equity ratio\* 2017

%



Net sales outside Finland\* 2017

%



\* The year 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.



## Towards international growth

The year 2017 was my first full year as President and CEO of Patria. One significant step was the creation of a new strategy for the company. We had already begun preparing the strategy in the autumn of 2016, and the Board of Directors approved it in early 2017. According to the strategy, we will focus on providing our aerospace and military customers with equipment availability and continuous performance development. Our goal is the further expansion of life cycle support services in different defence sectors and the provision of helicopter maintenance services, particularly in Northern Europe. A second avenue of growth is represented by the system and integration business – especially selected intelligence, surveillance and command and control systems (C4ISTAR).

During the strategy process, we also crystallised Patria's mission, *'We give our customers confidence in all conditions'*, and vision, *'Patria - #1 partner for critical operations'*. They are in line with our customer promise – *'When it is not an option'*. We have a wealth of top expertise and committed professionals who put the customer's interests first in every phase of a project. This lets our customers focus fully on their own operations, in all conditions. We are a trusted operator in Finland, playing a key role in ensuring security of supply and the defence capability of the state. We run major maintenance operations in Northern Europe and are seeking to expand them further.

### A YEAR OF CHANGE

The year 2017 was one of change. Increasing internal efficiency and laying the foundation for international growth were key objectives on the way to implementing our new strategy. During the year, Patria conducted Group-wide cooperation negotiations on financial and production-related grounds and for restructuring purposes. Restructuring will support the company's objectives as we shift Group functions from the provision of support services to strategic guidance and improve the efficiency of our business operations.

Patria Group's sales and profitability declined in 2017. The decrease in profit was mainly due to annual variations in the Land business unit's large export projects and an individual arbitration decision regarding a contractual dispute related to offset obligations in Poland. Some major export projects were completed in 2016 or early 2017, and new international projects are still at the tendering stage.

During the reporting period, Patria played a significant role – as a strategic partner of the Finnish Defence Forces – in the HX fighter project. Patria was also strongly involved in the preparations of the Squadron 2000 project, for which an agreement was signed after the reporting period, in January 2018.

In February, Patria purchased five aircraft and two flight simulators from the Austria-based Diamond Aircraft Industries GmbH.



We have a wealth of top expertise and committed professionals who put the customer's interests first in every phase of a project.

Pilot Training agreed on the continuation of training cooperation with the Finnish Aviation Academy in its new training centre at Tampere-Pirkkala Airport. Patria and the US-based S&K Logistic Services also signed a cooperation agreement on the provision of landing gear maintenance to F/A-18 customers.

In March, Patria's Pilot Training and Norra agreed on the provision of basic training for new airline pilots. Patria and Schiebel announced their partnership for the integration of Patria's Compact Airborne Networking Data Link (CANDL) with Schiebel's unmanned CAMCOPTER®S-100 aircraft.

In April, the Norwegian Defence Logistics Organisation (NDLO) chose Patria to provide maintenance for Norway's NH90 helicopters. The contract covers the heavy maintenance and repair of the Norwegian Air Force's NH90 helicopters.

In May, the Finnish Military Aviation Authority issued Finland's first design organisation permit, based on the European Military Airworthiness Requirements (EMAR), to Patria's Aviation business unit. In late May, the Patria AMVA<sup>2B</sup> armoured wheeled vehicle successfully completed amphibious trials in Finland.

Patria received four new Diamond DA40 NG training aircraft for the company's civilian flight training operations in June.

In August, Patria signed a serial supply agreement for Compact Airborne Networking Data Link (CANDL) terminals, high-power amplifiers (HPA) and related services to be supplied to Airbus Defence & Space in Germany.

In September, Patria won a contract for the maintenance of the Norwegian Defence Forces' Bell 412 helicopters and signed the agreement with the Norwegian Defence Logistics Organisation.

In October, Patria and the Finnish Defence Forces signed a letter of intent and design contract for the life-cycle upgrade of Hamina Class fast attack craft. In addition, Patria purchased a

60% share in Estonia's largest defence maintenance company, Milrem LCM OÜ, from Mootor Grupp AS.

In November, the defence ministries of Finland and Slovakia agreed on a joint development project for an armoured 8x8 Infantry Fighting Vehicle (IFV) and Patria was chosen to supply a new prototype of the AMV<sup>XP</sup> chassis for the project. At the Future Mortar Systems conference in London, Patria received the annual innovation award for its Patria Nemo Container solution.

At the end of the year, Patria Finance Oyj merged with Patria Oyj, which will simplify the legal structure of the Group and bring all Group-level support functions into the same company, while eliminating overlaps between functions.

#### **VISIBILITY AT INTERNATIONAL EVENTS**

Patria attended numerous major defence industry events and seminars in 2017. Here are some of the highlights. In February, we took part in the IDEX 2017 exhibition in Abu Dhabi, United Arab Emirates, exhibiting advanced technologies such as the world's first 120 mm mortar system integrated with a container, the Patria Nemo Container. Our section also included the Patria AMV<sup>2BA</sup> armoured wheeled vehicle and Patria AMV Part Task Trainer training system.

In September, we attended the DSEI 2017 event in London, displaying the Patria AMV<sup>XP</sup> armoured wheeled vehicle with an integrated Kongsberg PROTECTOR Dual RWS weapons system. Also on display was a combined training system comprising the Patria AMV Part Task Trainer and Patria Nemo training simulator.

In October, we took part in Europe's largest helicopter event, Helitech International 2017, in London. At the event, we exhibited our helicopter maintenance and repair services, among others.





### CONTINUED RESPONSIBILITY WORK

Responsibility is a key part of our business operations, as good corporate citizenship is the foundation of all our operations. Patria has made further investments in the development of its operations and continued working towards the improvement of responsibility, for example by updating the Group's Ethical Code of Conduct and drawing up a new corporate responsibility policy. As part of Society's Commitment to Sustainable Development, coordinated by the Ministry of the Environment, Patria continued 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.

Patria has been helping to prevent the marginalisation of young people for many years, and we have continued this work in 2017. 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.

### EVENTS AFTER THE REVIEW PERIOD

Immediately after the review period, in early January, Patria signed an agreement with the Finnish Defence Forces on the mid-life upgrade and overhaul of the Finnish Defence Forces' Hamina Class fast attack craft. The procurement is part of the Naval Capability Development Programme, based on which the overhaul of Hamina Class vessels will ensure continued naval defence capabilities in the period between the decommissioning of Rauma Class fast attack craft in the 2020s and the commissioning of Squadron 2020 corvettes during the same decade. The

project has a major employment impact in Finland.

In January, we agreed with KONGSBERG on cooperation in the field of missile systems and establishing a centre of expertise in missile technologies in Tampere.

Also in January, our Estonian subsidiary Milrem renewed its agreement with Estonia's defence procurement authority, Kaitseinvesteeringute Keskus, for the maintenance and repair of Patria XA-180 and XA-188 vehicles within the framework of their life cycle management.

January saw an animated public discussion on defence materiel export practices. I would particularly like to emphasise that Patria operates according to the laws and export licence regulations of Finland and the EU, and is committed to compliance with guidelines such as the shared ethical standards of the Aerospace and Defence Industries Association of Europe (ASD). The export, import and transfer of defence industry products is wholly and without exception subject to a licence. In Finland, the Ministry of Defence, Ministry for Foreign Affairs and, if necessary, government decide on granting the appropriate export licences. The Finnish authorities and ministries, in particular the Ministry for Foreign Affairs and its embassy network, have the best capacity for evaluating the situation in each country. For this reason, Patria continuously discusses its projects and the situation in destination countries with the ministries.

The development and manufacture of defence materiel is a normal and generally accepted business, and military security of supply requires Finnish expertise in the field. The defence industry and its competencies cannot be sustained solely by the domestic customer's needs and volumes. For this reason, Patria has been operating on the international market for decades. One of our

export destination countries and the subject of recent media coverage is the United Arab Emirates, to which Patria last delivered Patria AMV vehicles in 2016. Patria does not have any pending export licence applications for the country at the moment.

In February, we were caught in something of a media storm due to an error made in Patria's international marketing. As a result of this misjudgement, the business unit initiated a number of corrective measures to clarify practices. It was a tough situation for Patria's employees, but was also another valuable lesson in the fact that we must unfailingly observe our procedures and develop them further, no matter how good they are. We operate in a highly sensitive industry where there is no room for error.

### **A GLANCE INTO 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 also crucial to the nation's entire defence industry and its future.

Our direction is clear and we will pursue it systematically. I would like to thank all of our customers, owners, partners and other stakeholders for their excellent cooperation.

#### **Olli Isotalo**

President and CEO



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





# Changes in the global security environment and technological advances have the greatest impact on the defence industry

The defence market is simultaneously influenced by changes in the global political and security environment, and the rapid advancement of technology. Companies that want to succeed must closely monitor changes in the operating environment, since competition in the defence industry is fierce. 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.

## **CHANGES IN THE SECURITY ENVIRONMENT**

The joint defence of the EU has become a central topic in recent years. EU's global strategy includes aspects of European security, such as the prevention of terrorism and organised crime, border security, cyber security and responding to hybrid threats. Due to the changes in the security environment, the EU is investing a significant amount of funds in defence research. 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 the supply function, since its 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. The defence industry will have to be able to meet these needs.

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, NORDEF, is seeking to achieve benefits brought about by networking for the development of defence capability and its use. Finland held the chairmanship of NORDEF in 2017, presiding over active discussions on defence materiel and industrial collaboration. In addition to NORDEF, collaboration in the defence sector will be developed between Finland and Sweden on a bilateral basis.

**THE CHALLENGES OF DIGITALISATION**

The defence market is also being affected by long-term trends in technological development, the most notable of which is digitalisation. To meet future needs, it is vital to make sufficient investments in the research and development activities necessitated by these changes.

A key factor, with a long-term impact on the defence sector, lies in developments in the ICT sector and, consequently, in networking and systems, which are becoming increasingly complex. In connection with this, cyber security has grown in importance, both in defence and the defence industry. Patria is actively involved in developing its business in this focus area.

**INCREASING EMPHASIS ON RESPONSIBILITY**

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. The number of companies engaged in providing socially responsible reporting is growing in Finland and abroad. The application of the Global Reporting Initiative (GRI) guidelines is also increasing.

Defence materiel export practices have lately been the subject



The defence market is also being affected by long-term trends in technological development, the most notable of which is digitalisation.

of public discussion. Patria operates according to the laws and export licence regulations of Finland and the EU and is committed to compliance with guidelines such as the shared ethical standards of the Aerospace and Defence Industries Association of Europe (ASD).

Topical themes involving responsibility include the Paris climate agreement, the expansion in taxation reporting, human rights and the UN targets set for sustainable development. These themes will also lead the way in the defence sector.

**FINLAND'S DEFENCE POLICY**

The Government's Defence Policy Report to Parliament was published in early 2017. The Report defines defence policy guidelines for maintaining, developing and using Finland's defence capabilities. By implementing the Defence Policy Report, Finland is securing its defence capabilities in a changing security situation, creating the preconditions for maintaining a credible defence system that covers the entire territory and outlining the implementation of strategic performance projects. It will also improve the readiness of the Defence Forces and steer both the





deepening of defence cooperation and development of national legislation. The timeline extends into the mid-2020s.

**EXTENSIVE PROJECTS AND COST-EFFECTIVENESS**

In Finland, the FDF, 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 FAF’s life-cycle support services, and the HX project is very important for the company.

The FDF Squadron 2020 project is a combat vessel project for the replacement of the Rauma Class Fast Attack Craft and Hämeenmaa Class Minelayers and their capabilities, all of which will become obsolete in the 2020s.

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 FDF’s strategic partner. Similarly, the Patria Aviation business area ensures the availability and performance of the FAF performance and their further development.

**CONSOLIDATION AND PARTNERSHIPS**

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

The ownership structure of Patria, in which the state of Finland owns 50.1% and Kongsberg Defence & Aerospace AS 49.9% of the company’s shares, is a prime example of this trend. The

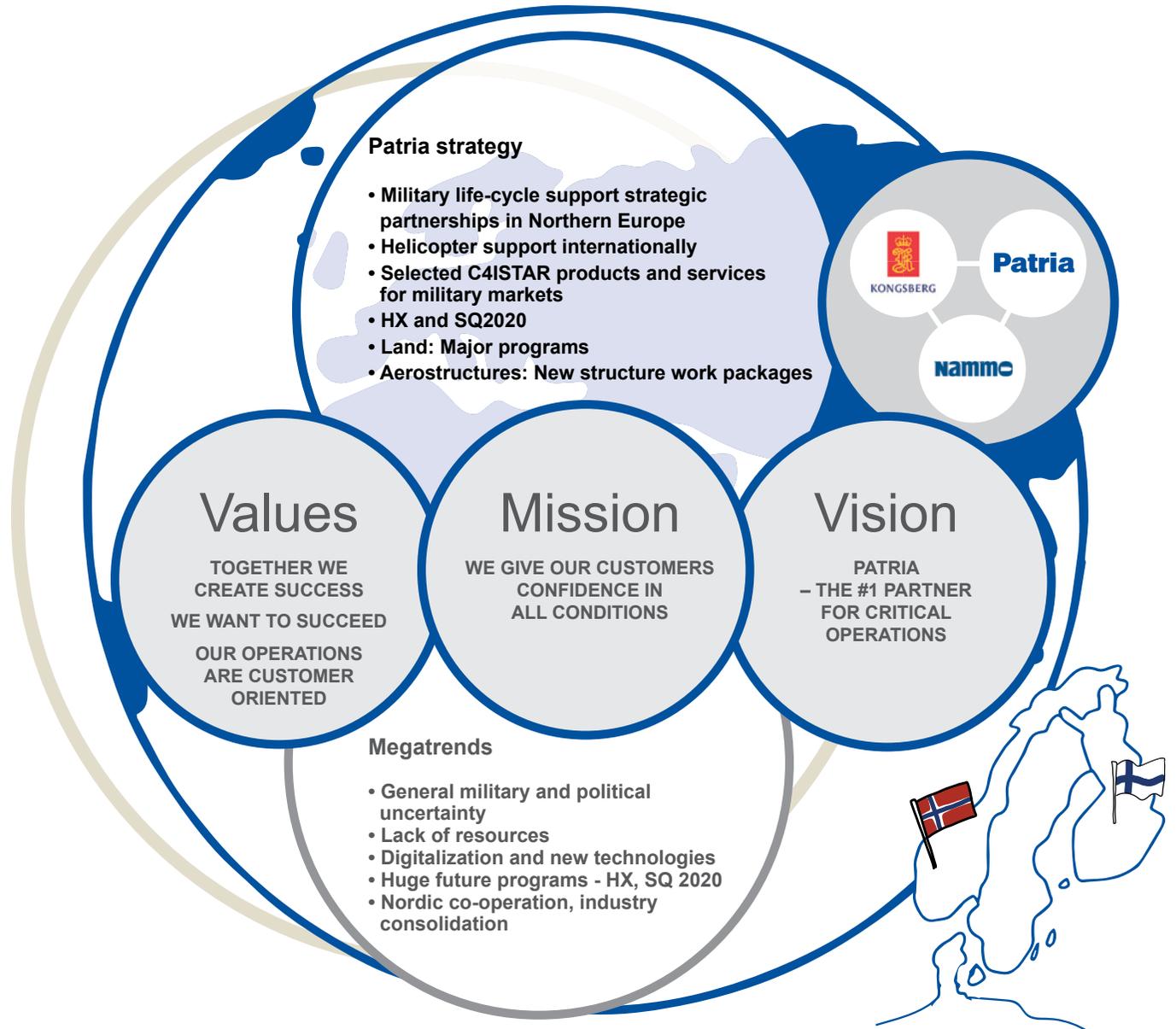
structure is supported by the Nammo Group, jointly owned by Patria (50%) and the state of Norway (50%).

Project-specific partnerships between actors representing different fields are the key to success in large-scale projects. Patria is a partner in major projects in the export market, including Eastern Europe and the Middle East.

# Strategy review

Patria's Board of Directors approved a new strategy in January 2017. A new mission and vision were also crystallized 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 the Defence Forces in life-cycle support services, particularly in northern Europe; international helicopter maintenance services; and selected intelligence, surveillance and management system products and services. The Finnish Defence Forces currently have strategically vital and exceptionally large projects under-way. These projects will be decisive to the future of Finland's defence industry.



# When if 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.





# Change programme sets sights on the future

Aviation business unit advanced both domestic and international projects, for example with the Finnish Air Force. The year in civil aviation training included a move to a new location and the acquisition of new aircraft and flight simulators. Business results nevertheless fell short of target.

## AVIATION

Personnel

**779**

Net sales as a share of group net sales

**20%**

Personnel as a share of group personnel

**28%**

Progress in Aviation's aircraft projects ranked amongst the highlights of 2017. In January, the Finnish Air Force ordered a Structural Sustainment Program (SSP) project that will ensure the service life of the FAF's Hornets through structural repairs. The first aircraft have already been repaired.

During the reporting period, the business unit set its eyes on the future and began preparing for the selection of the Hornet's successor. The Finnish Air Force will replace its Hornet fleet by 2030 and the HX project has been established for this purpose. Patria is making preparations for the request for quotations that will be sent in 2018, by designing the contents of the fleet maintenance

concept and the industrial participation together with the Defence Forces' HX materiel project and in cooperation with the bidders.

### MAJOR PROJECTS IN FINLAND AND ABROAD

In 2017, Aviation launched two significant domestic projects in cooperation with the Systems business unit. One of the projects concerns the modernisation of the Finnish Border Guard's Agusta/Bell 412 EP helicopters, while the other involves the renovation and avionics modification of the Finnish Air Force's additional Hawk Mk51 trainers.

In December 2016, Patria also signed an agreement on expert



During the reporting period, the business unit set its eyes on the future and began preparing for the selection of the Hornet's successor.

services, flight training preparations and cockpit modifications related to the commissioning of the Finnish Air Force's Grob G115EA basic training aircraft. The project was launched in 2017 and the fleet will be put into operation in 2018.

The business unit's international projects also progressed during the year. A retrofit programme of the Swedish Armed Forces' NH90 transport helicopters was launched in October. In December, on the other hand, a three-year contract extension for the engine maintenance of NH90 helicopters was finalised with the French company Safran Helicopter Engines.

#### **NEW PILOT TRAINING CENTRE AND A SPECIAL ANNIVERSARY FOR THE LINNAVUORI UNIT**

In civilian pilot training, the year involved a move to a new city, when the operation was moved from Malmi to Tampere-Pirkkala Airport in January 2017. In May, a new training centre equipped with a new Airbus A320 flight simulator was opened at the same airport. Patria is currently training professional pilots for carriers such as Nordic Regional Airlines, or Norra, and Finnair in Pirkkala.

Five aircraft and two flight simulators were purchased for civilian pilot training activities from the Austria-based Diamond Aircraft Industries GmbH in February. Four of the aircraft are single-engined DA40 NG planes and one is a twin-engined DA42-VI. The flight simulators are FNPT II simulators for the DA42-VI. The



DA40 NG aircraft were delivered in June and the twin-engined DA42-VI in July.

The Aviation business unit also had cause to celebrate a special occasion, when the specialised engines unit based in Linnavuori turned 70. The unit's long journey was celebrated in June with an extensive guest list of customers, partners and current and past employees. Linnavuori is a significant part of the history of Patria and Finland's aviation industry. In November, Patria accordingly published a history of the unit, produced in cooperation with the Museum Centre Vapriikki.

#### **OPERATING MODEL CHANGE PROGRAMME LAUNCHED**

The year 2017 was a difficult one for the Aviation business unit. Financial business targets were not met, and Aviation initiated cooperation negotiations as part of the Group-level cooperation

negotiations. As a result of the negotiations, the personnel of the business unit was reduced by 73 employees. Also, the management of the operations in Sweden and Norway was transferred to the new International Support Partnerships business unit.

In May 2017, Aviation initiated an extensive operating model change programme, in order to proactively adapt to the changes in its operating environment. The objective of the programme is to abandon the dispersed profit centre organisation and switch to the harmonised management of all operative functions. The programme will involve organisational changes, and the business unit will adopt new core processes in addition to a new management model. The changes will enter into force in March 2018.

In HR functions, Aviation focused on the management of safety-critical activities. The objective is to improve the work environment in order to reduce risks caused by human factors.

## AVIATION

The Aviation business unit provides aircraft life-cycle support services and pilot training for its military and civilian aviation customers. Maintenance and repair services for industrial gas turbines and diesel engines are another key business sector for Aviation. The main customers are the Finnish Navy, European nuclear power plants and other energy industry companies.

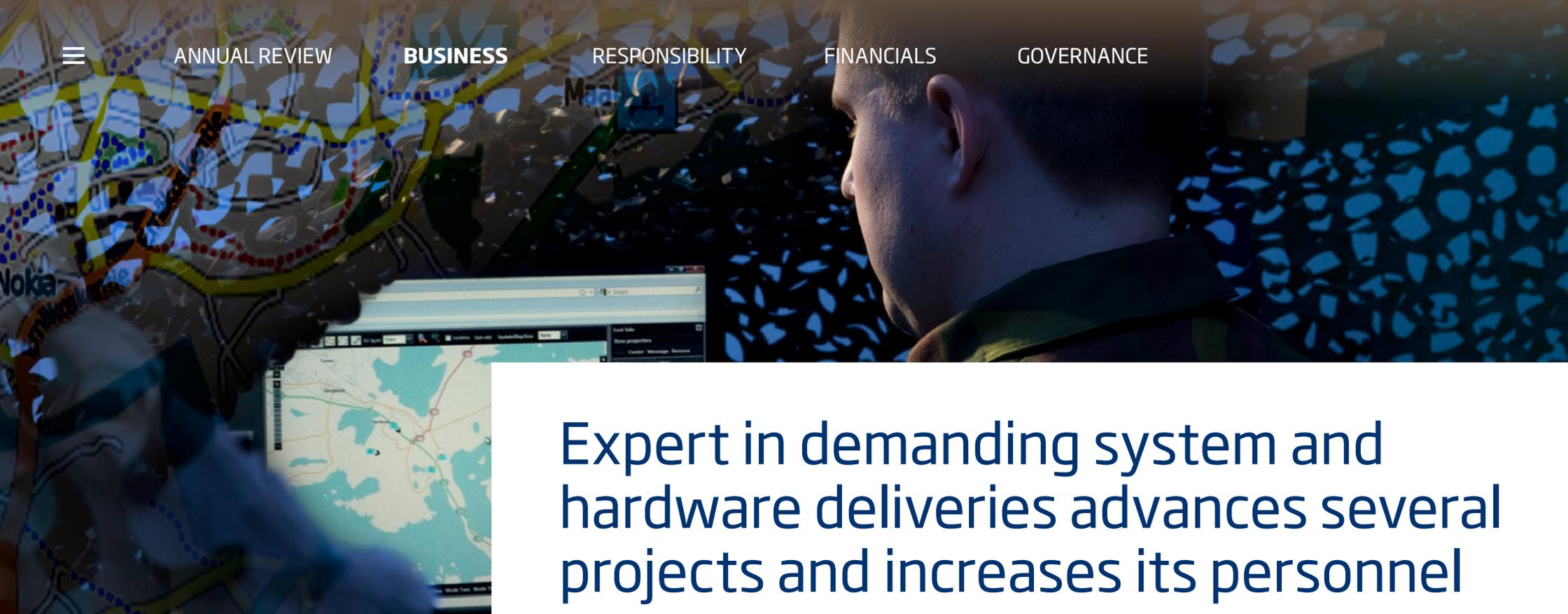


A method of identifying and analysing safety-critical tasks was developed during the year.

A method of identifying and analysing safety-critical tasks was developed during the year. In the future, such assessments will be carried out as part of the workplace survey process. The criteria for the evaluation and monitoring of ability to work were drawn up in cooperation with occupational health care. With these criteria, the occupational health care provider and employee can jointly assess the employee's ability to cope with safety-critical tasks and work stages. Competencies and their maintenance are important in all parts of the Group, but they are a particularly vital aspect of HR management in the Aviation business unit.

### **PREPARATIONS FOR ISO 14001 ENVIRONMENTAL MANAGEMENT SYSTEM CERTIFICATION**

In 2017, the environmental target of business operations was to prepare for the recertification of an environmental management system compliant with the ISO 14001:2015 standard. Preparations were made by drawing up a summary of the standard's requirements, and comparing the current environmental management system with them through internal environmental audits. Work will continue in 2018 when the actual certification will take place.



# Expert in demanding system and hardware deliveries advances several projects and increases its personnel

## SYSTEMS

Personnel  
**278**

Net sales as a share of group net sales

**7%**

Personnel as a share of group personnel

**10%**

The Systems business unit's year was characterised by advances in domestic and international projects and massive recruitment.

