

The background of the entire page is a photograph of an industrial setting, possibly a factory or a laboratory, with various metal structures and equipment. Overlaid on this background are several thick, white, diagonal stripes that create a sense of movement and modernity. The stripes are arranged in a pattern that suggests a stylized 'P' or a series of parallel lines.

Patria

ANNUAL REPORT
2018



Content

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

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Patria in brief

Patria is an international provider of defence, security and aviation life-cycle support services and technology solutions. Patria provides its aerospace and military customers with equipment availability, continuous performance development as well as selected intelligence, surveillance and management system products and services. Patria's mission is to give its customers confidence in all conditions, and the vision is to be the #1 partner for critical operations. Patria has several locations including Finland, Sweden, Norway and Estonia. Patria employs 2,800 professionals. Patria is owned by the State of Finland (50.1%) and Norwegian Kongsberg Defence & Aerospace AS (49.9%). Patria owns 50% of Norwegian Nammo, and together these three companies form a leading Nordic defence partnership.

More information: www.patria.fi

Business units and net sales as share of group net sales

18% 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.

14% 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.

5% International Support Partnerships

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

16% 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.

5% 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.

42% 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.

Patria main locations

Finland
Sweden
Norway
Estonia

Further information about locations available at www.patria.fi



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.



Mission:
**WE GIVE OUR
CUSTOMERS
CONFIDENCE IN
ALL CONDITIONS.**

Vision:
**THE #1
PARTNER FOR
CRITICAL
OPERATIONS.**



A dark blue background featuring a stylized world map with glowing white lines representing global connections or data flow. The text is centered over this graphic.

**Customer promise:
WHEN IF IS NOT
AN OPTION.**



Key figures

Patria Group's sales and profitability for the financial year 2018 increased from the previous year.

Net sales

476.1 EUR million

Operating profit

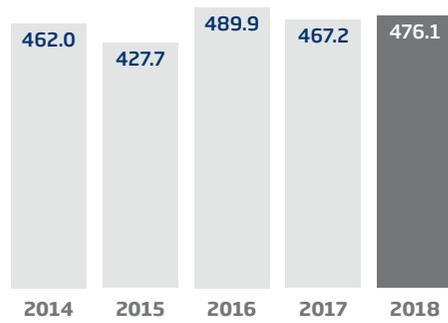
35.9 EUR million

Personnel average

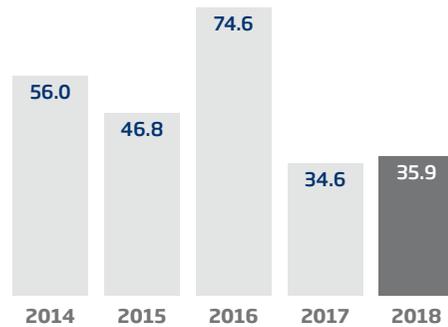
2,791



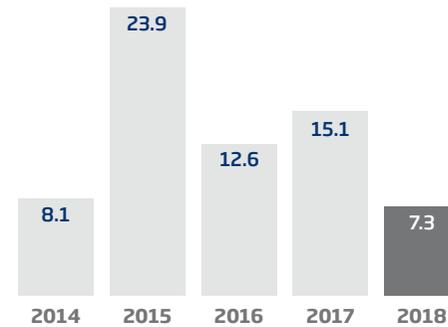
NET SALES, EUR MILLION



OPERATING PROFIT, EUR MILLION

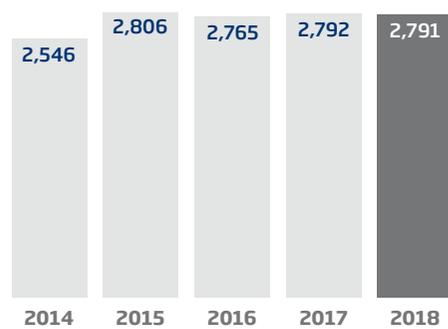


GROSS INVESTMENTS IN FIXED ASSETS, EUR MILLION

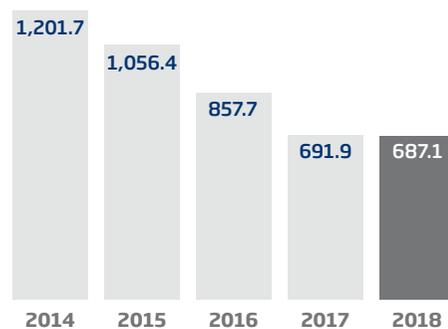


Patria is on a firm financial footing and is looking forward to growth.