In Systems, the highlights for 2017 include progress made with several projects of the Finnish Defence Forces. In October, Patria signed a letter of intent and design agreement for the MLU life cycle update project relating to FDF's Hamina Class vessels. The value of the agreement is approximately one million euros. The actual agreement was signed in January 2018. Systems is responsible for updating the systems on the vessels under this project. The aim of the project is to extend the life span of Hamina Class ships into the 2030s.

In the Squadron 2020 project, which has the aim of replacing the Finnish Navy's combat vessels that will become obsolete in the 2020s, discussions were held with the combat system suppliers. The business unit also focused on domestic sensor projects and prepared for the HX project involving the replacement of the Finnish Air Force's Hornets.

The Systems and Aviation business units also began the modernisation of the Finnish Border Guard's Agusta/Bell 412 EP helicopters. Systems is responsible for system updates within the



Systems responded to these changes by investing in R&D and recruiting more personnel, which provides Patria with improved capabilities for participating in major domestic and international projects.

project. The renovation and avionics modifications of Finland's additional Hawk Mk51 trainers also progressed in 2017. Both projects will continue in 2018.

#### **NEW INTERNATIONAL AGREEMENTS AND SYSTEM DEMONSTRATIONS**

The year 2017 also featured success in the international market. Patria and the Austria-based Schiebel began the joint integration of Patria's Compact Airborne Networking Data Link (CANDL) with Schiebel's unmanned CAMCOPTER®S-100 aircraft. This partnership marks the first step in joint MUMT operations between manned and unmanned aircraft.

In August, the business unit signed a serial supply agreement for CANDL terminals, high-power amplifiers (HPA) and the related services. Patria will deliver the CANDL terminals to Airbus Defence & Space in Germany.

At the IDEX 2017 fair held in Abu Dhabi in February, Systems exhibited the AMV Part Task Trainer. The simulator allows users to train with the AMV vehicle cost-effectively in a virtual training environment, including in scenarios that would be dangerous or

expensive to implement with actual vehicles. In September, the business unit exhibited a combined training system comprising the Patria AMV Part Task Trainer and Patria Nemo training simulator at the DSEI 2017 fair in London.

#### **DOZENS OF NEW EXPERTS AND THE DEVELOPMENT OF COMPETENCIES**

The increased tension in foreign relations in 2017 and the wider megatrend highlighting the importance of systems increased demand for the services and products of the Systems business unit. Signs of intensified competition were also apparent in the market. Systems responded to these changes by investing in R&D and recruiting more personnel, which provides Patria with improved capabilities for participating in major domestic and international projects. Increased demand focused the business unit's attention on the subcontracting chain.

The cooperation negotiations conducted in the Group in 2017 had no impact on the business unit, which recruited 46 new experts, increasing its personnel by 18 percent. There is currently a shortage of software experts in Finland, which is why Systems made efforts to focus on the well-being of personnel as well as its employer image, seeking to build a reputation as a top centre of expertise in software and systems integration.

The Systems business unit increased the internal networking of personnel and, thereby, awareness of the business unit's products, services, areas of expertise and offering. The project management skills and project competencies of employees were deepened and the operating model was reinforced in order to enable even more agile work on customer projects.



---

## SYSTEMS

The Systems business unit makes comprehensive system and equipment deliveries to the defence forces and national security authorities of various states. Areas of special expertise include reconnaissance, surveillance and command systems, as well as their integration, software and life cycle support.



### FOCUS ON RECYCLING

The Systems business unit shares Patria Group's environmental targets. Due to the nature of its operations, the business unit's key environmental achievement in 2017 was improving the energy efficiency of its premises. The business unit's office in Tampere also updated its local recycling guidelines together with other units. In addition to recycling, Systems paid attention to improving the energy efficiency of its facilities.

Measures to improve indoor air quality were taken in the building housing the Systems office in Halli. Operations were moved to temporary facilities from the affected areas, and the improvement of indoor air quality was contracted out in December. The renovation, which will be completed in the autumn of 2018, will also improve the building's air-tightness and ventilation and prevent moisture damage.



# New International Support Partnerships business unit began operating

## **INTERNATIONAL SUPPORT PARTNERSHIPS (ISP)**

Personnel

**127**

Net sales as a share of group net sales

**5%**

Personnel as a share of group personnel

**5%**

International Support Partnerships (ISP) began operating in 2017. The business unit comprises Patria’s international maintenance operations and life cycle support services. Major contracts were signed during the year and Milrem LCM OÜ became part of the business unit when Patria purchased a majority share in the company.

In 2017, International Support Partnerships concentrated on the start-up of operations. The strengths of the business unit include a solid base of technical expertise and the experience obtained through Patria’s partnership with the Finnish Defence Forces. ISP also has exceptional capabilities in local operations.

One of the highlights of the year was the expansion of operations through the acquisition of a 60 percent share in Estonia’s largest defence industry maintenance company, Milrem LCM OÜ, in October 2017 from Estonian company Mootor Grupp AS. The acquisition is

part of Patria’s new maintenance business growth strategy and gives the Group a foothold in the Estonian defence market. Patria is also seeking growth in the other Baltic states through Milrem.

In April, the Norwegian Defence Logistics Organisation (NDLO) chose Patria to provide maintenance for Norway’s NH90 helicopters. This two-year contract covers the heavy maintenance and repair of the Norwegian Air Force’s NH90 helicopters. The contract is worth 10 million euros and includes an option for two additional years.

## INTERNATIONAL SUPPORT PARTNERSHIPS

In 2017, Patria established a new business unit, International Support Partnerships, which offers international life cycle support services. The business is largely based on the Swedish and Norwegian helicopter maintenance units, split off from the Aviation business unit. The core functions of the new business unit are maintenance and repairs, modifications, spare parts supply and technical support.



In August, Patria won the contract for the maintenance of the Norwegian Defence Forces' Bell 412 helicopters and signed a four-year agreement with the Norwegian Defence Logistics Organisation. The agreement includes an option for an extension of three years and is worth over 7 million euros.

The business unit's targets for 2018 include the improvement of profitability and growth by charting other potential units for acquisition. ISP also intends to further improve its operating model and cooperation with Patria's other business units.

### DEVELOPMENT MEASURES

The ISP business unit's Swedish operation, Patria Helicopters AB, held cooperation negotiations in 2017. The negotiations were initiated on grounds related to restructuring and the company's financial position and resulted in a reduction of 21 positions. The dismissals were spread across all personnel groups.

A new CEO was also appointed for Patria Helicopters AB, and Peter Örjes took up the post in June 2017.

In the field of environmental sustainability, Patria Helicopters AB is actively seeking less hazardous materials and chemicals suitable for helicopter operations. The company is also seeking to reduce its stockpiles of potentially hazardous substances in accordance with decisions made earlier.

Milrem LCM OÜ maintained and improved the expertise of its technicians, for example by developing CV90 competencies. In Norway, Patria Helicopters AS recruited new competent personnel for its NH90 project. The company also adopted new orientation routines and arranged Human Factors training for all permanent employees.



# Major international projects and product launches

The Land business unit had an ambivalent year. It launched two new products in 2017, one of which - the Nemo container - received an innovation award in London. The business unit's domestic and international projects also proceeded according to plan. On the other hand, certain budgeted projects were not realised or have been postponed. The business unit nevertheless posted an excellent profit.

## LAND

Personnel

**278**

Net sales as a share of group net sales

**19%**

Personnel as a share of group personnel

**10%**

The Land business unit achieved some major milestones during the year. It launched the amphibious, 28 tonne AMV<sup>28A</sup> vehicle and Nemo container at the IDEX exhibition, the latter of which received an innovation award at the Future Mortar Systems conference held in London in October. The design and implementation of the next expansion to Land's vehicle offering proceeded according to plan in 2017, and the new product will be officially launched at the Eurosatory 2018 fair. Land also took part in a joint R&D project between the Finnish and Slovakian ministries of defence and delivered an amphibious version of the AMV<sup>XP</sup>-ve-

hicle for testing on an extremely tight schedule.

Further steps were also taken in cooperation between the Land business unit and the Finnish Defence Forces, with the business unit achieving its internal targets set for the cooperation. Land continued the modernisation of the Finnish Defence Forces' XA180 armoured personnel carriers. The work proceeded ahead of schedule, and the customer has been highly satisfied with the vehicles. The project will continue in 2018, after the customer has approved the funding for the next optional deliveries.



## //

The design and implementation of the next expansion to Land’s vehicle offering proceeded according to plan in 2017, and the new product will be officially launched at the Eurosatory 2018 fair.

The defence ministries of Finland and Slovakia agreed on a joint development project for an armoured 8x8 Infantry Fighting Vehicle (IFV). Patria was chosen to supply a new prototype of the AMV<sup>XP</sup> vehicle for the project.

### **REFINEMENT OF A NEW OPERATING MODEL AND IMPROVEMENT OF OCCUPATIONAL SAFETY**

The Land business unit implemented extensive changes to personnel and operating models in 2017. In 2017, the business unit focused on polishing the details of the project-based operating model adopted previously. Land also established the Integrated Product Support (IPS) organisation, to increase the supply of services. The organisation is planned to start its operation in May 2018.

The business unit is seeking to provide an even better working environment for its personnel. In 2017, Land invested in the development of management by organising training in performance management and coaching. Investments were also made in the improvement of occupational safety. These development measures have achieved significant reductions in the numbers of occupational accidents and absences due to illness.

As a testament to the high level of occupational safety, the business unit achieved a level I classification, representing global

top quality, in its first evaluation by the Nolla tapaturmaa (Zero Accidents) forum of the Finnish Institute of Occupational Health. Land’s occupational safety work also received Patria’s Act of the Year award. The business unit will continue working to improve occupational safety and new procedures for the improvement of working conditions and occupational safety will be launched in 2018.

### **ENVIRONMENTAL TARGETS ACHIEVED**

The environmental impact of the Land business unit is relatively minor and its internal environmental targets were achieved in 2017. Land also passed its ISO14001 reaudits with good ratings.

Managing the environmental impact of test firing exercises and compliance with the statutory and official requirements set for its operations are particularly important environmental issues for the business unit. The life-cycle environmental impact of Land’s products and services and the environmental impact of the operations of its subcontractors must also be identified. In 2017, the business unit assessed the risks related to these effects and defined measures for their mitigation.

### **SUCCESSFUL PROJECTS AND SALES PROJECTS ABROAD**

Land’s ongoing international projects progressed according to plan. Deliveries of the AMV components sold to South African Denel Land Systems went according to plan in 2017, and our local partner has begun the welding and assembly of the vehicle chasses in South Africa. Assembly by our partner has been delayed for local reasons, however. Component series deliveries for vehicles manufactured for the Poland-based Rosomak S.A also remained on schedule and will continue in 2018.

---

## LAND

The Land business unit manufactures high-quality armoured wheeled vehicles and mortars and offers life cycle support services for its products. Land's most widely known products include the Patria AMV vehicle, the XA vehicle from the previous generation, and the Patria Nemo and AMOS mortar systems. These are market leaders in their own product segments.



As a testament to the high level of occupational safety, the business unit achieved a level I classification, representing global top quality, in its first evaluation by the Nolla tapaturmaa (Zero Accidents) forum of the Finnish Institute of Occupational Health.



# An expert in composite technology

Aerostructures business unit started the production of Airbus A320 parts and enhanced the Saab projects. The global market was characterised by tougher competition.

## AEROSTRUCTURES

Personnel

**130**

Net sales as a share of group net sales

**4%**

Personnel as a share of group personnel

**5%**

The projects of the Aerostructures business unit progressed as planned in 2017. The production of carbon fibre structures for the tail of the Airbus A320 began smoothly. Aerostructures will begin deliveries of the tail structures to the customer in early 2018. The partnership with Saab's Surveillance business unit has also progressed, and Aerostructures is currently manufacturing Airborne Early Warning radar structures and antennae for Saab surveillance aircraft.

The global operating environment of the Aerostructures business unit was characterised by tough competition; increasing

sales volumes is challenging at present. The business unit sought to respond to competition through numerous measures, such as increasing the level of automation by adopting an automated laminating device in production. The business unit began the deployment of a paperless production application, which will continue in 2018.

The Aerostructures business unit aims to improve its profitability in 2018. In addition to further enhancements in operations, the business unit intends to create an operating method capable of responding optimally to the annually changing nature of its work.



## AEROSTRUCTURES

Aerostructures business unit 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.

### **IMPROVEMENTS IN OPERATION AND OCCUPATIONAL SAFETY**

The Aerostructures business unit held cooperation negotiations in 2017. The reasons for the negotiations related to production, financial performance and restructuring. As a result of the negotiations, one employee was dismissed and 45 employees were laid off indefinitely or for fixed periods of varying length. The average duration of the lay-offs was five weeks.

The objectives of the occupational health action plan for the reporting period were the prevention and reduction of musculoskeletal disorders through joint measures, workplace visits and the adoption of the early intervention model. The targets were achieved. Musculoskeletal conditions are in decline, and the adoption of the early intervention model in cooperation with supervisors has received excellent feedback. Discussions between the occupational health professionals and the employees are conducted when necessary.

With regard to the environment, the objective was to implement, monitor and report on operations in accordance with the ISO14001 standard. The improvement of waste management was another focus area that was successfully addressed.



## Millog developed its partnership with the Finnish Defence Forces

In 2017, Millog focused on the development of its strategic partnership with the Finnish Defence Forces and invested in its facilities. A new President was appointed in August. Millog's subsidiary Senop focused its efforts on product development.

### MILLOG

Personnel

**1,087**

Net sales as a share of group net sales

**45%**

Personnel as a share of group personnel

**39%**

Millog achieved both its net sales and operating result targets in 2017. The planning of cooperation between Millog and the Finnish Defence Forces (FDF) was also improved by extending the scope of maintenance plans to the next five years. The new plan significantly enhances the resource planning of both Millog and the FDF.

In 2017, Millog decided to join the Government Secure Network (TUVE) during 2018 and made preparations for the change, which will deepen the strategic partnership and improve the efficiency of communication as using shared information systems.

Millog participated in peacekeeping operations, with its workshop providing maintenance services in Lebanon. The company

also took part in the Finnish Defence Forces' cooperation projects in the Nordic Countries, for example in Norway.

Millog was certified in accordance with the renewed requirements of AQAP 2110 (Allied Quality Assurance Publication).

Another major milestone was the retirement of Millog's long-serving President, Aarne Nieminen, in 2017. Sami Pitkänen, MSc (Eng.), took up the post of President in August.

### INVESTMENTS IN NEW FACILITIES

Millog made several investments in 2017. The new facilities in Säkylä were inaugurated according to plan in May, and the building of new rental facilities in Kajaani is proceeding on schedule,



The planning of cooperation between Millog and the Finnish Defence Forces was also improved by extending the scope of maintenance plans to the next five years. The new plan significantly enhances the resource planning of both Millog and the FDF.

with operations slated to begin in August 2018. A preliminary survey for facilities to be built in Upinniemi was completed in November. The final construction decision will be made in the first half of 2018.

#### **SENOP HAS ITS SIGHTS ON THE INTERNATIONAL MARKET**

Millog's fully-owned subsidiary Senop develops and sells equipment and systems for security critical applications. The company's areas of expertise include high-technology night vision systems, a MIL-compliant systems platform for tactical command and control systems, and demanding systems integrations. Senop invested heavily in expanding to international markets in 2017. The process was facilitated by the company's modern product range and cooperation with select partners, alongside major investments in new products. The R&D investments marked the first step towards the next generation of products.

Senop also developed next-generation hyperspectral camera technology in 2017. Strong growth is forecasted in the hyperspectral market over the next few years, due to the development of numerous new applications. In addition to these investments, Senop invested in the development of optronics technology by starting to build freeform technology capabilities and develop products based on freeform technology. The investment in



## MILLOG

Patria's 61.8% owned subsidiary Millog is a strategic partner of the Finnish Defence Forces. The company is responsible for the maintenance of Army and Navy materiel and systems, and acts as a technical expert organisation. Millog's fully owned subsidiary, Senop Oy, produces optoelectronic systems and provides system integration services.

freeform optics manufacturing will ensure security of supply of Finland's optronics for years to come.

Senop also participated in the DSEI exhibition in London, launching the LILLY multi-purpose observation and surveillance system and Fire Control Thermal Sight (FCTS) in the HUSKY optronics product family. The company launched the Arctic fox systems platform for protecting advanced tactical command and control systems at DSEI, deliveries of this new systems platform began in 2017.

### DEVELOPMENT OF MANAGEMENT MODELS

Millog held company-specific collective bargaining talks in 2017. Millog is the only Finnish technology company with its own collective labor agreements. The new agreements with unions were signed in December after being jointly approved by the employer and employees.

The development of management was a particular focus area in 2017. Most of Millog's supervisors have attended the "Reilu johtaminen" (Fair Management) supervisor training programme in the last few years. The programme has significantly improved the quality of management at the company. Fair Management training will continue in 2018. The next project will be a pilot of "Reilu työkaveri" (Fair Colleague) training for developing social skills in the workplace.

Millog also tested a new model for everyday management on shop floor level. The objective of the model is to improve the efficiency of operations. The pilot achieved excellent results and received very positive feedback, and the model will be expanded to encompass the whole company in 2018. Occupational safety projects were launched in 2017 and these have had a positive impact according to occupational safety indicators.



## Nammo - high-technology ammunition

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

Nammo is a company providing high-technology products and services, operating in 14 countries and nearly 90% of its net sales comes from sales in Europe and North America. The Nammo Group operates through six business units: Commercial Ammunition, Small and Medium Caliber Ammunition, Large Caliber Ammunition, Shoulder Fired Systems, Aerospace Propulsion, 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](http://www.nammo.com).



---

## 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. With 2200 employees across more than 30 sites and Offices in 14 countries, Nammo is present in Norway, Australia, Spain, India, Canada, Poland, Sweden, Switzerland, Ireland, UK, the US and the UAE.

Nammo is owned in equal shares by Patria (50%) and the state of Norway (50%).

# Responsibility is a fundamental requirement for business operations

Corporate responsibility is a part and a solid basis of all business, but especially of the defence industry, whose ethical grounds are often questioned in the public eye. Good corporate citizenship is a prerequisite for the operations of the company, which is majority-owned by the Finnish state.

Patria's corporate responsibility is strongly connected to its area of industry and its role as a strategic partner of the Finnish Defence Forces. Patria seeks to maintain the Group's reputation as a good corporate citizen. Patria bears responsibility for its financial performance, the well-being of its employees and stakeholders, and the environment. Patria emphasises open interaction with its stakeholders. Responsible activities are continuously developed and investments are made in the related training. Another aim is to maintain the awareness of personnel and their ability to have an impact on responsible conduct within the work community. Patria has a new corporate responsibility policy, which determines the framework, outlines and responsibilities of corporate responsibility.

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 promoting ethical conduct within the com-

pany and, more broadly, throughout the industry. Patria actively participates in the work of the Association of Finnish Defence and Aerospace Industries (AFDA) and its umbrella organisation, the Aerospace and Defence Association of Europe (ASD), as well as in the work of the UN Global Compact and its Nordic network.

Business operations spanning several countries and jurisdictions, along with the complex regulations that govern the industry, mean that there is always a risk of infringement, regardless of Patria's good intentions and investments in ensuring ethical operations. Violations may result in financial losses and damage to Patria's reputation. The development of environmental awareness with regard to defence materiel may present a future opportunity for Patria.

Patria's corporate responsibility is divided into financial, social and environmental responsibility. Due to the launch of Patria's new strategy, no annual focus areas had been specified for responsibility in 2017. The Group's long-term goals have not changed. New

## PATRIA'S ETHICAL CODE OF CONDUCT

Although ethical conduct and its continuous development are important in all national and international business activities, their significance is particularly emphasised in the defence industry.

The Patria Group's reputation and long-term reliability as a partner – in Finland and on the international markets – are the foundation of profitable business operations, and have a major impact on the net worth of the Group.

Our practices are based on universal principles of integrity, transparency, accountability and sustainable development. They are in line with Patria's values. Like our export licensing practices, and our cooperation and other agreements, they also guide Patria's conduct.

We are committed to complying with the laws and regulations of the countries in which we operate. We respect the following international rules, among others: The United Nations (UN) Declaration of Human Rights, the UN Global Compact initiative and the ILO conventions.

Patria has zero tolerance for any unethical activity. We do not accept unethical or corrupt conduct by our employees or business associates, and actively seek to prevent it.

As a way of ensuring responsible practices, our Ethical Code of Conduct defines our way of working in various situations. This guideline is complemented by more detailed policies and guidelines. It is the duty of all employees and temporary workers to read the complementary guidelines and policies when necessary. Patria undertakes to provide its staff with training and information and to engage in ongoing dialogue with external business partners, to ensure that all stakeholders are aware of its code of conduct.

We will strive to ensure that our actual practices fall in line with this code, by organising and developing the appropriate inspection, monitoring and reporting procedures.

Olli Isotalo  
CEO

short-term goals and indicators for them were defined in 2017. An agreement for the development of reporting in 2018 was also signed with an external expert organisation. The objective of this arrangement is to improve compliance with the GRI's guidelines and thus produce clearer and more comparable reports for stakeholders, and include the figures of Patria's overseas units.

### CORPORATE RESPONSIBILITY MANAGEMENT

The Annual General Meeting is the highest organ of the company. It confirms Patria's corporate responsibility activities. In accordance with the Government's decision-in-principle (13 May 2016), the Board of Directors is responsible for organising corporate responsibility and integrating it with the company's strategy. The Board of Directors confirms the Group's ethical practices and monitors their implementation. The Audit Committee oversees compliance and issues related to corporate ethics.

Under the leadership of the President and CEO, the Board of Management prepares Patria's strategy and the integration of corporate responsibility within the strategy. The Board of Management approves the themes and goals of corporate responsibility each year and monitors the achievement of the related objectives.

The Board of Management has nominated the Chief Communications Officer to act as Head of Corporate Responsibility, who also leads the Corporate Responsibility Team. The Corporate Responsibility Team consists of Group-level Officers with responsibilities related to the field, such as the Chief Human Resources Officer and General Counsel & Chief Compliance Officer, in addition to experts from business units and Group functions. The team prepares and is responsible for operations in line with the corporate responsibility objectives at Group level, and enables responsible operations in business activities.

In order to achieve these objectives and with the support of the Corporate Responsibility Team, the businesses must act in

accordance with the corporate responsibility guidelines. The businesses assist in reporting corporate responsibility, by reporting their own results with respect to the business relevant issues.

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

### ESSENTIAL THEMES, OBJECTIVES AND INDICATORS

The essential themes of Patria's responsibility were updated on the basis of a stakeholder survey. The themes correspond to policies defined by Patria's management in accordance with the new strategy. The key themes of Patria's corporate responsibility have been boiled down to five areas, which are security of supply and the company's role as a strategic partner of the Defence Forces, responsible defence materiel export practices, ethical operations and good governance, financial performance and occupational well-being.





Essential area of corporate responsibility	Role as a partner of the Finnish Defence Forces and security of supply	Responsible defence materiel export practices	Ethical operations and good governance	Financial performance	Occupational well-being
<b>Objective</b>	To be a sought-after and trusted partner.	To be a trusted exporter of defence materiel.	To be recognised as an ethical operator in the industry.	Financial profitability.	To offer a safe and inspiring working environment for all employees.
<b>Indicators</b>	A corporate image survey with a particular focus on customer-orientation and cooperation.	The results of Transparency International UK's Defence Companies Anti-Corruption Index on the basis of public and internal information, and the continuous development of training provided to employees whose work is export-related.	The annual training attendance rate of all Group personnel and the development of corporate image as part of the corporate image survey.	Achieving the profit targets budgeted for each year.	The rate of absence due to illness and the results of the employee satisfaction survey.

**DEVELOPMENT OF COMPLIANCE AND ETHICAL OPERATIONS**

Patria's development of compliance and ethical operations continued according to plan and in line with long-term objectives. The goal is that Patria's principles regarding ethical practices and its anti-corruption measures are well-recognised by its stakeholders, and Patria is viewed as a company with a high standard of ethical practices. Other objectives are that Patria's most significant partners comply with Patria's ethical guidelines at a minimum, and that Patria's personnel are aware of the ethical principles and of what is the right conduct in the various aspects of their work.

A key practical measure was the update of Patria Ethical Code of Conduct to better meet the requirements of owners, stakeholders and the operating environment. The Code of Conduct has been published at <https://www.patria.fi/en/patria/ethical-code-conduct>.

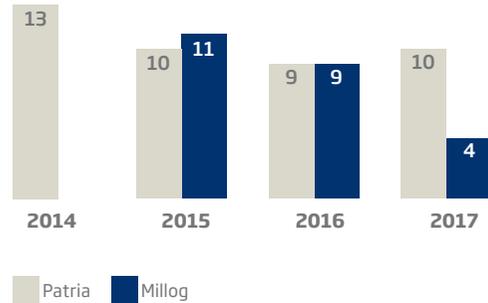
Patria's personnel attended annual ethics training. The process descriptions related to the monitoring of ethical operations were also updated in the Group's Integrated Management System (IMS).

A new process description was created for actions and reporting on possible serious incidents, which were defined as serious risks to health or human life, bullying, sexual or other harassment, severe and continuous inappropriate behaviour, corruption, infringement of tax regulations, fraud, embezzlement, insider training, environmental violations and other criminal activities.

Patria began preparations for meeting the requirements of the new data protection legislation with the help of an external expert organisation. Data protection training was implemented as an online course that was obligatory for all clerical employees and recommended for all personnel. At Millog, the equivalent training was provided to management as a classroom training supported with the online training.

Regular compliance cooperation with Patria's co-owner, the Norwegian Kongsberg, continued in 2017. The key advantages of this cooperation include the comparison of guidelines and processes and sharing of best practices.

Reporting on alleged misconduct



The level of reporting on alleged misconduct was on the previous level. No serious misconducts were reported, mainly the reports concerned alleged inappropriate behaviour which was therefore raised as one of the main themes in the ethical training. The decrease of the reporting in Millog is considered to be caused by the continuous training and that reporting has become the normal operation in the line organisation.

RESPONSIBILITY REPORTING AND CALCULATION PRINCIPLES

The report covers the parent company, Patria Oyj, its majority-owned subsidiaries in Finland in 2017, i.e. Patria Finance Oyj, Patria Aviation Oy, Patria Land Systems Oy and Millog Oy, as well as their majority-owned subsidiaries. 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.

The personnel statistics cover all functions based in Finland, with the exception of the average number of employees, which includes the figures from all subsidiaries in which Patria is the majority owner. The Group’s reporting will be improved so that the statistics for 2018 include the figures of Patria’s overseas subsidiaries.

In its Group-level external environmental responsibility report-

ing, Patria focuses on selected key target areas of environmental responsibility, which are energy, water and waste. Environmental key figures are reported for eight facilities (Espoo, Helsinki, Hämeenlinna, Halli, Linnavuori, Malmi, Pirkkala, Tikkakoski and Utti). The key figures of Millog Oy were not reported, since the data collection system is still under development.

The report data has been 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.

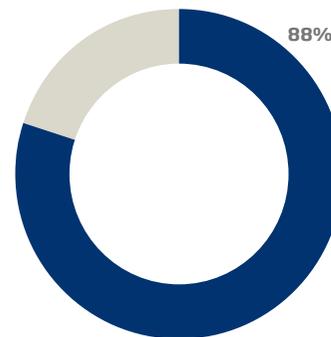
Financial statistics are available in full at [www.patria.fi](http://www.patria.fi).

Ethical training



In Patria all the personnel in Finland and abroad takes annually part in online ethical training. In 2017 the main themes in the training were well-being of the personnel and inappropriate behaviour at the workplace. The number of trained personnel is on a good, high level.

Data protection training



Patria has begun preparations for meeting the requirements of the new data protection legislation by increasing the awareness by training. **88%** of all the clerical employees has taken part in the training.

# Responsibility for profitable operations

Profitability is the foundation of all business operations, and thus also the foundation of responsibility. Patria seeks to operate in a cost-efficient and profitable manner, while taking account of both its role as a partner of the Finnish Defence Forces and the impact of its operations on the surrounding society. In addition to financial performance, Patria's key areas of financial responsibility include anti-corruption practices, the prevention of money laundering and compliance with competition regulations.

Patria grows and develops its business activities in a long-term and responsible manner. This requires investment in the development of customer relationships, services and expertise, in order to provide customers with reliable products and services. It is important to optimise the use of financial resources in order to ensure long-term, profitable growth.

Patria engages in a professional and long-term manner with its supplier and subcontractor network. Operations are developed cost-effectively through cooperation.

Shareholders are paid dividends, determined by the Annual General Meeting, from profitable operations. Funds paid to charitable activities are directed at organisations selected on a centralised and transparent basis.

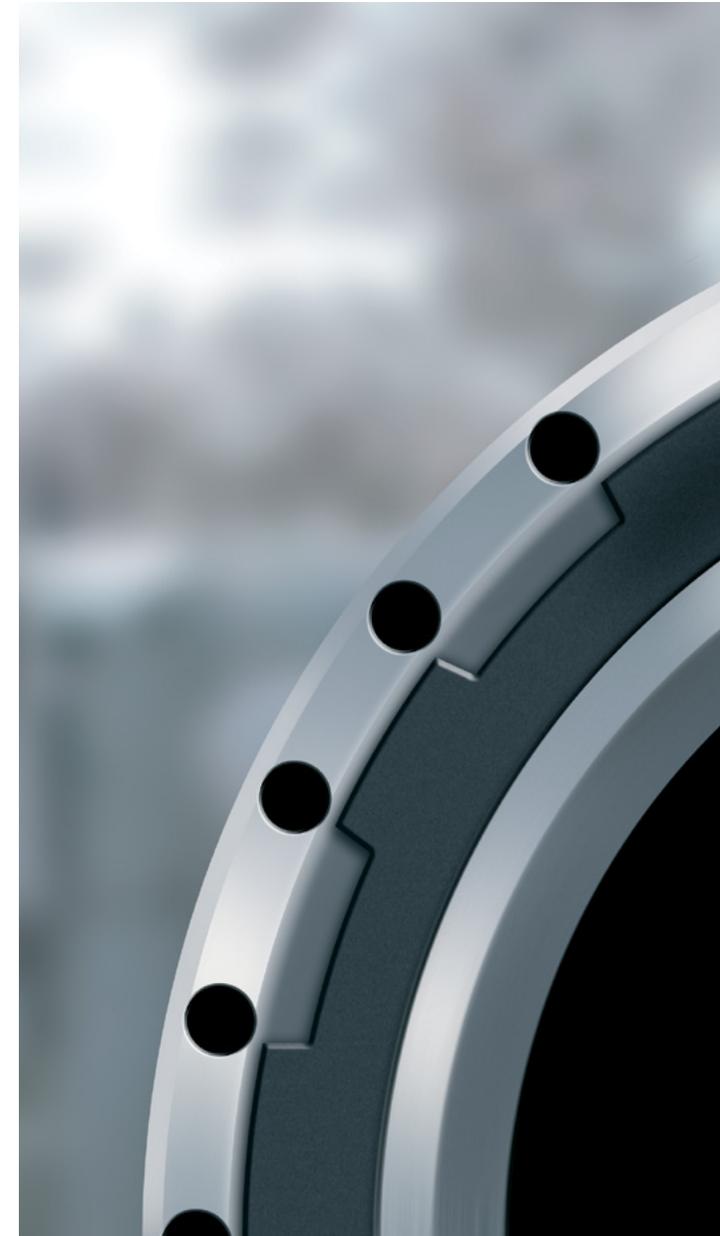
The tax strategy is transparent and based on taxation being paid where operations occur. Patria does not use tax havens to minimise its taxes. Patria's tax strategy involves supporting business solutions and ensuring their proper implementation, including from a taxation perspective. The starting point is compliance

with local legislation and attending to reporting obligations. Patria does not accept money laundering in its operations. Patria's financial reporting is reliable and up-to-date.

## FINANCIAL PERFORMANCE

Patria Group's sales and profitability declined in 2017. Consolidated net sales equalled EUR 467.7 million (EUR 489.9 million in 2016), a decrease of 4.5% from 2016. Defence solutions and their lifecycle business accounted for 94% (95%) and civilian products for 6% (5%) of net sales, while 33% (41%) of net sales accrued from abroad.

The Group's operating profit was EUR 33.9 million, representing 7.2% of net sales (EUR 74.6 million, 15.2%). Consolidated income before taxes amounted to EUR 31.3 million (EUR 71.7 million). Consolidated return on equity was 10.4% (26.2%). The decrease in profit was mainly due to annual variations in the Land business unit's large export projects and an arbitration decision regarding a contractual dispute related to offset obligations in



Poland. Some major export projects were completed in 2016 or early 2017, and new international projects are still at the tendering stage. More information on [financial performance is available in the financial statements section](#).

For its income recognised in 2016, the Group paid a dividend of EUR 1.12 per share owned by the state of Finland and Kongsberg Defence & Aerospace AS, or a total of EUR 31,182,915.68, corresponding to 49.8% of consolidated net profit in the 2016 financial year.

#### **ACTION AGAINST MONEY LAUNDERING AND BRIBERY**

The ethical Code of Conduct updated in 2017 outlined clear policies of zero tolerance towards both money laundering and bribery. Patria works actively to combat such practices by training its personnel to recognise and encouraging them to report unethical activities.

In addition to the update of the Code of Conduct, other key practical development measures included annual ethics training for all personnel, an update of the reporting channel related to the monitoring of ethics in operations, and an update of the processes related to the channel in the Group's ERP system. A new process description was created in the ERP system for action and reporting in serious incidents, defined as corruption, infringement of tax regulations, fraud, embezzlement, insider trading and other criminal activities.

#### **COMMITMENT TO FAIR COMPETITION**

Patria is committed to safeguarding the fairness of competition in its markets and compliance with applicable antitrust and competition legislation. Patria does not approve of official or unofficial agreements between competitors that could weaken competition, restrict the operations of companies in dominant positions or require advance reporting on or permissions for mergers, corporate acquisitions and other arrangements with a potentially restrictive effect on competition.

#### **ACCURATE FINANCIAL REPORTING AND AN OPEN TAXATION STRATEGY**

Patria complies with all applicable rules on accounting and financial reporting. Patria's financial reporting is based on the IFRS standards.

All financial transactions must be approved in accordance with Patria's decision-making practices and entered in the books. Entry and reporting obligations are binding, and they are monitored through annual auditing and internal control. Under no circumstances will Patria falsify or forge financial or other documents or give misleading information.

Patria Group complies with the tax laws and regulations of each country in which it operates. If tax legislation does not provide clear instructions on some issue, the guiding principles are prudence, a conservative approach and transparency.

### Stakeholder-specific capital flows

Direct economic value, EUR million			2014	2015	2016	2017
		Consolidated net sales	462.0	427.7	489.9	467.7
		Other operating income	28.5	20.4	23.4	21.2
		Financial income	1.3	0.1	0.4	0.1
<b>Customers</b>	Sales	<b>Income total</b>	491.7	448.2	513.8	489.0
<b>Suppliers</b>	Goods, materials and services	Operating costs excluding depreciation and personnel expenses	265.1	217.3	254.2	267.3
<b>Personnel</b>	Wages, salaries and fees	Personnel expenses	154.7	170.0	169.7	171.2
<b>Public sector</b>	Taxes	Payments to government (taxes)	4.6	4.3	4.3	9.5
<b>Not-for-profit organisations</b>	Support and donations	Donations and other charitable payments	0.0	0.0	0.0	0.0
		Payments made to shareholders and loan providers				
<b>Shareholders</b>	Dividends	Dividends	38.0	13.9	13.9	31.2
<b>Investors</b>	Financial costs	Interest and other financial expenses	2.5	2.5	3.3	2.7
	Expenses	Distributed, total	465.0	408.0	445.4	481.9
	Sales-expenses = added value	Economic value retained for operational development	26.7	40.1	68.3	7.1
<b>Investments</b>		Investments in tangible and intangible assets as well as acquisitions	8.1	23.9	16.5	19.6

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.

2017	Finland	Sweden	Poland	Total
<b>Direct taxes payable for the financial year, EUR million (taxes and tax-like charges paid directly by the company)</b>				
Income taxes (business income taxes)	4.4		0.0	4.4
Employer contributions (employer's pension and social security contributions, etc.)	1.4	1.7		3.2
Property taxes	0.3	0.0		0.3
Other taxes (tonnage, transfer and other such taxes)	0.0	0.0		0.0
<b>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.)</b>				
Other taxes	0.1			0.1
<b>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)</b>				
Wage taxes (withholding, employee social security contributions, etc.)	35.2	1.6		36.8
VAT, sales	102.7	6.6	11.0	120.3
VAT, procurements	-71.1	-10.4	-5.2	-86.8

The figures include the most essential international operations.



# Social responsibility

Patria’s social responsibility consists of its commitment to personnel, customers and other stakeholders as well as a society, in which the Group plays a significant role as the strategic partner of the Finnish Defence Forces. Patria encourages and involves its personnel and other key stakeholders in the development of the procedures. Equivalent, responsible practices are also expected from the partners. The key areas of Patria’s social responsibility are related to the safety of its operations, personnel and the procurement chain.

Patria provides a safe, productive and healthy work environment, where each individual and team can give an excellent performance in a well-managed organisation. Each manager is responsible for leading by example, i.e. behaving in accordance with Patria’s values and management practices. Harassment or other unethical conduct is not tolerated in any form.

The purpose of occupational safety work is to create a company in which risks affecting personnel and tangible assets are effectively eliminated or minimised. In the defence industry, also many other measures of safety and quality are in an important role.

The goal is to contribute to the development of a more sustainable society. Responsible corporate citizenship means seeking new development targets together with other stakeholders in the value chain and with the members of society. Key issues for Patria include the development of defence materiel export practices and anti-corruption action.

## HUMAN RIGHTS

In its operations, Patria respects and promotes the universal human rights defined in the UN’s Universal Declaration of Human Rights. Patria views the freedom of thought, opinion, speech, religion and peaceful assembly as universal fundamental rights, along with freedom from discrimination by race, age, nationality, gender or sexual orientation. Neither does Patria approve the use of forced or child labour.

Members of Patria’s corporate responsibility team participated in human rights training organised by FIBS and funded with development cooperation funds by the Ministry for Foreign Affairs. The training included:

- information on the history and general significance of human rights and their links to business;
- information on the contents of human rights and their practical significance to business operations;
- support and tools for conducting impact and risk assessments



concerning human rights, drawing up or clarifying a human rights strategy and integrating human rights responsibility with various business functions; and

- tips and tools for external and internal human rights communications, including in the event that human rights risks are realised.

Patria does not consider its operations to have direct negative effects on human rights. Any indirect impact is related to the use of products manufactured by Patria. Correspondingly, its products can be used to defend human rights in certain situations. Patria considers its long-term opportunities to influence the use of its products to be negligible.

#### **RESPONSIBLE EMPLOYER**

The top professionals employed by Patria feel that Patria is a good place to work and are proud of their work. Patria's employees appreciate the unique duties offered to them, the company's support for flexible work and the way Patria encourages them to think outside the box. Security is a part of the work of every Patria employee.

#### **COOPERATION NEGOTIATIONS AND PERSONNEL TURNOVER**

Patria held Group-level cooperation negotiations in the autumn on financial and production-related grounds, and for restructuring purposes. The negotiations resulted in a reduction of 101 positions in the Group. The business units made signifi-

cant changes to their organisations, and Group functions also renewed their procedures. Mainly for these reasons, the personnel turnover rate was 5.5% compared to 4.5% in the previous year. This turnover rate is above the industry average.

#### **CHANGES IN HR SERVICES**

Changes in Group Services also meant changes in HR services; tasks were reduced and reorganised. In the future, Group HR services will focus on change management, the joint development of competencies and the provision of expert HR services. The business units' HR professionals will focus on supporting the unit's business needs in matters related to resourcing, competencies and managerial support.

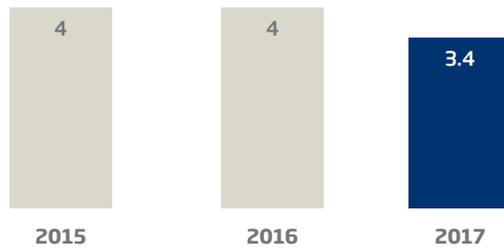
The focus areas of Patria's Group-level HR work are: the development of competencies and implementation of development programmes and learning tools; development of the remuneration system; and the development of HR policy.

**ENSURING THE ABILITY TO WORK**

In continuation of the target-oriented work begun in 2015, ensuring the ability to work continued to be a strong theme in the Group's HR work in 2017. Methods have included systematic application of the early intervention model, close cooperation with occupational health care services, and providing supervisors with training on themes related to occupational well-being. Patria measures employee satisfaction with a personnel survey called Pulssi; the next survey will be implemented in 2018.

Patria is obliged to offer a safe and healthy working environment for all of its employees. Correspondingly, employees are obligated to take care of their own and their fellow employees'

Sick leave trend at Patria Group



The average absence rate decreased to 3.4% from the previous year's 4.0%. The figures correspond to the industry average.

occupational health and safety as well as it is possible with available measures. Every employee is to report any danger or defect they may notice that might cause a risk for health or safety.

Occupational safety actions promote occupational health and safety and the well-being of individuals and the entire workplace community, which contributes to the growth of profitability. It is the responsibility of management to create a safe working environment that is compliant with occupational health and safety regulations. The management is also responsible for enabling a high level of occupational health and safety by ensuring the necessary resources. The task of the supervisors is to monitor compliance with regulations and practices. The development of well-being in the workplace is a goal shared by everyone at Patria.

In addition to ensuring conventional occupational safety, it is essential to take care of the physical and mental well-being of employees. Problems need to be identified and solutions offered. It is the right and duty of every Patria employee to maintain activities that promote the development of their own well-being and that of the entire workplace community. Interactions with other employees and third parties must be conducted in a spirit of openness and tolerance, respect and politeness, and fairness and trust. A significant part of reports received through Patria's whistleblowing channel were related to HR matters, principally alleged inappropriate conduct in the workplace. All reports were investigated and actions were taken.

The occupational accident frequency increased to 21 from the previous year's 15. However, the frequency is still low in comparison to the industry average. Patria's management gave the Land business unit the Act of the Year award for good work and results in the field of occupational safety. Other business units were introduced to and had the opportunity to learn from Land's model at Patria's Group-wide occupational safety day.

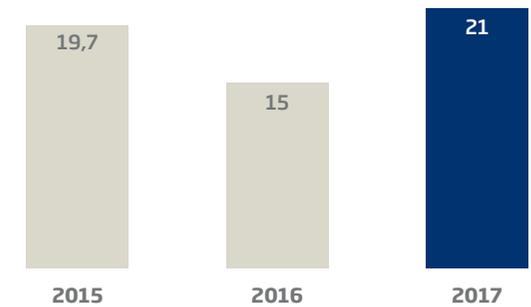
At Patria, occupational health services are the responsibility of Finla työterveys ry, which coordinates the services in a centralised fashion at all Patria sites. Under this operational model, Patria's shared operating principles are observed at all sites, with reporting and cost management being handled in a centralised fashion.

Measures taken by business units to reduce absences due to illness have paid off. The average absence rate decreased to 3.4% from the previous year's 4.0%. The figures correspond to the industry average.

**LEARNING AND RENEWAL**

The competence of Patria's personnel plays a key role in the success of customer work. Strategic capabilities were defined on the basis of Patria's new strategy. Through the development of these capabilities, customers are able to rely on the top expertise of Patria's professionals in the years to come. Managers play

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



The frequency of accidents increased to 21 from the previous year's 15. However, the frequency is still low in comparison to the industry average.

a key role in the development of personnel capabilities.

In 2017, the Group-level performance and development discussion rate was 90% (92%). Patria's Kampus online learning environment provides support for target-setting and preparing for these discussions. Personal development targets are recorded in and agreed in the development discussion. The e-learning environment offers a wide variety of courses, but other forms of learning also play a key role. The social forms of learning offered in Patria include on-the-job learning, participating in different projects, "shadowing" experts and observing their work, mentoring, and the expansion of duties.

The orientation of new employees is supported by the On Board with Patria online game. Essential matters at Patria, such as the Group's business operations, practices and guidelines are presented through gamified work. The game lets employees evaluate the success of their orientation through test questions and gives missions to new employees, such as interviewing colleagues and involving them more extensively in the start of their careers.

The Leap development programme for Patria's key experts continued in 2017. The objective of the programme is to reinforce the capabilities of future leaders to identify changes in the operating environment, develop their strategic thinking, implement changes in the organisation and improve their people management skills. A total of 23 employees from different business units attended the training in 2017.

#### 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 (International Position Evaluation).

Successes and good performance are rewarded through the

performance bonus and profit-sharing scheme, which applies to all Patria personnel. Most staff members can receive a maximum annual bonus and profit share equalling 1.8 month's salary. The average realisation of the performance bonus and profit sharing has been roughly 50%. A more detailed description of the system is available at <https://www.patria.fi/en/corporate-responsibility/good-employer/compensation-and-remuneration>.

Patria has a compensation fund pursuant to the Act on Personnel Funds in place, and approximately 20% of Patria personnel have invested their bonuses and profit shares in the fund since 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 EUR 110/person.

#### EMPLOYEE INFLUENCE

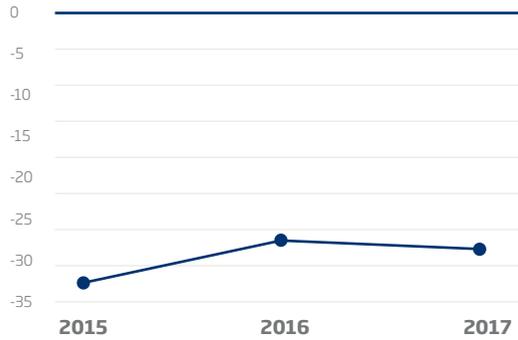
Patria honours the negotiation arrangements in force. All employment matters are primarily dealt with between the employee and the manager. This basic relationship is supported by the shop steward and negotiation systems in accordance with the collective agreement. Local agreements are part of established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

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 gradually replaced with the Lean operational model, one business unit at a time.

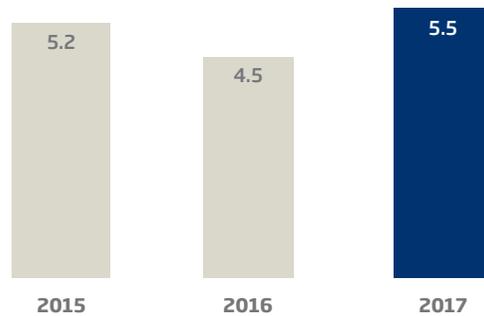


Development of employer image according to measurements carried by Universum



The employer image of Patria is basically on the same level as year before among engineering students according to Universum survey.

Personnel turnover at Patria Group %



The business units made significant changes to their organisations, and Group functions also renewed their procedures. Mainly for these reasons, the personnel turnover rate was 5.5% compared to 4.5% in the previous year. This turnover rate is above the industry average.

#### EQUALITY AND DIVERSITY

As a baseline, every Patria employee should promote equality in their behaviour and actions. Everyone has the right and responsibility to intervene if any grievances are observed. This is an important foundation for good management and, thereby, profitable operations. Patria has an equality policy in place as well as the business unit specific equality plans. The realisation of equality is studied through a personnel survey every other or third year. The business units then update their equality plans on the basis of the results.

#### EMPLOYER IMAGE

The employer image that Patria presents outside the company has been measured through participation in employer image surveys conducted by Universum. In 2017, Patria was ranked 29th among engineering and science students in the list of ideal employers. ICT students ranked Patria 30th, which represents a climb of 12 places in the ranking. In 2016, Patria's respective rankings were 28th and 42nd. Universum ranked Patria as the 43rd (29th) most attractive employer in the category of engineering and natural sciences professionals and 31st (33rd) in the IT professionals category.

Patria's experts lectured at 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 trainee schemes and the opportunity to attend lessons and complete practice and final projects. A multi-level Trainee programme is offered to students nearing the end of their studies, and 19 students participated in the programme in 2017.

#### SECURITY OF OPERATIONS

In Patria's industry, corporate security plays a central role in ensuring uninterrupted operations. The task of corporate security at Patria is to enable Patria's business operations in the industry within its area of responsibility and to promote and ensure the achievement of business targets by maintaining and improving security; to safeguard business continuity during various disturbances and emergency situations by ensuring that the company is prepared for these in advance; to ensure Patria's reliability as a partner for its customers, authorities and other stakeholders; and to maintain a level of security sufficient for guaranteeing the protection of the data and materials of Patria and its customers and stakeholders.

Primary responsibility for corporate security lies with Patria's business units and Group functions in matters related to their operations.

Patria's corporate security function provide the business units and support functions with services in the various areas of corporate security. Corporate security function also steers, develops and monitors the comprehensive management of corporate security and maintains, and develops the related competencies within Patria.

The areas of corporate security consist of production security, rescue safety, preparedness and crisis management, facility security, management of misuses and non-conformities, information security and personnel security.

Patria received a national Facility Security Clearance in 2016. The designated national security authorities (DSA and NCSA) regularly audit Patria's level of corporate security.

### SUBCONTRACTING CHAIN

Patria seeks to build reliable, fair and mutually beneficial relationships with its suppliers. The choice of suppliers is based on open and honest competition and transparent selection criteria, which include objective factors such as quality, reliability, delivery times and prices. Personal reasons have no influence on such choices. Patria requires its suppliers to abide by the principles presented in Patria's Ethical Code of Conduct and the national legislation of the countries in which they operate.

Patria's work for the development of procurement continued with the adoption of a Purchase-to-Pay (P2P) system. Procurement monitored the number and contract status of the suppliers actively, and improved the procurement reporting.

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, the Netherlands and the United States.



Permanent employees

96.5%

Proportion of women in Board of Management

3/9

Sick leaves

3.4%

#### Personnel statistics

Personnel figures	2015	2016	2017
Personnel, on average	2,806	2,765	2,792
Personnel in Finland	2,746	2,646	2,751
Blue collar, %	45	43	42
Salaried, %	22	21	20
Senior salaried, %	33	36	38
Proportion of women, %	15	15	15
Proportion of women in Board of Directors	2/5	2/8	2/8
Proportion of women in Board of Management	1/7	2/8	3/9

Education	2015	2016	2017
University, %	14	15	16
University of applied sciences, %	31	31	30
Vocational/upper secondary school, %	53	52	51
Basic education, %	2	2	2

Employment	2015	2016	2017
Average age	44.9	45.4	45.6
Length of services, yrs	14.8	15.1	15
Personnel turnover, %	5.2	4.5	5.5
Permanent employees, %	95	95	96.5
Part-time employees, %	2	2.1	2.5

Occupational health and safety	2015	2016	2017
Absenteeism attributable to sickness, %	4	4	3.4
The frequency of accidents, qty per million work hours	19.7	15	21

# Unique duties motivate

Patria employs 2,800 skilled professionals in the defence, security and aerospace industry. Patria is a significant part of the maintenance and development of our customers' operational capability. Indeed, Patria employees work in a unique environment coloured by various obligations related to security and customer requirements. Managerial skills and competence development are the key priority areas in human resources management.

Unique technology expertise and decades of experience are the foundation for successful product and service concepts in the future.



**EERO RANTALA**

**SOFTWARE DESIGNER IN SYSTEMS BUSINESS UNIT**

"National defence is one of my basic values and I find it valuable to have a work with a meaning. Software development offers challenges every day as the systems are rather complex. It took some two months before I began to understand the product I was working with. I have been eager to learn all those new things that have come across. Team work is rewarding and all the members of the team have their specific strengths. An obstacle in my work does not stop the project. You are not accountable only to the customer but also to the team."



**JOHANNES KÄLLI**

**TRAINEE IN AVIATION BUSINESS UNIT**

"Working as an engineer trainee has combined my studies, work at Patria and my interest in engines. Studying in the university gives you good basic skills and understanding of theory, and in the working as an engineer trainee in Patria's diesel engine unit in Linnavuori you get to do things in practice. Part-time job has enabled the continuation of the studies. It has been interesting to see corporate culture up-close and to see all that is being done here. From the point of view of a mechanical engineering student, Patria has lots of interesting things to see. AVI Trainee programme was in many ways a unique experience."

# Stakeholder collaboration

Patria collaborates with international operators, governments and government officials on a variety of levels and in numerous ways (e.g. as a corporate citizen, tax payer and employer). Working with governments, agencies and officials requires high ethical standards and transparency. Interaction with governments and state-owned enterprises is subject to special requirements concerning, e.g. procurement, lobbying, representation and entertainment. All Patria employees are required to act honestly, truthfully and carefully and to observe Patria's policies, guidelines and procedures, along with all applicable laws, when working with public officials.

Patria works in close, long-term cooperation with customers and other stakeholders. Patria understands good partnership as professional, reliable, open and transparent collaboration that all parties involved can accept without reservation. Patria manages its stakeholder relations honestly, fairly and confidentially.

Excellent examples of the partnership can be found in various partnership agreements, such as the strategic partnership agreement signed between the Finnish Defence Forces and Patria regarding life cycle support services for military aviation systems, and the extended strategic partnership agreement between Millog and the Finnish Defence Forces.

In the stakeholder survey, more than 90% gave Patria's corporate image a rating of excellent or good. According to the results, Patria has comprehensive special expertise and is a reliable partner. Patria's duties were also seen as demanding and challenging.

Patria was involved as a sponsor in the Sleep Easy campaign, a Finland 100 centennial project for increasing awareness of voluntary defence and security work and overall security. The nationwide non-profit project involved all actors in the field of comprehensive security: citizens, organisations, authorities and companies.

Patria continued its cooperation with the Finnish Aviation Museum Society, the Aviation Museum of Central Finland and the Finnish Aviation Museum, as the main sponsor for the restoration project of the VL Myrsky ('Storm') fighter plane. 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 also 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 2017-2018 season.

In addition to this, Patria takes part in the United Nations Global Compact and supports its work through annual voluntary donations. With its Christmas donation funds, the company supported the conservation of the Baltic Sea through the World Wildlife Foundation.

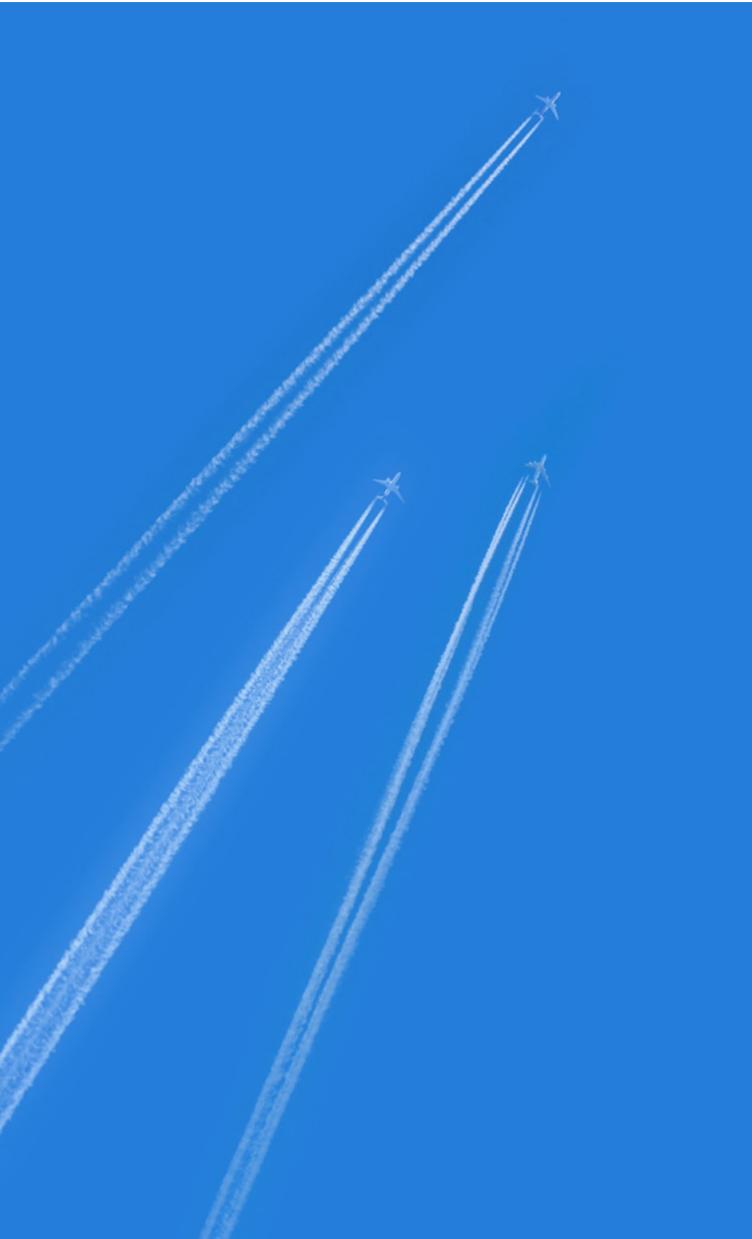
Patria met representatives of non-governmental organisations at various events. The company organised a morning event



for the representatives of domestic organisations, continuing an established tradition of engaging in the related discussions. The company also continued its discussions on responsibility with Transparency International UK.



Stakeholder	Interaction	Assessment
<b>Owners</b>	Board work, Annual General Meetings, management meetings and interaction with the owners, 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
<b>Personnel</b>	Open and continuous communication, Group meetings, annual development conversations, PR info and internal communication, intranet, Strategy 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
<b>Customers</b>	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
<b>Suppliers</b>	Open and active interaction between the purchasing organisation and the suppliers, the ERP system, supplier days	Suppliers evaluations, audits
<b>Authorities</b>	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
<b>Industry and business organisations</b>	Membership in and active involvement with industry organisations (such as PIA, NORDEFECO, ADS, ELDIG, Federation of Finnish Technology Industries)	Interaction, meetings, stakeholder feedback, visibility
<b>Non-governmental organisations</b>	Open cooperation and meetings with NGO's, memberships, support (e.g. Transparency UK, the UN Global Compact, FIBS, different NGO's 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
<b>Educational establishments, students</b>	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
<b>Media</b>	National and international publications, magazines, online media, fairs and events, interviews, bulletins, the Patria Magazine, online magazine, the internet, the materials 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



## Focus on the development of environmental reporting

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. According to the stakeholder survey, the key aspects of Patria's environmental responsibility are compliance with chemicals and environmental legislation, waste recycling and energy efficiency.

Patria is committed to promote sustainable development in its operations by means of concrete measures. Efforts are made to make energy and water consumption more efficient and to have a positive impact on the recycling and responsible disposal of waste.

The responsibility for Patria's environmental responsibility development lies with the environmental work group tasked with furthering collaboration and the sharing of information between various business units, and with developing and reporting on the group's environmental responsibility. In 2017, Patria brought in an external expert organisation (Ecobio Oy) to assist with the development of the environmental working group's operations. The purpose of the outside assistance is to bring the environmental working group's reporting practices closer to compliance with GRI standards.



Patria's environmental work group is responsible for furthering collaboration and sharing information between various business units, and for developing and reporting on the group's environmental responsibility.

Patria reports the environmental key figures of eight facilities (Espoo, Helsinki, Hämeenlinna, Halli, Linnavuori, Malmi, Pirkkala, Tikkakoski and Utti). The figures of the following business units are included in the environmental key figures: Aviation, Land, Systems and Aerostructures. The key figures of Millog Oy were not reported, since the data collection system is still under development. Patria's business units have objectives specific to each business unit and site, and taking account of the special characteristics of their operations and environmental impact.

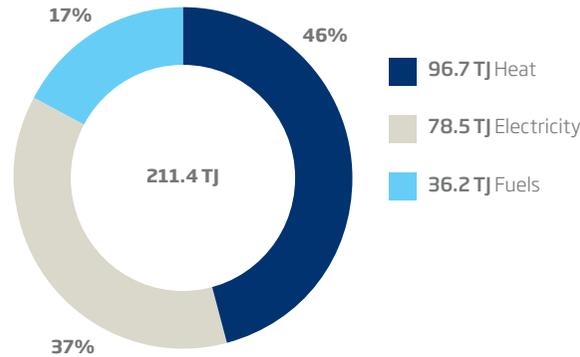
The principles of environmental protection defined in Patria's environmental policy emphasise the identification and management of the environmental impact of products and services from the life-cycle perspective, where possible. In 2017, a thesis was made of the environmental impact of the Land business unit's products over their whole life cycles. The environmental aspects identified in the survey and the essential parameters defined on the basis of those aspects will be used in the definition and monitoring of the Land business unit's environmental targets.

**ENVIRONMENTAL SYSTEMS**

Patria's most significant production facilities have ISO 14 001 certified environmental systems. The systems will be updated to the new standard (14 001:2015) in the autumn of 2018. With its environmental management system, Patria is improving the management of its environmental impact and the level of environmental protection within the Group.

Patria's subsidiary Millog has an ISO 14001:2015 certified environmental management system in place. The Land business unit's system is also ISO 14001:2015 certified in Finland. The Aviation business unit will update its environmental management system to comply with the new requirements during 2018.

Energy consumption 2017



**ENERGY CONSUMPTION**

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.

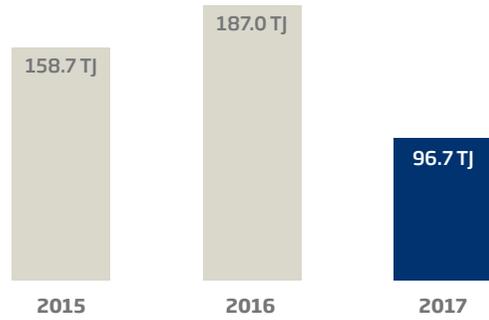
**HEAT CONSUMPTION**

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 against the level of 2014.

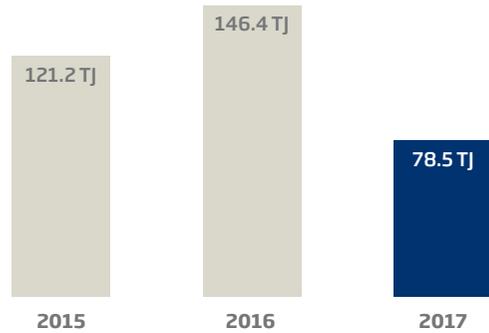
The weather-normalised heat consumption of properties managed by Patria increased 6.4% from the level of 2016. This increase is mainly due to the new heated facilities included in the report. Specific heat consumption, which refers to energy consumption in proportion to the number of heated building cubic



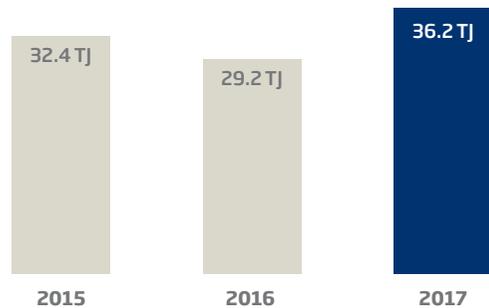
Heat



Electricity



Fuels



metres, also increased, by 5.4%. In comparison to 2014, however, Patria’s weather-normalised heating energy consumption has decreased by nearly 7%.

Of Patria’s sites, Halli in Jämsä consumes the most energy by far. In 2017, weather-normalised heat consumption in Halli increased by 4.8% from 2016, as new facilities were added to the report. The impact of measures taken during previous years to enhance the efficiency of energy consumption was ascertained in the property management of all sites.

**ELECTRICITY CONSUMPTION**

In 2017, Patria’s electricity consumption decreased by 1.2% compared to 2016. Specific consumption of electric energy, which covers energy consumption in proportion to the number of electrified building cubic metres, decreased by 5.1%. The consumption of electrical energy increased slightly in Halli, as new facilities were put into operation. In cooperation with the property management company, Caverion Suomi Oy, Patria has sought to take measures to decrease the consumption of electricity, such as replacing lighting systems.

**FUEL CONSUMPTION**

Patria’s total fuel consumption increased by 23.8% in 2017 compared to the previous year. The consumption of light fuel oil grew by almost 50% and that of jet fuel by approximately 21%. There were no significant changes in the consumption levels of other fuels. The increase in fuel consumption was mainly due to the growth of production volumes and total flight hours, as well as the acquisition of four new Diamond trainer jets, which consume jet fuel.

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

**WATER CONSUMPTION**

**TOTAL WATER CONSUMPTION**

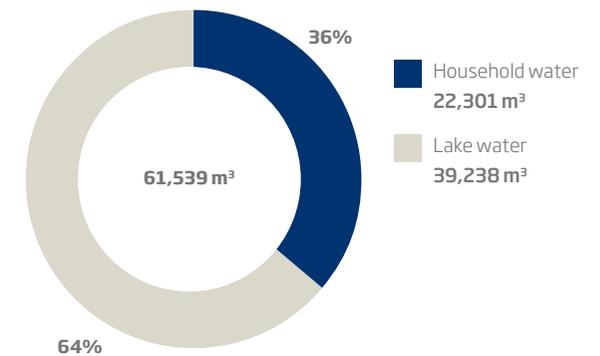
Patria’s total water consumption (household water and lake water) has decreased by 45% since 2016. The consumption of lake water, in particular, has decreased by 56% during the course of one year, due to the variation in the number and types of engines being overhauled in different years. At the Linnavuori site, lake water is used to cool engines during test runs, as well as drying ovens and vacuum furnaces. The used cooling water is fed back into Lake Jokinen.

Total consumption of household water decreased by 3.4% compared to 2016. Water consumption has been decreased by measures such as installing more water-efficient fixtures. Production volumes also affect water consumption.

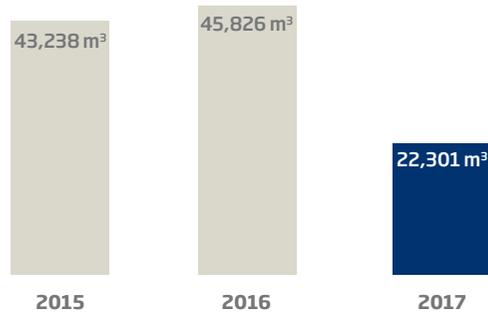
**WASTE**

The operations of the group mainly produce common municipal waste, scrap metal, hazardous waste and construction and

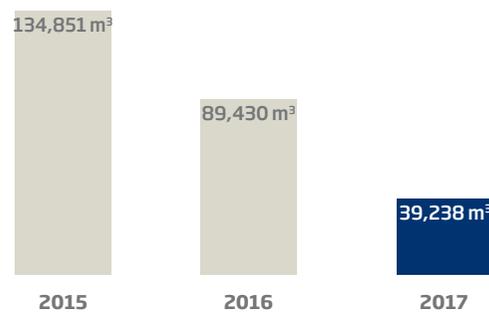
Water consumption 2017



Household water

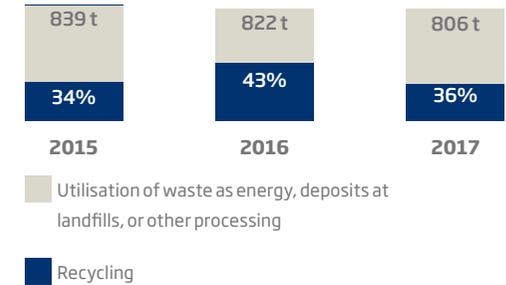


Lake water



The total volume of waste and recycling ratio between 2015 and 2017

Patria



Patria's total volume of waste decreased 1.9% and recycling ratio 7% compared to year 2016. Millog in not included in the figures of 2017.

industrial waste. The total volume of waste generated by 2017 Patria was approximately 806 tonnes in 2017, corresponding to a reduction of approximately 2% from 2016. Calculated on the basis of the total waste volume, the recycling ratio of waste was 36% in 2017, compared to 43% in the previous year.

Most (76%) of the waste consisted of common waste, i.e. municipal and construction waste and scrap metal (613 t). One quarter (24%) of the waste was hazardous (193 t). Common waste includes energy waste, unsorted waste, paper, cardboard, sludge, waste wood, organic waste, common electrical and electronics scrap, construction waste, glass, plastic, brick and concrete waste, steel and aluminium scrap and packaging metal. Hazardous waste principally consists of oily waste, wash water, sediment and other waste classified as hazardous.

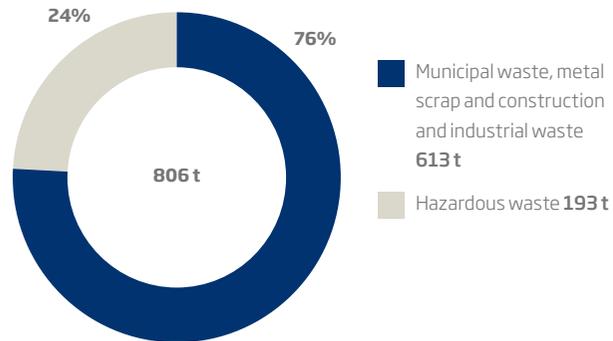
The group seeks to raise awareness of waste utilisation and processing methods, and to promote waste recycling. In 2016, Patria began the systematic gathering of information on the uti-

lisation and processing of waste. Information for the years 2014 and 2015 was also gathered retroactively.

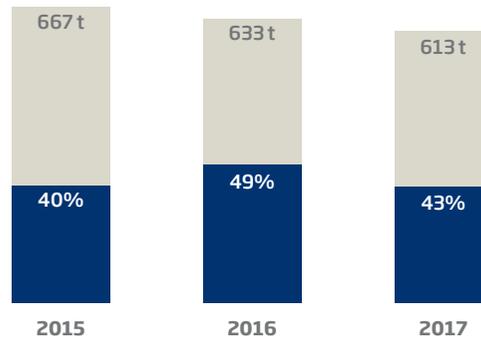
The Group's waste utilisation rate (all processing methods apart from landfill disposal) declined by approximately 10% and the recycling rate by approximately 8%. Approximately 43% of municipal waste was recycled, constituting an increase of 3% from the previous year. The total amount of municipal waste also decreased by roughly 50 tonnes. Approximately 10% of hazardous waste was recycled, constituting an increase of 1% from the previous year. The amount of hazardous waste increased by 33 tonnes from the previous year.



**Volume of waste produced by Patria (excluding Millog) 2017**



**Municipal waste, metal scrap and construction and industrial waste**

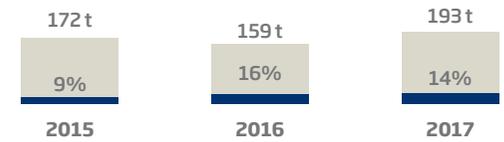


Utilisation of waste as energy, deposits at landfills, or other processing

Recycling

Figures include Patria, Millog is not included in the figures of 2017.

**Hazardous waste**



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

Recycling

Figures include Patria, Millog is not included in the figures of 2017.



# GRI Content Index 2017

G3.1 Disclosure		Page number	Additional information
<b>General Disclosure</b>			
<b>1.</b>	<b>Strategy and analysis</b>		
1.1.	Statement from the CEO	<a href="#">6-9</a>	
1.2.	Key impacts, risks and opportunities	<a href="#">10-13; 100-101</a>	
<b>2.</b>	<b>Organisational profile</b>		
2.1-2.8	Basic information about the company	<a href="#">3</a>	
2.9	Significant changes during the reporting period	<a href="#">6-7</a>	
<b>3.</b>	<b>Report parameters</b>		
3.1-3.4	Report profile	<a href="#">33-36</a>	
3.5	Process for defining report content	<a href="#">33-36</a>	
3.6-3.11	Reporting and data measurement principles	<a href="#">33-36</a>	
3.13	Policy and practice with regard to external assurance		The report has not been externally assured
<b>4.</b>	<b>Governance, commitments and engagement</b>		
4.1-4.4	Governance	<a href="#">60-61; 97-98</a>	
4.7	Nominating and selecting the highest governance body	<a href="#">97-98; 102-104</a>	
4.8	Mission, values statements, ethical principles and sustainability principles	<a href="#">13-14; 61-62</a>	
4.9	Board-level procedures overseeing sustainability performance	<a href="#">61-62</a>	
	Delegating authority	<a href="#">97-98; 102-104</a>	
	Role of highest governance body in setting purpose, values, and strategy	<a href="#">97-98; 102-104</a>	
4.11	Addressing the precautionary approach or principle	<a href="#">61-62</a>	
4.12	External charters, principles or initiatives endorsed	<a href="#">33</a>	
4.13	Memberships in associations	<a href="#">33; 48-49</a>	
4.14-4.17	Stakeholder engagement	<a href="#">48-49</a>	



G3.1 Disclosure		Page number	Additional information
<b>Indicators and Management Approach</b>			
<b>Economic Indicators</b>			
<b>Management Approach</b>			
EC1	Direct economic value generated and distributed	<a href="#">39</a>	
EC3	Coverage of the organisation's defined benefit plan obligations	<a href="#">90</a>	
<b>Environmental Indicators</b>			
<b>Management Approach</b>			
EN3	Direct energy consumption	<a href="#">51-52</a>	
EN4	Indirect energy consumption	<a href="#">51-52</a>	
EN7	Measures to reduce energy consumption	<a href="#">52</a>	
EN8	Water consumption	<a href="#">52-53</a>	
EN22	Waste	<a href="#">52-54</a>	
<b>Social Indicators</b>			
<b>Labour practices and decent work</b>			
<b>Management Approach</b>			
LA1	Breakdown of workforce	<a href="#">46</a>	
LA2	Breakdown of employee turnover	<a href="#">44; 46</a>	
LA7	Injuries, occupational diseases, lost days, absentee rates and fatalities	<a href="#">42; 46</a>	
LA8	Training, guidance and prevention for serious illnesses	<a href="#">42</a>	
LA11	Programs for upgrading employee skills and transition assistance programs	<a href="#">42-43</a>	
LA12	Employees receiving performance and career development reviews	<a href="#">42-43</a>	
LA13	Composition of governance bodies and employee breakdown	<a href="#">46; 102; 104</a>	
<b>Society</b>			
<b>Management Approach</b>			
S02	Risk assessments related to corruption	<a href="#">33; 35; 38</a>	
S03	Anti-corruption training	<a href="#">33; 35; 38</a>	
S04	Actions taken related to incidents of corruption	<a href="#">33; 35; 38</a>	
S06	Political contributions		Patria does not give political contributions
<b>Human Rights</b>			
HR2	Employee training on human rights policies or procedures	<a href="#">38; 40</a>	
HR3	Incidents of discrimination and corrective actions taken	<a href="#">36</a>	



# Financial Statements 2017

## Table of Contents

- 56 Board of Directors' Report
- 61 Consolidated Statement of Financial position
- 62 Consolidated Income Statement
- 63 Consolidated Cash flow Statement
- 64 Consolidated Statement of Changes in Equity
- 65 Notes to the Consolidated Financial Statements
- 86 Financial Statements of the Parent company (FAS)
- 94 Board of Directors' proposal for profit distribution

# Board of Directors' Report 2017

## New orders and order stock

The value of new orders received during the financial period was EUR 309.5 million (EUR 268.5 million in 2016). Defence material and life cycle support accounted for 92% (88%) and civilian products for 8% (12%) of the new orders. At the end of December, the Group's order stock was EUR 691.4 million (EUR 857.7 million).

## Net sales and profitability

The Group's net sales for the financial period decreased 4.5% from 2016 and totalled EUR 467.7 million (EUR 489.9 million in 2016 and EUR 427.7 million in 2015). Defence material and maintenance accounted for 94% (95%) and civilian products for 6% (5%) of the net sales. Sales outside Finland for the financial period accounted for 33% (41%) of the net sales.

The Group's operating profit for the financial period was EUR 33.9 million, representing 7.2% of net sales (2016: EUR 74.6 million, 15.2%; 2015: EUR 46.8 million, 10.9%). The consolidated income before taxes for the financial period amounted to EUR 31.3 million (2016: EUR 71.7 million; 2015: EUR 44.4 million). The Group's return on equity for the financial period was 10.4% (2016: 26.2%; 2015: 19.0%).

The decrease in operating profit is mainly due to the large Land business projects causing annual fluctuation and due to a non-recurring arbitration judgement related to the offset agreement dispute with the state of Poland. Certain large export projects ended in 2016 and in the beginning of 2017 while the main new international projects still are in tendering stage.

During the financial year Patria had an active role as strategic partner of the Finnish Defence Forces and in assisting in the HX

Fighter Program. Patria has worked intensively for preparing the Squadron 2000 project.

In accordance with the renewed strategy, Patria continues 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 and in international helicopter maintenance services in Northern Europe. Another growing area is the system and integration business – especially in the area of C4ISTAR.

## Financing and ownership

The Group's equity ratio at the end of December was 54.0% (2016: 58.3%; 2015: 49.8%) and net gearing 27.6% (2016: 8.9%; 2015: 15.9%).

Consolidated liquid funds at the end of December amounted to EUR 5.9 million (EUR 6.6 million). The Group's interest-bearing liabilities totalled EUR 73.8 million (EUR 29.8 million) at the end of December. The interest-bearing liabilities included finance lease liabilities of EUR 20.6 million (EUR 21.4 million).

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 15.1 million (EUR 12.6 million). Capital expenditure was mainly related to facilities and equipment, IT and production. In

addition, a total of EUR 4.5 million (EUR 3.9 million) was spent on acquisitions.

In January 2017 Patria acquired 100% of the shares of Kiinteistö Oy Hämeenlinnan Vanajanportti.

In October 2017 Patria acquired 60% of the shares of Milrem LCM OÜ. Milrem LCM OÜ is the largest defence maintenance contractor in Estonia. The acquisition is in accordance with the renewed strategy and strengthens Patria's life-cycle support services in Northern Europe.

During the financial period Patria Vammas AB was liquidated on 24 October 2017 and Patria Hägglunds Oy on 15 December 2017. In addition, Patria Finance Oyj was merged with Patria Oyj 31.12.2017, and accordingly Patria Finance Oyj was dissolved on 1 January 2018.

## Research and development

The Group's expenditure on research and development for the financial period amounted to EUR 9.4 million (EUR 7.3 million), representing 2.0% (1.5%) 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 2,792 (2016: 2,765; 2015: 2,806) persons. At the end of December, the personnel totalled 2,762 (2016: 2,750; 2015: 2,754).

The salaries and wages of Patria Group's employees are determined on the basis of 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 2017, the total amount of salaries and wages paid was EUR 138.9 million (2016: EUR 136.9 million; 2015: EUR 138.2 million).

The objective of the personnel strategy is to help the Business Units to meet their business targets and to ensure future competitiveness by developing personnel and their 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 frequency of work-related accidents. Monitoring of these key performance indicators was further developed in 2017.

Patria has a long term programme to further develop mana-

gement resources. 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.

Successful implementation of Patria's new strategy calls for more efficient way of working. During the financial year Patria conducted employee cooperation negotiations concerning all functions and personnel groups in Finland (excluding Millog Oy and the production unit of Systems business units). Negotiations were started due to productional and financial reasons and changes in operational models. The negotiations resulted in reduction of 130 positions and temporary lay-offs. Additionally, approximately 40 persons were laid off for fixed 3-6 weeks during the summer.

**Key events during year 2017**

In February Patria purchased five training aircraft and two flight training simulators from the Austrian manufacturer Diamond Aircraft Industries GmbH. It was also announced that Patria Pilot Training will continue as a training partner of the Finnish Aviation Academy at its new training base at Tampere-Pirkkala Airport.

In February Patria and the American S&K Logistic Services signed a teaming agreement to offer landing gear overhaul to F/A-18 customers.

In March Patria Pilot Training and Nordic Regional Airlines, Norra, signed an agreement on ab-initio pilot training. The first course started in May 2017.

Patria and Schiebel announced the joint effort to integrate Patria's Compact Airborne Networking Data Link (CANDL) communication network onto the CAMCOPTER® S-100 Unmanned Air System (UAS).



\* The year 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.

In April Norwegian Defence Logistics Organisation (NDLO) selected Patria to supply on-aircraft maintenance for the Norwegian NH90 helicopters. The scope of the contract covers phase and calendar inspections, associated repairs and maintenance for the Norwegian NH90 NFH Helicopters.

In May the Finnish military aviation authority handed over the Military Designs Organisation Approval (MDOA) based on the European Defence Agency’s European Military Airworthiness Requirements (EMAR) to Patria.

In August Patria signed a contract for a series of CANDL (Compact Airborne Networking Data Link) terminals, HPA high power amplifiers and related services. Patria will deliver the CANDL terminals to Airbus Defence & Space in Germany.

In September Patria Helicopters AB won the competition and signed a contract with the Norwegian Defense Logistics Organisation (NDLO) for the maintenance of the Norwegian Armed Forces’ Bell 412 helicopters.

In October the Finnish Defence Forces signed a Letter of Intent and Pre-design Activities Contract with Patria concerning the Squadron 2000 Mid-Life Upgrade (MLU).

In November the Slovak and Finnish Ministries of Defence agreed on a joint 8x8 infantry fighting vehicle (IFV) development programme, and Patria was selected to deliver a new prototype version of AMVXP 8x8 chassis as part of the programme.

In November Patria was awarded the Innovation of the Year Award for the Patria Nemo Container at the Future Mortar Systems conference in London.

During year 2017, Patria attended several major defence industry events, e.g. IDEX 2017 in Abu Dhabi, Bulgarian Defence Industry Club Conference 2017 and DSEI in London.

**Administration**

Patria Oyj’s Annual General Meeting held in Helsinki on 8 May 2017 adopted the Consolidated Financial Statements for the financial

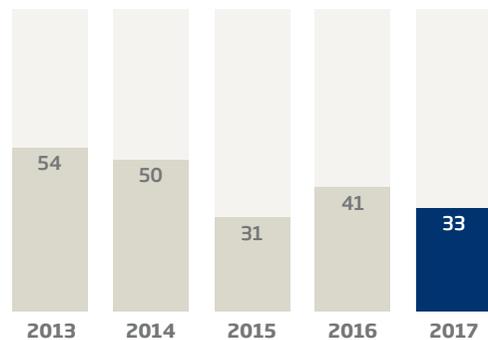
period that ended on 31st December 2016. It was also resolved to discharge the members of the Board of Directors and the President from liability for the financial period of 2016. Furthermore, the Annual General Meeting resolved, according to the Board of Directors’ proposal, to distribute a dividend of EUR 1.12 per share, totally EUR 31 182 915.68.

Christer Granskog, MSc (Eng.) continued as the Chairman of the Board of Directors of Patria Oyj, and Harald Aarø, Geir Håøy, Marko Hyvärinen, Eirik Lie, Päivi Marttila, Ari Puheloinen and Janne Sølvi Weseth as members of the Board of Directors.

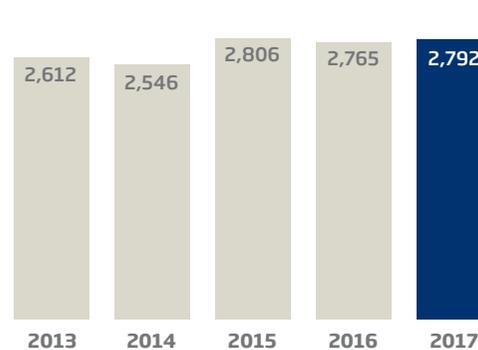
Patria Oyj’s Board elected a Nomination and Compensation Committee and an Audit Committee to assist the Board.

The Nomination and Compensation Committee consisted, during the financial period, of Christer Granskog, MSc (Eng.), chairman, Harald Aarø, Geir Håøy and Ari Puheloinen. The Nomination and Compensation Committee prepares the compensation structures for the company management and compensation

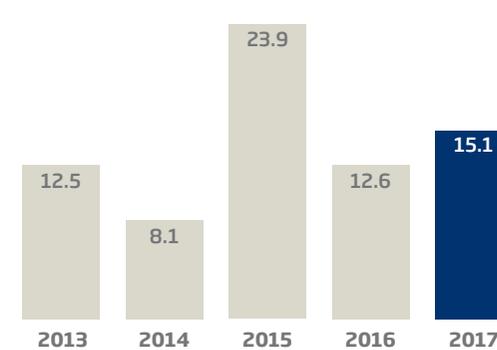
Net sales outside Finland\* 2017 %



Personnel average\* 2017



Gross investments in fixed assets\* 2017



\* The year 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.

and benefits programs as well as decides on the most important management nominations.

The Audit Committee consisted, during financial period, of Marko Hyvärinen (chairman), Eirik Lie, Päivi Marttila and Janne Sølvi Weseth. 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 Compliance and Ethics issues and related activities within Patria. Regarding 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 until 4 June 2017 and Timo Kivinen, Lieutenant General, Chief of Defence Command, from 5 June 2017, Petri Peltonen, Under-Secretary of State at Ministry of Employment and the Economy, Raimo Vistbacka, Master of Laws, Eero Järvinen, Armoured Vehicle Mechanic until 8 May 2017, Ossi Ritala, Production Planner, from 8 May 2017, Patria, Jussi Karimäki, Equipment Assembler, Patria, Juha Kuusi, System Specialist, Patria and Petri Pitkänen, Logistics Manager Patria, continued as members.

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.

Olli Isotalo continued as President and CEO of Patria Oyj.

### Risks and uncertainties

Patria complies with a risk management and internal control 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 and internal control. Risk management activities cover strategic, operational, and compliance risks as well as financial risks and safety, security and hazard 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 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. In addition, 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 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.

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. Considerable effort is contributed on risks related to ensuring ethical and compliant operations and prevention of risks in these areas.

During the financial period 2017 the arbitration proceedings started in 2012 continued against the Polish State concerning a dispute related to an offset obligations related to agreements signed in 2003 concerning supply of armoured vehicles and manufacturing license in Poland. Patria received the Tribunal's award on 5 February 2018. The Tribunal agreed with Patria's arguments, but only in part. As a result, it found that Patria must pay contractual penalty of EUR 2.9 million (40% of the amount claimed) with interest from 13 October 2013.

### 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 2017.

In Patria, the Board of Management is responsible for steering of the activities concerning Company 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 2017 the Board of Directors, the Audit Committee and the Board of Management received regular reports on activities and issues relating to Corporate Social Responsibility. Cooperation concerning ethics and compliance related issues as well as best practices between Patria and Kongsberg continued.

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. In 2017 Patria updated its Code of Conduct and continued with the annual ethical online training for the personnel.

The essentiality chart was updated according to the stakeholder survey. The most essential themes are in line with the Patria Management alignments based on the new strategy. The most essential areas are condensed in themes; role as a partner to defence forces and security of supply, responsible defence material export practices, ethical operation and good governance, financial performance and wellbeing of the personnel.

Patria offers internal and external whistle-blowing channels enabling also anonymous reporting. All the reports from those channels have been investigated according to the updated processes.

In addition, a Personal Data Privacy online training was offered to all Patria white-collar workers and the training was taken by many other workers as well.

In Patria environmental aspects, impacts and risks are considered in all business planning, operations and management. All Patria's major operational locations are ISO14001 certified.

Patria continued its work related to the Society's Commitment to Sustainable Development coordinated by the Ministry of the Environment. The activities to further enhance occupational safety to reduce the number of accidents at work and to develop the energy efficiency of the real estate property it manages continued during 2017.

### Events after the financial period

In January 2018 Patria signed an agreement with the Finnish Defence Forces on the mid-life upgrade and overhaul of the Finnish Defence Forces' Hamina Class fast attack craft. The total value of

the delivery contract, without options, is around 170 million euros.

In January Kongsberg Defence & Aerospace and Patria agreed to develop opportunities for cooperation on Missile Systems. The agreement comprises the establishment of a Missile Competence Center in Finland. Open Tactical Framework (OTF) core technologies and system architecture software for missile programs in Finland and international opportunities linked to these capabilities.

In January the Centre for Defence Investment in Estonia renewed the public contract with Milrem LCM, provider of defence vehicle lifecycle management, for repair and maintenance of the Patria XA-180 and XA-188 armoured vehicles.

In January the export license procedures of defence materials were widely discussed in public. Patria operates in line with the Finnish laws and export regulations, which are in line with international treaties committed to by the State of Finland. In addition, Patria is committed to the Aerospace and Defence Industries Association of European (ASD) ethical Common Industry Standards.

Export, import and transfer of defence material is, without exception, subject to an export or transfer licence. The authorities in Finland, Ministry of Defence and Ministry of Foreign Affairs, make the decision to grant the appropriate export licences. When required, the Finnish Government evaluates the export license.

Maintenance of defence industry related and other critical competencies cannot rely or be based exclusively on the needs and procurement volumes of the national customer. This is one of the reasons why Patria has been active in the international markets during the past decades.

In February Patria was in the focus of media due to a mistake conducted within Patria's international marketing procedures. Due to this incident, three Land Business Unit's employees left Patria. Corrective measures were started to clarify the international marketing procedures.

### Outlook

Patria's domestic customer, the Finnish Defence Forces, has significant projects (especially HX and SQ 2020) in progress. Industrial participation in these projects is extremely important and a great opportunity to Patria. General development and changes in the security environment have increased the growth of defence budgets, and this will affect the international defence business with a delay. The development of the order stock depends to large extent on whether certain large Land export projects, now at the tendering stage, are launched on international markets.

### Board of Directors' proposal for profit distribution

The parent company's non-restricted equity on December 31, 2017 is EUR 245,015,081.21 of which the net profit for the financial period is EUR 17,953,035.61.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.60 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 16,705,133.40. The Board of Directors further proposes that the remaining non-restricted equity, EUR 228,309,947.81 be retained and carried forward.

### Annual General Meeting 2018

The Annual General Meeting of Patria Oyj will be held on 23 March 2018 in Helsinki, Finland.

## Consolidated Statement of Financial Position

Assets			
<b>Non-current assets</b>			
Intangible assets	11		
Intangible rights		1.8	1.7
Goodwill	8, 11	27.5	25.6
Advance payments		0.0	0.1
Tangible assets	11		
Land and water		2.2	2.0
Buildings and constructions		54.1	50.5
Machinery and equipment		22.4	16.8
Other tangible assets		0.3	0.4
Advance payments and construction in progress		1.5	4.3
Investments in joint ventures	12	158.6	164.4
Other shares	13	0.2	0.2
Deferred tax assets	10	3.5	4.2
Other receivables		6.8	6.9
Long-term receivables from joint ventures	12	0.4	0.5
<b>Total Non-current assets</b>		<b>279.2</b>	<b>277.8</b>
<b>Current assets</b>			
Inventories	14		
Raw materials and supplies		40.2	40.8
Work in progress		21.2	23.8
Finished goods		3.5	2.1
Advance payments		2.8	1.1
Receivables			
Accounts receivable	2	111.9	113.7
Receivables from joint ventures	12	0.0	0.5
Other receivables		1.1	7.1
Prepaid expenses and accrued income	14	18.9	16.1
Derivative financial instruments	22	0.4	1.6
Current tax asset		1.4	0.5
Cash and cash equivalents		5.9	6.6
<b>Total Current assets</b>		<b>207.1</b>	<b>213.9</b>
<b>Total Assets</b>		<b>486.3</b>	<b>491.7</b>
<b>Shareholders' equity and liabilities</b>			

EUR million	Note	31/12/2017	31/12/2016
<b>Shareholders' equity</b>	18		
Share capital		38.0	38.0
Fair value reserve	17	0.5	-1.1
Invested non-restricted equity fund		164.1	164.1
Translation differences		9.0	9.4
Retained earnings		-13.2	-27.7
Net income for the period		26.4	62.6
<b>Equity attributable to shareholders of parent company</b>		<b>224.8</b>	<b>245.2</b>
<b>Non-controlling interests</b>		<b>21.1</b>	<b>17.6</b>
<b>Total Shareholders' equity</b>		<b>245.9</b>	<b>262.8</b>
<b>Non-current liabilities</b>			
Deferred tax liability	10	1.2	0.9
Pension provisions	7	4.3	4.4
Provisions	20	26.0	26.5
Interest bearing liabilities	2, 19	26.4	27.5
<b>Total Non-current liabilities</b>		<b>57.8</b>	<b>59.3</b>
<b>Current liabilities</b>			
Interest bearing liabilities	2, 19	47.4	2.3
Advance payments	4	45.2	83.0
Accounts payable		25.3	19.6
Liabilities to joint ventures	12	0.0	0.0
Other current liabilities		17.5	14.5
Accruals and deferred income	15	46.3	44.8
Derivative financial instruments	22	0.3	0.6
Current tax liability		0.5	4.8
<b>Total Current liabilities</b>		<b>182.6</b>	<b>169.6</b>
<b>Total Shareholders' equity and liabilities</b>		<b>486.3</b>	<b>491.7</b>

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

## Consolidated Income Statement

EUR million	Note	1-12/2017	%	1-12/2016	%
<b>Net sales</b>	4	<b>467.7</b>		<b>489.9</b>	
Other operating income	5	7.2		7.2	
Share of joint ventures result		13.9		16.2	
Change in inventories of finished goods and work in progress		-0.2		2.1	
Production for own use		3.2		0.1	
Raw materials and supplies		-139.9		-143.5	
Change in inventories of raw materials		-1.5		-1.6	
Services purchased		-54.7		-43.6	
Employee benefit expenses	7	-171.2		-169.7	
Depreciation, amortization and impairments	8	-16.5		-14.9	
Other operating expenses	5	-74.4		-67.8	
<b>Operating profit</b>		<b>33.9</b>	<b>7.2 %</b>	<b>74.6</b>	<b>15.2 %</b>
Financial income and expenses	9				
Interest and other financial income		0.1		0.3	
Interest and other financial expenses		-2.7		-3.3	
Exchange gains and losses		0.0		0.1	
<b>Income before taxes</b>		<b>31.3</b>	<b>6.7 %</b>	<b>71.7</b>	<b>14.6 %</b>
Income taxes	10	-4.9		-9.1	
<b>Profit for the period</b>		<b>26.4</b>	<b>5.6 %</b>	<b>62.6</b>	<b>12.8 %</b>
Net income attributable to non-controlling interests		5.4		7.0	
Net income attributable to equity shareholders		21.0		55.6	
<b>Profit for the period</b>		<b>26.4</b>	<b>5.6 %</b>	<b>62.6</b>	<b>12.8 %</b>

## Consolidated Statement of Comprehensive Income

EUR million	Note	1-12/2017	%	1-12/2016	%
Profit for the period		26.4		62.6	
Other comprehensive income					
Items that may be reclassified to profit or loss in subsequent periods					
Cash flow hedges		1.6		0.1	
Change of translation difference		-0.3		-0.7	
Items that will not be reclassified to profit or loss in subsequent periods					
Actuarial gains/losses on defined benefit plans		0.6		-0.1	
Share of comprehensive income in joint ventures		-1.5		-2.3	
<b>Total comprehensive income</b>		<b>26.8</b>	<b>5.7 %</b>	<b>59.6</b>	<b>12.2 %</b>
Total comprehensive income attributable to non-controlling interests		5.7		7.0	
Total comprehensive income attributable to equity shareholders		21.1		52.7	
<b>Total comprehensive income</b>		<b>26.8</b>	<b>5.7 %</b>	<b>59.6</b>	<b>12.2 %</b>

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

## Consolidated Cash flow Statement

EUR million	Note	1-12/2017	1-12/2016
Net income for the period		26.4	62.6
Depreciation, amortization and impairments	8	16.5	14.9
Capital gains/losses		-0.3	-1.2
Other adjustments			
Share of result in joint ventures		-13.9	-16.2
Dividends received from joint ventures		7.3	5.8
Other adjustments		0.1	0.1
Financing items		2.6	3.0
Taxes	10	4.9	9.1
Change in receivables		7.9	-15.1
Change in payables		-26.0	-22.8
Change in inventories		0.5	6.0
<b>Cash flow from operations</b>		<b>26.0</b>	<b>46.2</b>
Interest received		0.1	0.2
Interest paid		-1.8	-2.6
Dividends received		0.0	0.0
Other financial items		-0.6	-0.8
Income taxes paid		-9.5	-4.3
<b>Cash flow from operating activities</b>		<b>14.1</b>	<b>38.6</b>
Acquisition, net of cash		-4.5	-3.9
Other capital expenditures		-15.1	-12.6
Sale of other shares		0.0	0.0
Sale of other fixed assets and other changes		0.4	4.8
Other changes and exchange rate differences		0.0	-0.4
<b>Cash flow from investing activities</b>		<b>-19.2</b>	<b>-12.0</b>
Repayments of long-term loans		-3.9	-2.3
Change in short-term financing		42.0	-10.0
Dividends paid to equity shareholders		-31.2	-13.9
Dividends paid to non-controlling interests		-2.2	-1.9
Other changes		-0.3	0.0
<b>Cash flow from financing activities</b>		<b>4.4</b>	<b>-28.0</b>
<b>Change in liquid funds</b>	2	<b>-0.7</b>	<b>-1.4</b>
Change		-0.7	-1.4
Liquid funds at the beginning of the period		6.6	8.0
<b>Liquid funds at the end of the period</b>		<b>5.9</b>	<b>6.6</b>
Exchange rate difference		0.0	0.0

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

## Consolidated Statement of Changes in Equity

EUR million	Note	Share capital	Invested non-restricted equity fund	Fair value reserve	Translation differences	Retained earnings	Equity attributable to shareholders of parent company	Non-controlling interests	Total Shareholders' equity
Opening balance		38.0	164.1	-1.1	9.4	34.9	245.2	17.6	262.8
Dividends paid						-31.2	-31.2		-31.2
Other comprehensive income	10								
Cash flow hedges				1.6			1.6		1.6
Change of translation difference					-0.3		-0.3		-0.3
Actuarial gains/losses on defined benefit plans						0.6	0.6		0.6
Share of comprehensive income in joint ventures						-1.5	-1.5		-1.5
Non-controlling interests						-5.4	-5.4	3.5	-1.9
Exchange rate difference						-10.1	-10.1		-10.1
Corrections to previous year's bookings*						-0.5	-0.5		-0.5
Net income for the period						26.4	26.4		26.4
<b>31 Dec 2017</b>		<b>38.0</b>	<b>164.1</b>	<b>0.5</b>	<b>9.0</b>	<b>13.2</b>	<b>224.8</b>	<b>21.1</b>	<b>245.9</b>

EUR million	Note	Share capital	Invested non-restricted equity fund	Fair value reserve	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	10								
Cash flow hedges				0.1			0.1		0.1
Change of translation difference					-0.7		-0.7		-0.7
Actuarial gains/losses on defined benefit plans						-0.1	-0.1		-0.1
Share of comprehensive income in joint ventures						-2.3	-2.3		-2.3
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
<b>31 Dec 2016</b>		<b>38.0</b>	<b>164.1</b>	<b>-1.1</b>	<b>9.4</b>	<b>34.9</b>	<b>245.2</b>	<b>17.6</b>	<b>262.8</b>

\*IASB corrections to accruals for previous periods.

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. Copies of the financial statements are available from Patria Group's headquarters, Kaivokatu 10 A, FI-00100 Helsinki and [www.patria.fi](http://www.patria.fi).

### 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 in which the parent company directly or indirectly holds more than 50% of the voting rights or in which Patria is otherwise in control on the reporting date. Being in control means the power to govern the financial and operating policies of the company to obtain benefits from its activities.

Acquired and established companies are accounted for using the purchase method of accounting. Accordingly, the purchase price and the acquired company's identifiable assets, liabilities and contingent liabilities are measured at fair value on the date

of acquisition. In the acquisition of additional interest, where the Group already has control, the non-controlling interest is measured either at fair value or at the non-controlling interests' proportionate share of the identifiable net assets. The difference between the purchase price, possible equity belonging to the non-controlling interests and the acquired company's net identifiable assets, liabilities and contingent liabilities measured at fair value is goodwill. Goodwill is tested for impairment at least annually. The purchase price includes the consideration paid, measured at fair value. The consideration does not include transaction costs, which are recognised in the statement of income. The transaction costs are expensed in the same financial period in which they occur, except the costs resulting from issued debt or equity instruments.

Any contingent consideration (additional purchase price) related to the combination of businesses is measured at fair value on the date of acquisition. It is classified either as a liability or equity. Contingent consideration classified as a liability is measured at fair value on the last day of each financial period, and the resulting loss or gain is recognised through profit or loss. Contingent consideration classified as equity is not remeasured. For the acquisitions which occurred before 1 January 2010, the accounting principles valid at the time of the acquisition have been applied.

The acquired subsidiaries are included in the consolidated financial statements from the day the Group has control, and disposed subsidiaries until the control ends. All intragroup transactions, dividend distributions, receivables and liabilities as well as unrealized margins are eliminated in the consolidated financial statements. In the consolidated statements of income and comprehensive income, non-controlling interests have been separated from the profit and the total comprehensive income for the financial period. In the consolidated statement of financial position, non-controlling interests are shown as a separate item under equity.

### Associated companies and joint ventures

Companies, in which the Group has a significant influence are consolidated as associated companies. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but it is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net asset of the joint venture. Joint control is established by contractual agreement.

Associated companies and joint ventures are included in the consolidated financial statements using the equity method from the date the Group's significant influence or joint control commences until the date it ceases. The Group's share of the associated company's or joint venture's profit for the financial period are shown as a separate item before the Group's operating profit, on the line Share of joint ventures result. The Group's share of the associated company's or joint venture's changes recorded in other comprehensive income is recorded in the Group's other comprehensive income. Patria's proportion of the associated company's or joint venture's post-acquisition accumulated equity is included in the Group's equity. If the Group's share of the associated company's or joint venture's losses exceeds its interest in the company, the carrying amount is written down to zero. After this, losses are only recognised if the Group has incurred obligations from the associated company or joint venture.

### 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 recognised 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. Capitalised unaccomplished 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 joint ventures 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.

## 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 assessing 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 2017 did not have any material impact on financial statements.

The new and amended standards in 2018 are not expected to have any material impact on 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. Patria will adopt the new standard on the required effective date using the full retrospective method.

Patria has performed an analysis of IFRS 15 and based on the assessment the impact is limited to revenue recognition of some long-term service and maintenance contracts where the revenue recognition will occur over time measured based on percentage of completion method.

Based on Patria's assessment the application of new revenue recognition principles under IFRS15 will not have material impact on annual reported sales and operating profit. As a result of the restatement retained earnings as of January 1, 2017 is estimated to decrease approximately by EUR 2 million.

New IFRS 9 Financial Instruments replaces the existing guidance in IAS 39 Financial Instruments - Recognition and Measurement. 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. Patria does not expect the new standard to have material impact on the consolidated income statement and statement of financial position. However, the ineffectiveness because of timing difference between the hedged future cash flows with foreign currency and hedge instruments may have an impact in the profits and/or losses recognised in the income statement.

IFRS 16 requires lessees to recognize a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. The standard will affect primarily the accounting for the Group's operating leases increasing the balance sheet totals and leading to some changes in key figures. Patria has started an assessment of the impacts on its consolidated financial statements.

## 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 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 fair value reserve 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 (net sales, purchases and loans) on 31 December 2017 were in the Swedish krona (SEK), and United States dollar (USD).

### IFRS 7 SENSITIVITY ANALYSIS - SENSITIVITY TO EXCHANGE RATE FLUCTUATIONS 2017

EUR million	SEK	USD
Net exposure - Balance sheet items	0.0	-0.3
Euro strengthens / weakens 5 % - Effect on income before taxes	0.0 / 0.0	0.0 / -0.0
Net exposure - Derivatives under hedge accounting	0.4	-16.4
Euro strengthens / weakens 5 % - Effect on equity	-0.0 / 0.0	0.7 / -0.8

### IFRS 7 SENSITIVITY ANALYSIS - SENSITIVITY TO EXCHANGE RATE FLUCTUATIONS 2016

EUR million	SEK	USD
Net exposure - Balance sheet items	0.1	1.2
Euro strengthens / weakens 5 % - Effect on income before taxes	-0.0 / 0.0	-0.1 / 0.1
Net exposure - Derivatives under hedge accounting	0.8	-15.6
Euro strengthens / weakens 5 % - 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 2017, the average interest fixing term of the liabilities was 2.4 years (4.9) and that of the receivables one day.

### INTEREST FIXING PERIODS

EUR million	0-6 mths	6-12 mths	12-24 mths	24-36 mths	Later	Total
Finance lease liabilities	1.8	0.2	0.7		17.9	20.6
Loans from financial institutions	3.4	0.3	0.7			4.4
Other interest-bearing liabilities	42.0		6.8			48.8
Interest-bearing receivables	-5.9					-5.9
<b>Total 2017</b>	<b>41.3</b>	<b>0.5</b>	<b>8.2</b>	<b>0.0</b>	<b>17.9</b>	<b>67.9</b>

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
<b>Total 2016</b>	<b>-2.5</b>	<b>3.7</b>	<b>0.4</b>	<b>8.9</b>	<b>12.8</b>	<b>23.2</b>

On 31 December 2017, Group's interest-bearing liabilities totalled EUR 73.8 million (29.8) out of which EUR 67.4 million (20.8) was fixed rate and EUR 6.3 million (9.0) was floating rate. Interest-bearing receivables were EUR 5.9 million (6.6) out of which EUR 5.9 million (6.6) 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 2017, would lead to an increase in annual net interest expenses of EUR four thousand (24). A corresponding decrease in interest rates would result in an equal effect of opposite sign. Open interest derivatives totalled EUR 0.3 million (0.4) on 31 December 2017.

### 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 maybe difficult or its terms are unattractive. The risk is minimised by balancing the maturities of loans and credit facilities.

On 31 December 2017 the average maturity of the Group's interest-bearing liabilities was 2.3 years (3.7). The values on the following maturity distribution table are undiscounted.

### MATURITY DISTRIBUTION OF FINANCIAL INSTRUMENTS

EUR million	2018	2019	2020	2021	2022	2023-	Total
Finance lease liabilities	1.4	1.4	1.4	1.4	1.5	13.5	20.6
Loans from financial institutions	3.9	0.3	0.1	0.0	0.0	0.0	4.4
Other interest-bearing liabilities	42.1	6.7	0.0	0.0	0.0	0.0	48.8
Derivative financial liabilities	0.3	0.0	0.0	0.0	0.0	0.0	0.3
Derivative financial assets	-0.4	0.0	0.0	0.0	0.0	0.0	-0.4
Interest payments	0.4	0.4	0.3	0.0	0.0	0.0	1.1
<b>Total 2017</b>	<b>47.7</b>	<b>8.8</b>	<b>1.9</b>	<b>1.5</b>	<b>1.5</b>	<b>13.5</b>	<b>74.8</b>

EUR million	2017	2018	2019	2020	2021	2022-	Total
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	0.0	1.6
Other interest-bearing liabilities	0.1	0.1	6.7	0.0	0.0	0.0	6.9
Derivative financial liabilities	0.6	0.0	0.0	0.0	0.0	0.0	0.6
Derivative financial assets	-1.3	-0.3	0.0	0.0	0.0	0.0	-1.6
Interest payments	0.4	0.4	0.4	0.0	0.0	0.0	1.1
<b>Total 2016</b>	<b>1.9</b>	<b>2.4</b>	<b>9.0</b>	<b>1.7</b>	<b>1.7</b>	<b>13.3</b>	<b>29.9</b>

As a part of its liquidity reserves on 31 December 2017, Patria had the following unused financial reserves: committed credit and overdraft facilities totalling EUR 40.5 million (40.5) and commercial paper program totalling EUR 58.0 million (100.0).

### NET DEBT

EUR million	2017	2016
Loans from financial institutions	0.4	1.0
Other interest-bearing loans	6.7	6.8
Finance lease liabilities	19.2	19.8
<b>Non-current interest-bearing liabilities</b>	<b>26.4</b>	<b>27.5</b>
Loans from financial institutions	3.9	0.6
Issued commercial papers	42.0	0.0
Other interest-bearing loans	0.1	0.1
Finance lease liabilities	1.4	1.6
<b>Current interest-bearing liabilities</b>	<b>47.4</b>	<b>2.3</b>
<b>Interest-bearing liabilities total</b>	<b>73.8</b>	<b>29.8</b>
Cash and cash equivalents	5.9	6.6
Net debt	67.9	23.2

## CHANGE IN NET DEBT

EUR million	Loans from financial institutions	Commercial papers	Other interest-bearing loans	Finance lease liabilities	Cash and cash equivalents	Total
<b>Carrying value, at 1 January 2017</b>	-1.6		-6.9	-21.4	6.6	-23.2
Change in net debt, cash:						
Repayments of non-current loans	2.5		0.1			2.6
Repayments of leasing liabilities				5.5		5.5
Change in current liabilities	0.0	-42.0				-42.0
Change in cash and cash equivalents					-0.7	-0.7
Cash flows total	2.5	-42.0	0.1	5.5	-0.7	-34.6
Change in net debt, non-cash:						
Increases of finance lease liabilities				-4.8		-4.8
Business combinations	-5.3					-5.3
Foreign exchange adjustments					0.0	0.0
Non-cash movements, total	-5.3	-0.0	-0.0	-4.8	-0.0	-10.1
<b>Carrying value, at 31 December 2017</b>	<b>-4.4</b>	<b>-42.0</b>	<b>-6.8</b>	<b>-20.6</b>	<b>5.9</b>	<b>-67.9</b>

## 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	2017	2016
Undue accounts receivables	75.2	58.3
Accounts receivables 1-30 days overdue	10.0	16.3
Accounts receivables 31-60 days overdue	2.7	8.3
Accounts receivables more than 60 days overdue	23.9	30.7
<b>Total</b>	<b>111.9</b>	<b>113.7</b>

## 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 January 2017 Patria acquired 100% of the shares of Kiinteistö Oy Hämeenlinnan Vanajanportti. In October 2017 Patria acquired 60% of the shares of Milrem LCM OÜ. Milrem LCM OÜ is the largest defence maintenance contractor in Estonia. The acquisition is in accordance with the renewed strategy and strengthens Patria's life-cycle support services in Northern Europe.

The following table summarise the amounts for the acquisition cost paid, the cash flow from the acquisition and the amounts of the acquired assets and liabilities recognised at the acquisition date.

In 2016 there were no significant business arrangements.

EUR million	2017
Acquisition cost transferred	4.5
Acquisition cost paid in cash	4.5
Cash flow from the acquisitions	
Acquisition cost paid in cash	4.5
Cash and cash equivalents of the acquired companies	-0.0
<b>Cash flow from the acquisitions</b>	<b>4.5</b>
Assets and liabilities of the acquired businesses	
Intangible assets	0.1
Tangible assets	5.4
Inventories	0.6
Accounts receivables and other assets	0.5
Cash and cash equivalents	0.0
<b>Total assets</b>	<b>6.6</b>
Interest-bearing loans	5.3
Other liabilities	0.5
<b>Total liabilities</b>	<b>5.8</b>
Net assets	0.8
Patria's share of net assets	0.5
Goodwill	4.0

The book value of these items correspond substantially to their fair value.

### 4. Items related to percentage of completion method

EUR million	2017	2016
Products	150.1	216.4
Services	317.6	273.5
<b>Total</b>	<b>467.7</b>	<b>489.9</b>

EUR million	2017	2016
Delivery based net sales	392.2	363.3
Percentage of completion method invoicing	75.5	126.6
<b>Total</b>	<b>467.7</b>	<b>489.9</b>

EUR million	2017	2016
Aggregate amount of costs incurred and recognised profits (less losses) to date	597.6	893.5
Less progress billings and advances	-614.9	-946.1
<b>Construction contracts in progress, net position</b>	<b>-17.3</b>	<b>-52.6</b>
Amounts due from customers for contract work	12.9	10.8
Amounts due to customers for contract work	-30.2	-63.4
<b>Construction contracts in progress, net position</b>	<b>-17.3</b>	<b>-52.6</b>
Advances received, construction contracts in progress	30.2	63.4
Advances received, other	15.0	19.6
<b>Advances received</b>	<b>45.2</b>	<b>83.0</b>
Construction contracts remaining order stock	161.9	171.6

## 5. Other operating income and expenses

### Other operating income

EUR million	2017	2016
Rental income	1.7	2.1
Capital gain on sale of fixed assets	0.4	1.4
Service revenues	0.0	0.4
Other operating income	5.0	3.2
Grants received	0.1	0.1
<b>Total</b>	<b>7.2</b>	<b>7.2</b>

### Other operating expenses

EUR million	2017	2016
Research and development	-0.2	-0.4
Rents	-10.9	-10.5
Losses on sale of fixed assets	-0.0	-0.2
Travel expenses	-8.6	-7.8
Real estate expenses	-18.4	-18.0
Other operating expenses*	-36.3	-30.9
<b>Total</b>	<b>-74.4</b>	<b>-67.8</b>

\* 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	2017	2016
Audit fees	-0.2	-0.2
Other audit related fees	-0.0	-0.0
Other services	-0.2	-0.1
<b>Total</b>	<b>-0.4</b>	<b>-0.3</b>

## 6. Research and development expenses

EUR million	2017	2016
Research and development expenses, total	-9.4	-7.3
Research and development costs expensed during financial period	-8.3	-6.0

## 7. Employee benefits

EUR million	2017	2016
Salaries and fees paid to Members of Board, Consultative Committee and President and CEO	-0.7	-0.8
Other wages and salaries	-138.2	-136.1
Pension and pension insurance expenses	-24.4	-22.9
Other employer costs	-7.9	-9.9
<b>Total</b>	<b>-171.2</b>	<b>-169.7</b>

### Compensation to Board of Directors and attendance at meetings

2017	1 000 EUR	Board	Audit Committee	Nomination and Compensation Committee
<b>Board members 31 December 2017</b>				
Christer Granskog, Chairman	43	14/14		3/3
Marko Hyvärinen	29	14/14	5/5	
Ari Puheloinen	28	14/14		3/3
Päivi Marttila	29	14/14	5/5	
Harald Aarø	0	14/14		3/3
Geir Håøy	0	14/14		3/3
Janne Sølvi Weseth	29	14/14	5/5	
Eirik Lie	0	13/14	5/5	
<b>Total</b>	<b>160</b>			

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

<sup>1)</sup> Starting 25 May 2016 <sup>2)</sup> Until 25 May 2016 <sup>3)</sup> Starting 25 May and until 29 August 2016

Compensation to the Board of Directors includes a monthly remuneration to Chairman EUR 2,750 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

2017	1 000 EUR	Attendance at meetings
<b>Consultative Committee members 1 January - 31 December 2017</b>		
Sinuhe Wallinheimo, Chairman	4	5/5
Kalle Hyötynen, Vice Chairman	2	4/5
Mika Kari	2	3/5
Timo Kivinen <sup>1)</sup>	1	2/4
Petri Peltonen	1	2/5
Mikko Savola	3	5/5
Kari Takanen <sup>2)</sup>	1	1/1
Raimo Vistbacka	3	5/5
<b>Total</b>	<b>15</b>	

<sup>1)</sup> Starting 5 June 2017 <sup>2)</sup> Until 4 June 2017

Personnel representatives attendance at meetings: Eero Järvinen\* (1/1), Jussi Karimäki (5/5), Juha Kuusi (5/5), Petri Pitkänen (5/5) and Ossi Ritala (3/4). Separate meeting fees were not paid for their participation.

\*) Starting 8 May 2017 Ossi Ritala replaced Eero Järvinen as a member of the Consultative Committee

2016	1 000 EUR	Attendance at meetings
<b>Consultative Committee members 1 January - 31 December 2016</b>		
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
<b>Total</b>	<b>9</b>	

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.

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 during 2017 totalled EUR 540,429.40 (EUR 159,782.51) consisting of

- base salary of EUR 429,800.00 (EUR 159,782.51) (including salary of EUR 409,340.00 (151,938.45) and benefits of EUR 20,460.00 (7,844.06)),
- yearly bonus earning period 2016 EUR 77,630.00. The yearly bonus represents 48.6% of the CEO's base salary and reflects a payout ratio of 81.0% of the maximum bonus of 60% available for the CEO for 2016 and
- EUR 32,999.40 based on years 2014-2016 long term incentive plan.

The yearly bonus to be paid to the CEO Olli Isotalo in 2018 for the earning period 2017 is EUR 42,980.00 (10.0% of base salary of year 2017 and 20.0% of the maximum bonus payout, which is 50% of base salary of year 2017).

The retirement age for Olli Isotalo the President and CEO of the parent company follows the statutory pension rules. The CEO has no additional retirement arrangement. 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. The yearly bonus paid to the former CEO in 2017 for the earning period 2016 was 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 in 2016 was EUR 137,135.

The President and CEO is assisted in Group management by the Board of Management, which included as of 1, April 2017 10 (8) members. The salaries, fees and benefits paid to the members of the Board of Management totalled EUR 2,588,536.43 (EUR 2,174,008.98).

The remuneration of the President and CEO and the other members of the Board of Management for 2017 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 in case of exceptionally good performance. 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 2015-2017, 2016-2018 and 2017-2019. In addition, bonuses were paid based on the 2012-2014, 2013-2015 and 2014-2016 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 theoretical remuneration in each program depending on the participant's organisational standing is 40%, 50% or for the CEO 60% in case of exceptionally good performance based on 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 2014-2016 plan was 52.4% of the highest potential remuneration and will be paid to the participants in three instalments during the years 2017, 2018 and 2019 subject to the terms of the plan. The Group has made a relating cost provision in the balance sheet totalling EUR 841,309 (EUR 1,124,509).

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	2017	2016
Pension expenses - Defined contribution plans	-24.2	-22.8
Pension expenses - Defined benefit plans	-0.2	-0.1
<b>Total</b>	<b>-24.4</b>	<b>-22.9</b>

### Expense recognised in profit or loss

EUR million	2017	2016
Service cost	-0.1	0.0
Net interest	-0.1	-0.1
<b>Expense recognised in profit or loss</b>	<b>-0.2</b>	<b>-0.1</b>

### Statement of financial position

EUR million	2017	2016
Defined benefit obligation	13.0	14.4
Fair value of plan assets	-8.8	-10.0
Funded status	4.3	4.4
Liability in the balance sheet	4.3	4.4

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

#### Defined benefit obligation (DBO)

EUR million	2017	2016
Opening defined benefit obligation	14.4	12.7
Current service cost	0.1	0.0
Interest cost	0.2	0.3
Benefits paid	-0.2	-0.2
Actuarial gain(-) / loss (+)	-1.5	1.6
<b>Closing defined benefit obligation</b>	<b>13.0</b>	<b>14.4</b>

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

Fair value of plan assets

EUR million	2017	2016
Opening fair value of plan assets	10.0	8.7
Interest income	0.2	0.2
Contribution paid	-0.3	0.1
Benefits paid	-0.2	-0.2
Actuarial gain(+) / loss (-)	-0.9	1.1
<b>Closing fair value of plan assets</b>	<b>8.8</b>	<b>10.0</b>

Expected contribution paid in the next fiscal period:

Expected contribution

EUR million	Estimate 2018	2017	2016
Expected contribution	0.1	0.1	0.0

Changes in other comprehensive income

EUR million	2017	2016
Recognised remeasurements in other comprehensive income 1 Jan	0.2	0.3
Actuarial gain(+) or loss(-) on obligation	1.5	-1.6
Actuarial gain(+) or loss(-) on plan assets	-0.9	1.5
<b>Recognised remeasurements in other comprehensive income 31 Dec</b>	<b>0.9</b>	<b>0.2</b>

Plan assets

EUR million	2017	2016
Qualifying insurance policies	100%	100%

Qualifying insurance policies have not a quoted market price in an active market and they do not include employer's own transferable financial instruments.

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 31.12.2017

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	-1.1	-0.7	-9%	-7%
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	1.3	0.0	10%	0%
Change in Insurance Company's bonus index, +0.5 percent point	0.0	0.8	0%	9%

Census data used in this valuation is as follows:

	2017	2016
Number of actives	108	119
Number of pensioners	159	129
Number of deferred	888	943
Average age actives (years)	51	51
Average remaining service time	9	9
Average serving time	7	6

8. Depreciation, amortization and impairments

Depreciation, amortization and impairments

EUR million	2017	2016
Intangible rights	-0.8	-0.9
Buildings and constructions	-6.6	-7.0
Machinery and equipment	-7.0	-7.0
Other tangible assets	-0.0	-0.0
Impairment losses, non current assets	-2.0	0.0
<b>Total</b>	<b>-16.5</b>	<b>-14.9</b>

## IMPAIRMENT TESTS

The recoverable amount of a cash generating unit is determined based on value-in-use calculations. Patria Group's management and reporting structure was changed and in relation to the change the cash-generating units (CGUs) for international operations were redefined. International operations were previously reported and tested as part of Aviation business unit. In the new management structure the international operations are part of International Support Partnerships -business unit and the goodwill is reported in three geographical areas: Baltics, Norway and Sweden.

The tested cash generating units were Land, Aviation, Systems, Millog and International Support Partnerships -business units three separate geographical segments: Baltics, Norway and Sweden. 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 2017 (9.75%).

Owing to weak financial performance, the impairment testing result shows that the "value in use" in the ISP Sweden cash generating unit was less than the book value of the tested assets, and thus an impairment of goodwill (valued at fair value) EUR 2.0 million was recognized in December 2017. 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 other impairment.

## Goodwill by Business Unit

EUR million	2017	2016
Land	8.9	8.9
Aviation	4.8	4.8
ISP, Baltics	4.0	0.0
ISP, Norway	0.8	0.8
ISP, Sweden	0.0	2.2
Systems	1.7	1.7
Millog	7.2	7.2
<b>Total</b>	<b>27.5</b>	<b>25.6</b>

EUR million	2017	2016
1 Jan	25.6	25.0
Additions	4.0	0.6
Impairment	-2.0	-0.0
Translation differences	-0.1	-0.0
<b>31 Dec</b>	<b>27.5</b>	<b>25.6</b>

## 9. Financial income and expenses

EUR million	2017	2016
Interest income		
Deposits and investments	0.1	0.1
Other	0.0	0.2
Other financial income	0.0	0.0
Interest expenses		
Interest bearing liabilities	-0.6	-0.5
Financial lease	-1.3	-1.4
Other financial expense	-0.9	-1.4
Exchange rate difference		
Foreign exchange derivatives, non-hedge accounted	0.8	-0.3
Other	-0.8	0.5
<b>Total</b>	<b>-2.6</b>	<b>-2.9</b>

## Aggregate foreign exchange gains and losses included in consolidated income statement

EUR million	2017	2016
Net sales	-0.6	-0.9
Expenses	0.2	0.1
Financial income and expenses	0.0	0.1
<b>Total</b>	<b>-0.4</b>	<b>-0.7</b>

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	2017	2016
Foreign exchange rate derivative contracts under hedge accounting	-0.7	-0.8
<b>Total</b>	<b>-0.7</b>	<b>-0.8</b>

## 10. Income taxes

EUR million	2017	2016
Income taxes	-4.4	-10.1
Income taxes previous period	-0.0	2.1
Change in deferred tax receivable	-0.4	-1.9
Change in deferred tax liability	-0.0	0.7
<b>Total</b>	<b>-4.9</b>	<b>-9.1</b>

### Taxes Related to Other Comprehensive Income 2017

Milj. EUR	Before-tax amount	Tax	Net-of-tax amount
Cash flow hedges	2.0	-0.4	1.6
Change of translation difference	-0.3	-	-0.3
Actuarial gains/losses on defined benefit plans	0.6	0.0	0.6
Share of comprehensive income in joint ventures	-2.0	0.4	-1.5
<b>Total</b>	<b>0.4</b>	<b>0.0</b>	<b>0.4</b>

### 2016

Milj. EUR	Before-tax amount	Tax	Net-of-tax amount
Cash flow hedges	0.1	-0.0	0.1
Change of translation difference	-0.7	-	-0.7
Actuarial gains/losses on defined benefit plans	-0.1	0.0	-0.1
Share of comprehensive income in joint ventures	-3.0	0.7	-2.3
<b>Total</b>	<b>-3.6</b>	<b>0.7</b>	<b>-3.0</b>

### Differences between income tax expense calculated at statutory rates compared to the income statement (tax rate in Finland 2017: 20%, 2016: 20%)

EUR million	2017	2016
Income tax expense at statutory rate	-6.3	-14.3
Effect of statutory tax rates of foreign companies	0.1	0.0
Untaxed income	0.0	0.1
Non-deductible expenses	-0.4	-0.2
Utilization of confirmed losses	0.0	0.0
Fiscal losses of the period	-1.2	-0.1
Effect of joint ventures result	2.8	3.2
Returns from previous tax years	0.0	2.2
Other items	-0.0	-0.0
<b>Income taxes</b>	<b>-4.9</b>	<b>-9.1</b>

### Reconciliation of deferred tax receivables

EUR million	2017	2016
Fixed assets depreciation differences	0.8	1.1
Untaxed reserves	2.8	2.8
Fair value of derivative financial instruments	0.0	0.3
Other temporary differences	0.0	0.0
	<b>3.5</b>	<b>4.2</b>
1 Jan	4.2	6.2
Income statement	-0.4	-1.9
Fair value of derivative financial instruments	-0.3	-0.0
31 Dec	3.5	4.2

### Reconciliation of deferred tax liabilities

EUR million	2017	2016
Fixed assets depreciation differences	1.1	0.9
Fair value of derivative financial instruments	0.1	0.0
	<b>1.2</b>	<b>0.9</b>
1 Jan	0.9	1.6
Income statement	0.0	-0.7
Fair value of derivative financial instruments	0.1	0.0
Others	0.2	0.0
31 Dec	1.2	0.9

The tax losses, for which no deferred tax assets are recognized due to the uncertainty of the utilization of the losses, amounted to EUR 24.3 million in the year of 2017 (EUR 23.0 million). These losses do not expire.

## 11. Intangible and tangible assets

### Intangible assets

EUR million	Goodwill	Development expenses	Intangible rights	Advance payments	Total
Acquisition cost 1 Jan 2017	29.5	12.3	18.1	0.1	60.0
Translation differences	-0.1	0.0	0.0	0.0	-0.1
Reclassifications	0.0	0.0	0.0	-0.1	-0.1
Companies acquired	4.0	0.0	0.0	0.0	4.0
Scrapping	0.0	0.0	0.0	0.0	0.0
Additions	0.0	0.0	0.9	0.0	0.9
Disposals	0.0	0.0	0.0	0.0	0.0
Acquisition cost 31 Dec 2017	33.5	12.3	19.0	0.0	64.8
Accumulated amortization and impairment losses 1 Jan 2017	-3.9	-12.3	-16.4	0.0	-32.5
Translation differences	0.0	0.0	0.0	0.0	0.0
Reclassifications	0.0	0.0	0.0	0.0	0.0
Scrapping	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Amortization for the period incl. exchange rate diff. in P&L	0.0	0.0	-0.8	0.0	-0.8
Impairment	-2.1	0.0	0.0	0.0	-2.1
Accumulated amortization and impairment losses 31 Dec 2017	-6.0	-12.3	-17.2	0.0	-35.4
<b>Net book value at 31 Dec 2017</b>	<b>27.5</b>	<b>0.0</b>	<b>1.8</b>	<b>0.0</b>	<b>29.3</b>

EUR million	Goodwill	Development expenses	Intangible rights	Advance payments	Total
Acquisition cost 1 Jan 2016	29.0	44.8	17.9	0.0	91.7
Translation differences	-0.1	0.0	0.0	0.0	-0.1
Reclassifications	0.0	0.0	0.2	-0.1	0.1
Scrapping	0.0	-32.6	-0.4	0.0	-33.0
Additions	0.6	0.0	0.4	0.2	1.3
Disposals	0.0	0.0	0.0	0.0	0.0
Acquisition cost 31 Dec 2016	29.5	12.3	18.1	0.1	60.0
Accumulated amortization and impairment losses 1 Jan 2016	-4.0	-44.8	-15.9	0.0	-64.7
Translation differences	0.1	0.0	0.0	0.0	0.1
Reclassifications	0.0	0.0	0.0	0.0	0.0
Scrapping	0.0	32.6	0.4	0.0	33.0
Disposals	0.0	0.0	0.0	0.0	0.0
Amortization for the period incl. exchange rate diff. in P&L	0.0	0.0	-0.9	0.0	-0.9
Accumulated amortization and impairment losses 31 Dec 2016	-3.9	-12.3	-16.4	0.0	-32.5
<b>Net book value at 31 Dec 2016</b>	<b>25.6</b>	<b>0.0</b>	<b>1.7</b>	<b>0.1</b>	<b>27.5</b>

Tangible assets

EUR million	Land and water	Buildings and constructions	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost 1 Jan 2017	2.0	120.2	82.3	1.8	4.3	210.7
Translation differences	0.0	-0.3	-0.1	0.0	0.0	-0.4
Reclassifications	0.0	-4.3	2.9	0.0	-6.0	-7.3
Companies acquired	0.0	5.4	0.1	0.0	0.0	5.5
Scrapping	0.0	-1.8	-2.4	0.0	0.0	-4.2
Additions	0.1	6.5	9.7	0.0	8.9	25.3
Disposals	0.0	-1.3	-0.6	0.0	-4.6	-6.5
Acquisition cost 31 Dec 2017	2.2	124.4	92.0	1.8	2.7	223.0
Accumulated amortization and impairment losses 1 Jan 2017	0.0	-69.7	-65.5	-1.4	0.0	-136.7
Translation differences	0.0	0.2	0.1	0.0	0.0	0.3
Reclassifications	0.0	2.7	0.0	0.0	-1.2	1.5
Scrapping	0.0	1.8	2.4	0.0	0.0	4.2
Disposals	0.0	1.2	0.5	0.0	0.0	1.7
Amortization for the period incl. exchange rate diff. in P&L	0.0	-6.6	-7.0	0.0	0.0	-13.6
Accumulated amortization and impairment losses 31 Dec 2017	0.0	-70.4	-69.5	-1.4	-1.2	-142.6
<b>Net book value at 31 Dec 2017</b>	<b>2.2</b>	<b>54.1</b>	<b>22.4</b>	<b>0.3</b>	<b>1.5</b>	<b>80.4</b>

EUR million	Land and water	Buildings and constructions	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost 1 Jan 2016	2.3	118.7	85.8	1.7	7.5	215.9
Translation differences	0.0	-0.4	-0.2	0.0	0.0	-0.6
Reclassifications	0.0	6.3	3.7	0.1	-10.3	-0.2
Scrapping	0.0	0.0	-7.0	0.0	0.0	-7.0
Additions	0.0	1.1	4.0	0.0	7.0	12.1
Disposals	-0.2	-5.4	-3.8	0.0	0.0	-9.5
Acquisition cost 31 Dec 2016	2.0	120.2	82.3	1.8	4.3	210.7
Accumulated amortization and impairment losses 1 Jan 2016	0.0	-67.5	-67.2	-1.4	0.0	-136.1
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	4.5	1.4	0.0	0.0	5.9
Amortization for the period incl. exchange rate diff. in P&L	0.0	-7.0	-7.0	0.0	0.0	-14.0
Accumulated amortization and impairment losses 31 Dec 2016	0.0	-69.7	-65.5	-1.4	0.0	-136.7
<b>Net book value at 31 Dec 2016</b>	<b>2.0</b>	<b>50.5</b>	<b>16.8</b>	<b>0.4</b>	<b>4.3</b>	<b>74.0</b>

Tangible assets include capitalized finance leases as follows

EUR million	Buildings and constructions	Machinery and equipment	Total
Acquisition cost 31 Dec 2017	38.9	6.8	45.8
Additions	4.9	0.0	4.9
Disposals	-7.3	0.0	-7.3
Accumulated depreciation	-16.9	-6.8	-23.7
<b>Net book value at 31 Dec 2017</b>	<b>19.6</b>	<b>0.0</b>	<b>19.6</b>

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
<b>Net book value at 31 Dec 2016</b>	<b>20.6</b>	<b>0.0</b>	<b>20.6</b>

## 12. Investments in joint ventures

	Domicile	Ownership %
Nammo AS	Raufoss, Norway	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

### 2016

EUR million	Domicile	Ownership %	Assets	Liabilities	Net sales	Profit/Loss
Nammo AS	Raufoss, Norway	50.0	536.9	280.4	454.7	30.8

### Shares in joint ventures

EUR million	2017	2016
1 Jan	164.4	149.2
Share of results in joint ventures	13.9	16.2
Share of comprehensive income in joint ventures	-1.5	-2.3
Acquisitions	0.0	3.1
Dividend income	-7.3	-5.8
Exchange rate differences and other changes	-10.9	4.1
<b>31 Dec</b>	<b>158.6</b>	<b>164.4</b>

### Business operations with joint ventures

EUR million	2017	2016
Sales to joint ventures	0.5	1.3

### Receivables and liabilities, joint ventures

EUR million	2017	2016
Subordinated loan receivable	0.4	0.5
Accounts receivables	0.0	0.5
Accounts payable	0.0	0.0

## 13. Other shares

EUR million	2017	2016
Book value	0.2	0.2

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

## 14. Current assets

### INVENTORIES

No significant impairment of inventories has been booked during the financial periods.

### 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	2017	2016
Amounts due from customers for contract work	12.9	10.8
Other items	6.0	5.3
<b>Total</b>	<b>18.9</b>	<b>16.1</b>

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	2017	2016
Accrued wages, salaries and social security costs	21.6	22.0
Other items	24.7	22.8
<b>Total</b>	<b>46.3</b>	<b>44.8</b>

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	Total
1 Jan 2017	0.2	0.2
Deductions	-0.0	-0.0
<b>31 Dec 2017</b>	<b>0.2</b>	<b>0.2</b>

EUR million	Shares	Total
1 Jan 2016	0.2	0.2
Exchange rate differences and other changes	-0.0	-0.0
<b>31 Dec 2016</b>	<b>0.2</b>	<b>0.2</b>

## 17. Financial instruments

### Fair value reserve including forward contracts

EUR million	2017	2016
Fair value	0.6	-1.4
Deferred taxes	-0.1	0.3
<b>Fair value reserve 31 Dec</b>	<b>0.5</b>	<b>-1.1</b>
Fair value changes recognized in equity	2.6	0.8
Fair value changes recognized in income statement	-0.5	-0.6
Deferred taxes	-0.4	-0.0
Change	1.6	0.1
Fair value	-1.4	-1.5
Deferred taxes	0.3	0.3
<b>Fair value reserve 1 Jan</b>	<b>-1.1</b>	<b>-1.2</b>

### Carrying amounts of financial assets and liabilities by measurement categories and fair value hierarchy 2017

EUR million	Note	Financial assets/liabilities at fair value under hedge accounting Level 2	Financial assets/liabilities at fair value through income statement Level 2	Loans and other receivables	Available for sale financial assets Level 2	Other financial liabilities	Book value
<b>Non-current financial assets</b>							
Long-term receivables from joint ventures	12			0.4			0.4
Other shares	13			0.0	0.2		0.2
Other receivables				0.7			0.7
<b>Current financial assets</b>							
Accounts receivable	2			111.9			111.9
Derivative financial instruments	22	0.2	0.2				0.4
Cash and bank balances	16			5.9			5.9
<b>Carrying amount by category</b>		<b>0.2</b>	<b>0.2</b>	<b>118.9</b>	<b>0.2</b>	<b>0.0</b>	<b>119.4</b>
<b>Non-current financial liabilities</b>							
Interest-bearing liabilities	19					26.4	26.4
<b>Current financial liabilities</b>							
Interest-bearing liabilities	19					47.4	47.4
Accounts payable						25.3	25.3
Derivative financial instruments	22	0.1	0.2				0.3
<b>Carrying amount by category</b>		<b>0.1</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>99.1</b>	<b>99.4</b>

2016

EUR million	Note	Financial assets/liabilities at fair value under hedge accounting Level 2	Financial assets/liabilities at fair value through income statement Level 2	Loans and other receivables	Available for sale financial assets Level 2	Other financial liabilities	Book value
<b>Non-current financial assets</b>							
Long-term receivables from joint ventures	12			0.5			0.5
Other shares	13			0.0	0.2		0.2
Other receivables				0.7			0.7
<b>Current financial assets</b>							
Accounts receivable	2			113.7			113.7
Receivables from joint ventures	12			0.5			0.5
Derivative financial instruments	22	1.0	0.6				1.6
Cash and bank balances	16			6.6			6.6
<b>Carrying amount by category</b>		<b>1.0</b>	<b>0.6</b>	<b>122.0</b>	<b>0.2</b>	<b>0.0</b>	<b>123.8</b>
<b>Non-current financial liabilities</b>							
Interest-bearing liabilities	19					27.5	27.5
<b>Current financial liabilities</b>							
Interest-bearing liabilities	19					2.3	2.3
Accounts payable						19.6	19.6
Liabilities to joint ventures	12					0.0	0.0
Derivative financial instruments	22	0.4	0.2				0.6
<b>Carrying amount by category</b>		<b>0.4</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>49.4</b>	<b>50.0</b>

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)

Fair values of financial assets and liabilities do not differ materially from the book value.

## 18. Shareholders' equity

### Share Capital:

Patria Oyj share capital on 31 December 2017 stood at EUR 38,024,848.00. All issued shares have been paid up in full.

### Fair value reserve:

The fair value reserve includes the effective portion of the change in fair value of derivative financial instruments that are designated as and qualify for cash flow hedges.

### Other funds

#### Invested unrestricted equity reserve:

Patria Oyj was established in 2010 and the assets were credited to the reserve of invested unrestricted equity. There were no changes in invested unrestricted equity reserve in 2017, and the fund stood at EUR 164,1 million on 31 December 2017.

#### Translation differences:

Translation differences include translation differences arisen from the subsidiaries' equity translation during the consolidation, change of the fair values of the net investment in the foreign subsidiary, and foreign exchange rate differences arisen from the conversion of the foreign subsidiaries' income statement using the average exchange rate of the reporting period and the conversion of their balance sheet using the exchange rate quoted on the balance sheet date.

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

#### Distributable funds:

The parent company's non-restricted equity on December 31, 2017 is EUR 245,015,081.21 of which the net profit for the financial period is EUR 17,953,035.61.

#### Dividend per share

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.60 (2016: 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 16,705,133,40 (2016: EUR 31,182,915.68). The Board of Directors further proposes that the remaining non-restricted equity, EUR 228,309,947.81 (2016: EUR 227,062,045.60) be retained and carried forward.

The dividends paid for 2017 will be decided at the Annual General Meeting on 23 March 2018. 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 2037 and capital costs of EUR 19.6 million (20.6) are included in Buildings and constructions; the depreciation thereon was EUR 1.4 million (1.7). The aggregate leasing payments amounted to EUR 2.5 million (3.0), the interest element being EUR 1.3 million (1.4).

### Finance lease liabilities minimum lease payments

EUR million	2017	2016
Not later than 1 year	2.5	3.0
1-5 years	9.9	11.9
Later than 5 years	23.1	19.6
Total	35.5	34.5
Future finance charges	-14.8	-13.1
<b>Present value of minimum lease payments</b>	<b>20.6</b>	<b>21.4</b>

### Present value of minimum lease payments

EUR million	2017	2016
Not later than 1 year	1.4	1.6
1-5 years	5.7	6.5
Later than 5 years	13.5	13.3
<b>Present value of minimum lease payments</b>	<b>20.6</b>	<b>21.4</b>

## 20. Provisions

EUR million	2017	2016
Warranty provision	11.8	13.6
Other provision	14.1	12.9
<b>Total</b>	<b>26.0</b>	<b>26.5</b>

During the warranty period the claimed faults will be corrected at Patria's expense. The warranty provisions amounted to EUR 11.8 million (13.6) at the end of 2017. 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.

## 21. Commitments and contingent liabilities

### Contingent liabilities

EUR million	2017	2016
Guarantees given on behalf of associated companies	0.0	1.8
Guarantees given on behalf of others	2.5	7.0
Other own contingent liabilities	7.5	8.7
<b>Total</b>	<b>10.0</b>	<b>17.5</b>

### Operating lease commitments

EUR million	2017	2016
Payments due next year	11.8	10.7
1 - 5 years	21.7	20.4
Payments due in thereafter	18.9	22.0
<b>Total</b>	<b>52.4</b>	<b>53.1</b>

Operating lease commitments of joint ventures are not included.

## 22. Derivative contracts

### DERIVATIVE INSTRUMENTS 2017

EUR million	Nominal value	Positive fair values	Negative fair values	Net fair value
<b>Derivative financial instruments designated as cash flow hedges</b>				
Forward foreign exchange contracts	25.3	0.2	-0.1	0.1
Buy	4.9	0.0	-0.1	-0.1
Sell	20.4	0.2	0.0	0.2
Interest rate swap	0.3	0.0	0.0	0.0
Cash flow hedge	25.6	0.2	-0.1	0.1
<b>Non-hedge accounting derivative financial instruments</b>				
Forward foreign exchange contracts	35.5	0.2	-0.2	0.0
Buy	3.4	0.0	-0.1	-0.1
Sell	32.1	0.2	-0.1	0.1
Non-hedging	35.5	0.2	-0.2	0.0
<b>Total</b>	<b>61.0</b>	<b>0.4</b>	<b>-0.3</b>	<b>0.1</b>

### 2016

EUR million	Nominal value	Positive fair values	Negative fair values	Net fair value
<b>Derivative financial instruments designated as cash flow hedges</b>				
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
<b>Non-hedge accounting derivative financial instruments</b>				
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
<b>Total</b>	<b>71.5</b>	<b>1.6</b>	<b>-0.6</b>	<b>1.0</b>

### Offsetting of financial instruments 2017

EUR million	Gross amounts in balance sheet	Financial instruments - Related amounts not set off in the balance sheet	Net amount
Derivative financial assets	0.4	-0.3	0.1
Derivative financial liabilities	0.3	-0.3	0.1

### 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

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	Tallinn, Estonia	100.0
Patria Land Services Oy	Helsinki, Finland	100.0
Patria Polska Sp. z o.o.	Warsaw, Poland	100.0
Patria Land Systems Oy	Helsinki, Finland	100.0
Patria Land Middle East Limited	Abu Dhabi, United Arab Emirates	100.0
Patria Land Sverige AB	Stockholm, Sweden	100.0
Patria Land Systems SA (Pty) Ltd	Pretoria, South Africa	100.0
Kiinteistö Oy Hämeenlinnan Vanajanportti	Hämeenlinna, Finland	100.0
Millog Oy	Tampere, Finland	61.8
Oricopa Kiinteistöt Oy	Orivesi, Finland	100.0
Senop Oy	Kangasala, Finland	100.0
Milrem LCM OÜ	Tallinn, Estonia	60.0

### Net sales and purchases between the Group companies

EUR million	2017	2016
Total	66.2	74.9

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 2017. 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 claimant appealed to Turku Court of Appeal and the handling of these cases will most likely start during 2018.

## 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	31.12.2017	31.12.2016
<b>Non-current assets</b>			
Intangible assets	8		
Intangible rights		0.8	0.0
Other long-term expenditures		0.1	0.0
Tangible assets	8		
Machinery and equipment		1.4	0.0
Other tangible assets		0.0	0.0
Investments			
Shares in group companies	9	123.3	222.0
Shares in associated and joint venture companies		191.7	191.6
Receivables from associated and joint venture companies	10	0.4	0.4
Other shares		0.0	0.0
<b>Total Non-current assets</b>		<b>317.7</b>	<b>414.0</b>
<b>Current assets</b>			
Inventories			
Raw materials and supplies		0.3	0.0
Receivables			
Accounts receivable		0.1	0.0
Receivables from group companies	10	90.3	36.1
Other receivables		0.0	0.1
Prepaid expenses and accrued income	10	2.8	0.1
Cash and bank balances		1.8	0.0
<b>Total Current Assets</b>		<b>95.3</b>	<b>36.4</b>
<b>Total Assets</b>		<b>413.0</b>	<b>450.4</b>

#### SHAREHOLDERS' EQUITY AND LIABILITIES

EUR Million	Note	31.12.2017	31.12.2016
<b>Shareholders' equity</b>	11		
Share capital		38.0	38.0
Other funds			
Reserve for invested unrestricted equity		164.1	164.1
Retained earnings		63.0	64.1
Net income for the period		<b>18.0</b>	<b>30.0</b>
<b>Total Shareholders' equity</b>		<b>283.0</b>	<b>296.3</b>
<b>Non-current liabilities</b>			
Loans from financial institutions		0.2	0.0
<b>Total Non-current liabilities</b>		<b>0.2</b>	<b>0.0</b>
<b>Current liabilities</b>			
Liabilities to group companies	12	42.5	0.0
Accounts payable		1.4	1.2
Liabilities to group companies	12	79.6	149.2
Other current liabilities		2.0	0.0
Accruals and deferred income	12	4.3	3.7
<b>Total Current liabilities</b>		<b>129.7</b>	<b>154.1</b>
<b>Total Shareholders' equity and liabilities</b>		<b>413.0</b>	<b>450.4</b>

## Income Statement, Parent company

EUR Million	Note	1–12/2017	1–12/2016
<b>Net sales</b>	2	4.3	<b>4.0</b>
Other operating income	3	2.2	0.0
Personnel expenses	4	-2.6	-2.0
Other operating expenses	3	-7.0	-7.4
<b>Operating profit</b>		<b>-3.1</b>	<b>-5.4</b>
Financial income and expenses	5		
Dividend income from group companies		10.9	8.8
Interest and other financial income		0.0	0.0
Interest and other financial expenses		-1.5	-1.6
Exchange gains and losses		0.0	0.0
<b>Income before extraordinary items</b>		<b>6.3</b>	<b>1.8</b>
Appropriations	6	12.9	33.6
Income taxes	7	-1.3	-5.4
<b>Net income</b>		<b>18.0</b>	<b>30.0</b>

## Cash Flow Statement, Parent company

EUR Million	1–12/2017	1–12/2016
Income before extraordinary items	6.3	1.8
Financing items	-9.4	-7.2
Other changes	-1.9	0.0
Change in receivables	-0.6	-1.5
Change in liabilities	-1.1	1.4
<b>Cash flow from operations before financial items and taxes</b>	<b>-6.6</b>	<b>-5.5</b>
Interests paid	-1.3	-2.2
Other financial items	-0.2	-0.0
Interests received	10.9	8.8
Interests received	0.0	0.0
Paid taxes	-5.1	-2.4
<b>Cash flow from operating activities</b>	<b>-2.3</b>	<b>-1.4</b>
Investments in subsidiaries	-4.5	0.0
Investments in associates	0.0	-3.1
Granted loans	0.0	-0.4
<b>Cash flow from investing activities</b>	<b>-4.5</b>	<b>-3.5</b>
Change in long-term loans	0.0	-26.1
Change in short-term receivables	4.4	28.7
Dividends paid	-31.2	-13.9
Paid and received group contributions	33.6	16.3
<b>Cash flow from financing activities</b>	<b>6.8</b>	<b>4.9</b>
<b>Change in liquid funds</b>	<b>0.0</b>	<b>0.0</b>
Liquid funds 1 Jan	0.0	0.0
Liquid funds, merger	1.8	0.0
Liquid funds 31 Dec	1.8	0.0
<b>Change in liquid funds</b>	<b>0.0</b>	<b>0.0</b>

# 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.

### COMPARABILITY OF YEAR 2016 INFORMATION

Patria Finance Oyj was merged with Patria Oyj 31.12.2017 and the assets and liabilities increased correspondingly. The merged assets totalled EUR 285.5 million and liabilities EUR 131.3 million.

### 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 intangible 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.

## 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.

## 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	2017	2016
Civilian products	4.3	4.0
<b>Total</b>	<b>4.3</b>	<b>4.0</b>

### Revenue recognition

EUR Million	2017	2016
Delivery based net sales	4.3	4.0
<b>Total net sales</b>	<b>4.3</b>	<b>4.0</b>

## 3. Other operating income and expenses

### Other operating income

EUR Million	2017	2016
Rental income	0.3	0.0
Gains on mergers	1.9	0.0
Other operating income	0.0	0.0
<b>Total</b>	<b>2.2</b>	<b>0.0</b>

### Other operating expenses

EUR Million	2017	2016
Rental expenses	-0.4	-0.1
Sales and marketing expenses	-1.1	-1.0
Other operating expenses	-5.5	-6.2
<b>Total</b>	<b>-7.0</b>	<b>-7.4</b>

## 4. Employee benefits and average number of personnel

EUR Million	2017	2016
Salaries and fees paid to members of Board of Directors, Consultative Committee and President and CEO	-0.7	-0.8
Other wages and salaries	-1.5	-0.8
Pension and pension insurance costs	-0.4	-0.4
Other indirect personnel expenses	-0.1	-0.1
<b>Total</b>	<b>-2.6</b>	<b>-2.0</b>

Number of personnel, average	2017	2016
Salaried staff	16	15
<b>Total</b>	<b>16</b>	<b>15</b>

## 5. Financial income and expenses

### Financial income

EUR Million	2017	2016
Dividend income, group	10.9	8.8
Interest income, other	0.0	0.0
<b>Total</b>	<b>10.9</b>	<b>8.8</b>

### Financial expenses

EUR Million	2017	2016
Interest expenses, group	-1.3	-1.6
Interest expenses, other	-0.0	0.0
Other financial expenses, other	-0.2	-0.0
<b>Total</b>	<b>-1.5</b>	<b>-1.6</b>

## 6. Appropriations

EUR Million	2017	2016
Group contributions	12.9	33.6
<b>Total</b>	<b>12.9</b>	<b>33.6</b>

## 7. Direct taxes

EUR Million	2017	2016
Income tax from continuing operations	1.3	1.4
Income tax from extraordinary items	-2.6	-6.7
<b>Total</b>	<b>-1.3</b>	<b>-5.4</b>

EUR Million	2017	2016
Income taxes	-1.3	-5.4
Income taxes previous period	0.0	0.0
<b>Total</b>	<b>-1.3</b>	<b>-5.4</b>

## 8. Intangible and tangible assets

### INTANGIBLE ASSETS

EUR Million	Intangible rights	Other long-term expenditure	Total
Acquisition cost 1 Jan 2017	0.0	0.0	0.0
Merger	6.1	0.2	6.3
Acquisition cost 31 Dec 2017	6.1	0.2	6.3
Accumulated amortization and impairment losses 1 Jan 2017	0.0	0.0	0.0
Merger	-5.3	-0.0	-5.4
Accumulated amortization and impairment losses 31 Dec 2017	-5.3	-0.0	-5.4
<b>Net book value at 31 Dec 2017</b>	<b>0.8</b>	<b>0.1</b>	<b>0.9</b>

### TANGIBLE ASSETS

EUR Million	Machinery and equipment	Other tangible assets	Total
Acquisition cost 1 Jan 2017	0.0	0.0	0.0
Merger	7.0	0.0	7.0
Acquisition cost 31 Dec 2017	7.0	0.0	7.0
Accumulated depreciation and impairment losses 1 Jan 2017	0.0	0.0	0.0
Merger	-5.6	0.0	-5.6
Accumulated depreciation and impairment losses 31 Dec 2017	-5.6	0.0	-5.6
<b>Net book value at 31 Dec 2017</b>	<b>1.4</b>	<b>0.0</b>	<b>1.4</b>

## 9. Investments

### Shares in subsidiaries

EUR Million	2017	2016
1.1.	222.0	222.0
Additions	4.5	0.0
Merger	-103.2	0.0
<b>Total 31.12.</b>	<b>123.3</b>	<b>222.0</b>

### Shares in associates

EUR Million	2017	2016
1.1.	191.6	188.5
Additions	0.0	3.1
Reclassifications	0.0	0.0
<b>Total 31.12.</b>	<b>191.6</b>	<b>191.6</b>

## 10. Current receivables

### Current receivables from group companies

EUR Million	2017	2016
Accounts receivable	11.6	1.2
Other receivables	65.9	0.0
Derivative financial receivables	0.2	0.0
Accruals and deferred income	12.6	35.0
<b>Total</b>	<b>90.3</b>	<b>36.1</b>

### Receivables from associated companies

EUR Million	2017	2016
Subordinated loans receivable	0.4	0.4
<b>Total</b>	<b>0.4</b>	<b>0.4</b>

### Prepaid expenses and accrued income

EUR Million	2017	2016
Taxes	1.2	0.0
Derivative financial receivables	0.4	0.0
Other receivables	1.2	0.1
<b>Total</b>	<b>2.8</b>	<b>0.1</b>

## 11. Shareholders' Equity

### Changes in Shareholders' Equity

EUR Million	1-12/2017	1-12/2016
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	94.2	78.1
Distribution of dividends	-31.2	-13.9
Retained earnings 31 Dec	63.0	64.1
Net income	18.0	30.0
<b>Total shareholders' equity 31 Dec</b>	<b>283.0</b>	<b>296.3</b>

### Distributable funds

EUR Million	1-12/2017	1-12/2016
Invested non-restricted equity fund 31 Dec	164.1	164.1
Retained earnings 31 Dec	63.0	64.1
Net income	18.0	30.0
<b>Distributable funds</b>	<b>245.0</b>	<b>258.2</b>

## 12. Current liabilities

### Maturity of interest bearing liabilities

EUR Million	2018	2019	2020	2021	2022-	Total
Loans from financial institutions	0.5	0.2	0.0	0.0	0.0	0.7
Liabilities, group account	79.0	0.0	0.0	0.0	0.0	79.0
Other interest-bearing liabilities	42.0	0.0	0.0	0.0	0.0	42.0
<b>Total 2017</b>	<b>121.5</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>121.7</b>

### Current liabilities to group companies

EUR Million	2017	2016
Accounts payable	0.3	1.0
Other liabilities	79.0	146.7
Derivative financial liabilities	0.3	0.0
Accruals and deferred income	0.0	1.6
<b>Total</b>	<b>79.6</b>	<b>149.2</b>

### Accruals and deferred income

EUR Million	2017	2016
Accruals related to wages and salaries	2.7	1.1
Taxes	0.0	2.6
Derivative financial liabilities	0.3	0.0
Other liabilities	1.2	0.0
<b>Total</b>	<b>4.3</b>	<b>3.7</b>

### 13. Financial instruments and derivative contracts

#### Derivative instruments

EUR Million	Nominal value	2017		Net fair value
		Positive fair values	Negative fair values	
<b>Non-hedge accounting derivative financial instruments</b>				
Forward foreign exchange contracts	96.8	0.6	-0.6	0.0
Buy	35.6	0.0	-0.5	-0.5
Sell	61.2	0.6	-0.1	0.5
Non-hedging	96.8	0.6	-0.6	0.0
<b>Total</b>	<b>96.8</b>	<b>0.6</b>	<b>-0.6</b>	<b>0.0</b>
EUR Million	2018	2019	2020	2021
Derivative financial assets	0.6	0.0	0.0	0.0
Derivative financial liabilities	-0.6	-0.0	0.0	0.0

The company has not netted financial instruments in its balance sheet.

#### Carrying amounts of financial assets and liabilities by measurement categories and fair value hierarchy 2017

EUR Million	Financial assets/ liabilities at fair value through income statement Level 2	Loans and other receivables	Other financial liabilities	Book value
<b>Non-current financial assets</b>				
Long-term receivables from joint ventures		0.4		0.4
<b>Current financial assets</b>				
Accounts receivable		0.1		0.1
Receivables from group companies*	0.2	77.5		77.7
Derivative financial instruments	0.4			0.4
Cash and bank balances		1.8		1.8
<b>Carrying amount by category</b>	<b>0.6</b>	<b>79.7</b>	<b>0.0</b>	<b>80.3</b>
<b>Non-current financial liabilities</b>				
Interest-bearing liabilities			0.2	0.2
<b>Current financial liabilities</b>				
Interest-bearing liabilities			42.5	42.5
Accounts payable			1.4	1.4
Liabilities to group companies*	0.3		79.3	79.6
Derivative financial instruments	0.3			0.3
<b>Carrying amount by category</b>	<b>0.6</b>	<b>0.0</b>	<b>123.4</b>	<b>124.0</b>

\* According to the Patria's Group Policy Patria Oyj does derivative contracts with the banks according to requests made by group companies. The derivative financial instruments presented on the table are external derivative assets and liabilities. Internal derivative instruments are presented with the receivables from group companies and liabilities to group companies on the column "financial assets/liabilities at the fair value through income statement".

### 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 Oyj, which makes the necessary hedging transactions with banks. Hedge accounting is not applied to derivatives hedging balance sheet items. Patria Oyj's own derivative instruments are only 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 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 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 2017 were in the Swedish krona (SEK).

#### IFRS 7 Sensitivity analysis - sensitivity to exchange rate fluctuations 2017

EUR million	SEK
Net exposure - Balance sheet items	0.0
Euro strengthens / weakens 5 % - Effect on income before taxes	-0.0/0.0

### INTEREST RATE RISK

Fluctuations in interest rates have an effect on company'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 2017, the average interest fixing term of the liabilities was 0.05 years and that of the receivables one day. On 31 December 2017, company's interest-bearing liabilities totalled EUR 121.7 million out of which EUR 42.7 million was fixed rate and EUR 79.0 million was floating rate. The floating rate liabilities were from group account. Interest-bearing receivables were EUR 217.0 million out of which EUR 217.0 million were floating rate receivables from group account.

## 14. Commitments and contingent liabilities

### Commitments and contingent liabilities

EUR Million	2017	2016
Guarantees given on behalf of Group companies	111.3	82.7
Guarantees given on own behalf	3.5	4.2
Guarantees given on behalf of others	0.0	5.3
<b>Total</b>	<b>114.8</b>	<b>92.1</b>

### Leasing commitments

EUR Million	2017	2016
Payments due next year	3.1	0.4
1-5 years	11.3	2.4
Payments due in thereafter	13.9	8.6
<b>Total</b>	<b>28.3</b>	<b>11.4</b>



## Board of Directors' proposal for profit distribution

The parent company's non-restricted equity on December 31, 2017 is EUR 245,015,081.21 of which the net profit for the financial period is EUR 17,953,035.61.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.60 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 16,705,133.40. The Board of Directors further proposes that the remaining non-restricted equity, EUR 228,309,947.81 be retained and carried forward.

Helsinki, 6 March 2018

Christer Granskog  
Chairman

Harald Aarø

Marko Hyvärinen

Geir Håøy

Eirik Lie

Päivi Marttila

Ari Puheloinen

Janne Sølvi Weseth

Olli Isotalo  
President and CEO

### AUDITOR'S STATEMENT

A report has been given today on the audit performed.

Helsinki, 8 March 2018

PricewaterhouseCoopers Oy  
Authorised Public Accountants

Jouko Malinen  
Authorised Public Accountant

# Corporate governance

## APPLICABLE STATUTES, GUIDELINES AND RECOMMENDATIONS

The administration of Patria is subject to the provisions of the Finnish Limited Liability Companies Act and other legislation relevant to its operations.

In addition, the Group follows guidelines and recommendations as applicable to the handling of good corporate governance in 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 Silver-skin 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. Patria's operating activities are managed by the President and CEO, assisted by the Board of Management. Each business unit 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 organ serving the Board of Directors and 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 any marked curtailment or expansion of operations or any vital changes to the company's organisation, or which are otherwise of great 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 under review, the committee had 11 members. As a general rule, the Consultative Committee convenes three times a year. In 2017, the Consultative Committee convened five 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 shareholders participate in preparing the proposal for the composition of the Board, with the objective of a diverse and versatile membership. 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. According to the Articles of Association, the Board of Directors of Patria Oyj consists of a minimum of three and a maximum of eight members.

In the financial period under review, the Board has had eight members from the start of the financial period. The membership remained at eight after the General Meeting of Shareholders of 8 May 2017. The Board of Directors normally meets at least eight times a year. In 2017 the Board held fourteen regular meetings and made decisions twice without convening for an actual meeting. The average attendance of Board members was 99%.

## 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 organisation of Patria's operations in accordance with applicable legislation, the Articles of Association 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, and to ensure that the Group complies with legal provisions applicable to its operations and conducts business in a commercially sustainable manner, providing added value for its owner. The Board also makes decisions on the Group's key operating principles, approves the Group's financial targets, operational objectives, financial statement and any interim reports each year, and decides on material investments made by 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 organisational and operational structure. To assist the work of the Board of Directors, the Board has set up a Nomination and Compensation Committee and an Audit Committee. The members of the committees have the expertise and experience required by their duties. The Nomination and Compensation Committee consists of four members. It prepares the Group's and management's payroll structures along with any bonus and incentive systems. It also approves key appointments and nominations. The Audit Committee likewise consists of four members. Its responsibility is to monitor matters such as the implementation of the Group's internal controls, risk management and financial reporting. The Committee is also tasked with supervising the Group's financial reporting and the drawing up of financial statements, along with matters related to compliance and ethics. No other particular distribution of tasks has been agreed upon among Board members.

#### **THE COMPANY'S PRESIDENT AND CEO AND 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 Limited Liability Companies Act and any guidelines or rules issued by the Board of Directors.

The President and CEO is assisted in Group management by the Board of Management, which convenes on a monthly basis and consists of the Presidents of each Business Unit and the Chief Financial Officer, Chief Communications Officer & Chief CSR Officer, General Counsel & Chief Compliance Officer and Chief Human Resources Officer. In addition, Group management meets in other combinations as and when necessary for management purposes.

The Chief Communications Officer is responsible for corporate responsibility together with the General Counsel, who is also Chief Compliance Officer, and Chief Human Resources Officer. Together with the Group's financial, HR and environmental experts and representatives of the business units, they form the Corporate Responsibility Team. The General Counsel & Chief Compliance Officer and Ethics Officer are responsible for matters involving ethics and compliance in the Corporate Responsibility Team. Matters related to these areas are reviewed by Patria's Board of Management, and the General Counsel & Chief Compliance Officer reports regularly on them to the Board of Directors and the Audit Committee. Responsibility for the supervision of matters related to ethics and compliance rests with the Audit Committee.

#### **COMPENSATION AND BENEFITS**

Information regarding the compensation and benefits paid to managers is available in chapter 4 of the notes to the company's financial statements. Information regarding the remuneration of the personnel is available on [page 43](#).

#### **MONITORING AND CONTROLS**

In accordance with the Companies Act, the Board of Directors must ensure that the supervision of accounts and financial management has been organised appropriately. The president and

CEO shall ensure that the company's accounting complies with legislation and that the financial administration is reliably organised.

Patria's management is responsible for ensuring that the Group's day-to-day operations comply with all of the relevant legal provisions and Board resolutions, and that Group risk management has been organised in an appropriate manner. The Group's division into business units makes management work more effective and well defined, and facilitates the organisation of effective supervision. An operational reporting system has been set up for the Group's financial supervision. It produces versatile information on the Group's financial standing and development on a monthly basis. The Group has a clearly defined decision-making hierarchy for investments.

Patria has an Internal Audit function outsourced to an independent operator that evaluates and contributes to ensuring the efficiency and feasibility of risk management and internal controls, the reliability of financial reporting and compliance with the legislation and guidelines applying to Patria's operations. The audit function 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 internal 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.

# Industrial Participation

In defence procurement, Industrial Participation (IP) in the target country is a common condition and requirement for supply contracts. In an IP agreement, the company accepts compensation obligations arising from the purchase agreement. The purpose of such obligations is to ensure industrial participation in the country in question. The requirements of Industrial Participation are determined by national rules and contract-specific requirements. The IP requirements set by Finland play a key role in creating security of supply when the state is procuring defence systems. From this point of view, the requirements set by Finland may also have an impact on contracts won by Patria.

## REQUIREMENTS CONCERNING INDUSTRIAL PARTICIPATION

The requirements for Industrial Participation (as it is known in the EU, while still being referred to as Offset globally) agreements and activities are that the applicable laws, regulations and treaties allow such activities, and that IP agreements are in compliance with Patria Group's ethical and compliance policies and guidelines, and the company's ethical code of conduct.

Applicable due diligence reviews must be performed on any and all partners and vendors related to such arrangements and transactions, with a special focus on anti-corruption. In order to mitigate risks and ensure the compliance of Patria's IP activities, Patria conducts a thorough legal analysis of the IP regulations applied in the country in question. All relevant financial and non-financial risks are assessed and mitigated. The IP engage-

ments must also be proportionate to the value of the main agreement or transaction.

## PERFORMANCE OF IP OBLIGATIONS

Virtually all of Patria's IP obligations relate to the Land business unit's agreements, signed in most countries to which the business unit has made deliveries. The equivalent obligations of other business units are minor. The Land business unit has specific processes and defined roles and responsibilities for IP activities, sales activities, and the implementation of IP agreements.

## 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. The



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. Regardless of directives, many Member States of the European Union have continued to protect their domestic defence industries, by setting IP requirements under the exceptions provided for in Article 346 TFEU.

# Risk management

Risk management and internal control are an important part of Patria's management and control system, which ensures that the Group's operational and profitability targets can be achieved. Furthermore, risk management and internal control help to ensure appropriate reporting and 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 areas of responsibility. The CEO and other management of Patria are responsible for the proper functioning and monitoring of risk management and internal control. The Board provides ultimate oversight and direction of risk management and internal control. The effectiveness of Patria's risk management and internal control is evaluated by the internal audit function and auditor, security and quality auditors, and Patria's customers.

Risk is understood as the effect of uncertainty, negative or positive, on profitability, the objectives of Patria's operations and

other areas. Risk management is a process which ensures that risks and opportunities are identified, assessed and addressed appropriately and to a sufficient extent. Risk management helps to ensure the achievement of targets and avoid the loss of resources.

Risks are categorized into strategic and business risks, operational risks, financial risks and security and accident risks.

Patria's risk management 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 that 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 DEFENCE INDUSTRY AND EXPORT LICENCES

The international defence industry is going through change. Acquisitions and mergers are taking place, new operators are emerging, the complexity of customer requirements and utilisation of new technologies is increasing, and competition is intensifying. Patria responds to the competition by improving the anticipation and understanding of customer needs and their changes, along with developing and commercializing new competitive products, services and solutions.

The export of defence materiel is subject to an export or transfer licence, which in Finland is granted by the Ministry of Defence or, when certain conditions are met, the government. The conditions in the potential destination country may prevent the granting of an export licence, or the conditions in a country to which an

export licence has been granted may change in such a way that the licence will be cancelled temporarily or permanently.

**STRATEGIC PARTNERSHIPS**

Building strategic partnerships with key customers, contractors and suppliers is important for the success of Patria. Patria constantly seeks to identify new business opportunities and create, maintain and develop strategic partnerships.

**QUALITY AND COST EFFECTIVENESS OF PROCESSES**

Effective and flexible processes and improved cost competitiveness are also required for the success of Patria. Patria works continuously and systematically to develop processes and improve cost competitiveness.

**SALES AND DELIVERY PROJECTS**

Due to the nature of certain segments of Patria’s business, individual sales and delivery projects can be very large in relation to the Group’s annual net sales. They may include product development, require extensive subcontracting and co-operation with third parties, and have durations of 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.

The management of projects and project risks is constantly being developed and enhanced.

**SAFEGUARDING AND DEVELOPING COMPETENCIES AND EXPERTISE**

Patria’s business units require versatile competencies, often in highly specialized fields in which the availability of expertise may be scarce. The timely securing and development of the required resources and competencies is vital and thus the subject of systematic long-term efforts.

**COMPLIANCE**

Patria is committed to ethical conduct, compliance with the laws and regulations of the countries in which it operates, and adherence to its agreements and commitments. Patria invests considerable effort in ensuring the ethics and compliance of operations through communications, 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 Patria’s good intentions and efforts to ensure ethical operations. Violations may result in financial losses and damage to Patria’s reputation.

Patria’s ethical principles have been detailed in the guideline “Patria Ethical Code of Conduct”. The guideline defines the ethical

principles applied to Patria and all of its employees. Adherence to ethical guidelines is monitored internally and non-conformities are investigated and dealt with.

Patria’s partners and critical suppliers are also subjected to a thorough advance review, and contractual obligations concerning ethical conduct are defined for such parties.

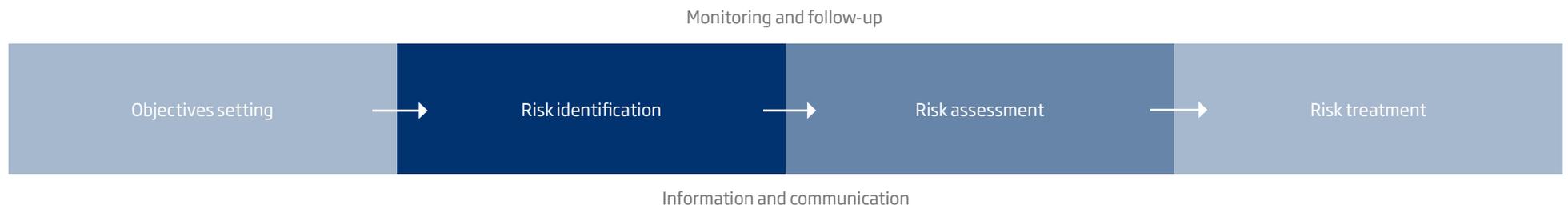
**INFORMATION AND CYBER SECURITY**

The management and handling of the secret and confidential information of Patria and third parties is a significant part of Patria’s operations, which makes Patria a target for cyber attacks, among other phenomena. It would be highly detrimental to Patria and other information owners if such secret or confidential information were accessed or abused by an unauthorized party. Patria maintains a high level of information security and continuously works to improve it even further.

**OTHER SECURITY AND ACCIDENT RISKS**

Patria’s business units and Group services regularly assess personnel risks, environmental risks and other accident risks within the framework of the Group’s management systems and normal operations. Based on the assessments, annual development programs are defined for ensuring the security and continuity of operations.

**RISK MANAGEMENT PROCESS**



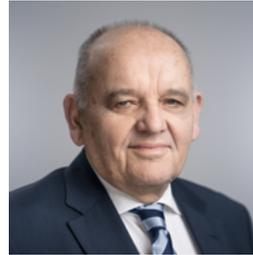
# Board of Directors

31.12.2017

The Board of Directors is responsible for the governance of Patria and the appropriate organisation of Patria's operations in accordance with applicable legislation, the Articles of Association 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 and to monitor and steer the Group's business operations. In 2017 the Board held fourteen regular meetings and made decisions twice without convening for an actual meeting. The average attendance of Board members was 99%.

To assist the work of the Board of Directors, the Board has set up a Nomination and Compensation Committee and an Audit Committee. The Nomination and Compensation Committee prepares the Group's and management's payroll structures along with any bonus and incentive systems. It also approves key appointments and nominations. The Audit Committee's responsibility is to monitor matters such as the implementation of the Group's internal controls, risk management and financial reporting along with matters related to compliance and ethics.

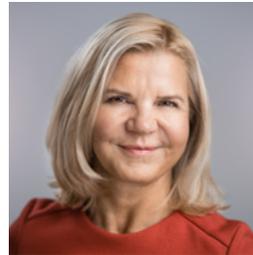
The General Annual Meeting appoints the Board of Directors on 23.3.2018.



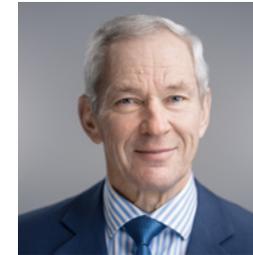
**Christer Granskog**  
Chairman  
Master of Science  
Board member since 2010



**Marko Hyvärinen**  
CFO, VR Group  
Board Member since 2015



**Päivi Marttila**  
Board member since 2016



**Ari Puheloinen**  
General, ret  
Board member since 2016



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



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



**Eirik Lie**  
Executive Vice President,  
Kongsberg. President,  
Kongsberg Defence & Aerospace  
Board member since 2017



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

# Consultative Committee

31.12.2017

According to the Articles of Association, Patria Oyj must have a Consultative Committee appointed by the General Meeting of Shareholders. The Board of Directors shall consult the Consultative Committee on matters that concern any marked curtailment or expansion of operations or any vital changes to the company's organisation, or which are otherwise of great 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 under review, the committee had 11 members. In 2017, the Consultative Committee convened five times.

## **Sinuhe Wallinheimo**

Chairman  
Member of Parliament  
Member since 2015

## **Kalle Hyötynen**

Vice Chairman  
Member of Tampere  
city council  
Member since 2015

## **Mika Kari**

Member  
Member of Parliament  
Member since 2015

## **Jussi Karimäki**

Member  
Equipment Assembler, Patria  
Member since 2009

## **Timo Kivinen**

Member  
Lieutenant General, Deputy Chief of  
Staff, Strategy, The Finnish Defence  
Forces  
Member since May 2017

## **Juha Kuusi**

Member  
System Specialist, Patria  
Member since 2011

## **Petri Peltonen**

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

## **Petri Pitkänen**

Member  
Logistics Manager, Patria  
Member since 2013

## **Ossi Ritala**

Member  
Mittatarkastaja, Patria  
Member since 2017

## **Mikko Savola**

Member  
Member of Parliament  
Member since 2015

## **Raimo Vistbacka**

Member  
Master of Laws  
Member since 2012

# Group management

31.12.2017

The President and CEO is assisted in Group management by the Board of Management, which consists of the Presidents of each Business Unit and the Chief Financial Officer, Chief Communications Officer & Chief CSR Officer, General Counsel & Chief Compliance Officer and Chief Human Resources Officer.



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



**Jukka Holkeri**  
 b. 1962  
**President,**  
**International Support**  
**Partnerships**  
**Master of Science**  
 Employed by Patria  
 since 1988



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



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



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



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



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



**Leena Oikkonen**  
 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**  
**Master of Science**  
 Employed by Patria  
 since 2010

# Patria

Patria Oyj  
Kaivokatu 10 A, 00100 Helsinki  
info@patria.fi



PatriaMedia



Patria Oyj



@PatriaOyj



Patria



patria\_group