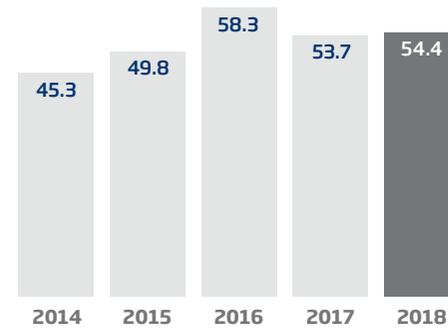
PERSONNEL AVERAGE



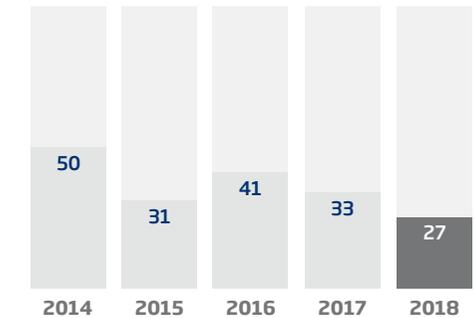
ORDER STOCK, EUR MILLION



EQUITY RATIO, %



NET SALES OUTSIDE FINLAND, %





REVIEW BY THE PRESIDENT AND CEO:

International growth and internal development

2018 was a year of international growth and internal development. We took major steps forward with internationalisation of our core competence of providing first-class maintenance for critical operations. We also significantly boosted the efficiency of the entire Group's operations and cost structure.

One of our key objectives for 2018 was achieved when we signed in December the agreement to acquire the Norwegian company AIM Norway in cooperation with Kongsberg. Patria has lengthy and profound expertise in the maintenance of fighters and helicopters and their engines, both in Finland and in other Nordic countries, and this business will now expand significantly through our holding in AIM Norway. I'm glad that our expertise is recognised internationally, as growth in international maintenance lies at the heart of our strategy.

During the year, we also made preparations for many other projects that will have major significance for our future. In early 2018, we signed an agreement with the Finnish Defence Forces for the life-cycle upgrade and basic refitting of Hamina Class fast attack craft. The base value of this contract is at around EUR 170 million. Patria will hold overall responsibility for the project and be the prime contractor, designer and lead system integrator.

Our Estonian subsidiary Milrem LCM renewed its life-cycle management agreement with Estonia's defence procurement authority (Kaitseinvesteeringute Keskus) for the maintenance and repair of Patria XA vehicles. Milrem and BAE Systems also signed a

maintenance and support agreement for Estonia's fleet of infantry fighting vehicles. Milrem will maintain and repair these vehicles at its premises in Estonia.

Finland's first 3D-printed jet engine part made its maiden flight in January, in a F/A-18 Hornet fighter. Over the past two years, Patria has engaged in important R&D on the manufacturing process for 3D-printable parts, and has been actively involved in exploring new methods of manufacturing and repairing various parts.

In the spring, we signed an agreement to supply the Finnish Defence Forces with an armoured bridge laying system. The Defence Forces will be acquiring four new armoured bridge layers that can be used to handle Leguan bridges of various lengths. The total value of the acquisition is EUR 28.6 million and, including provisions for further acquisitions, will create about 55 person-work-years of employment in Finland, of which about 35 person-work-years will go to Patria. Deliveries are scheduled for 2019-2021.

Patria received an extension to its contract for HKP16 (Black Hawk) helicopters in Linköping, as the Swedish Defence Materiel Administration (FMV) decided to make use of the option contained in the original contract signed in 2014. The agreement covered originally the years 2015-2017, with an option to extend the agreement to 2020. The total value of the agreement, including the option, is approximately EUR 25 million.

VISIBILITY AT INTERNATIONAL EVENTS

During the year in review, we participated in several different events both in Finland and abroad. In May, we were at the Bratislava IDEB trade fair exhibiting the Patria Armoured Modular Vehicle (AMV). In June, we introduced two new passive sensor products at Paris Eurosatory: MUSCL (Multi-Static Coherent Location) for battle-proof air surveillance, and ARIS-E ESM (Electronic support measures) system for tactical situational awareness. We also launched the new Patria 6x6 vehicle, whose modularity and multifunctional transport capacity enable it to be easily adapted to customers' needs.

In September, the Patria AMV 8x8 participated in the European Land Robot Trial (ELROB) in Belgium. One of the most important areas for development in military vehicles is unmanned functionality. To this end we have developed an integrated drive-

by-wire control system that enables vehicles to be driven remotely while enabling both autonomous functions and traditional use as a manned vehicle.

In October, we took part in the Helitech International 2018 trade fair in Amsterdam, where we exhibited our life-cycle support services for helicopters including, maintenance, repairs, upkeep and warehouse services, components and devices, and helicopter modernisations and alterations.

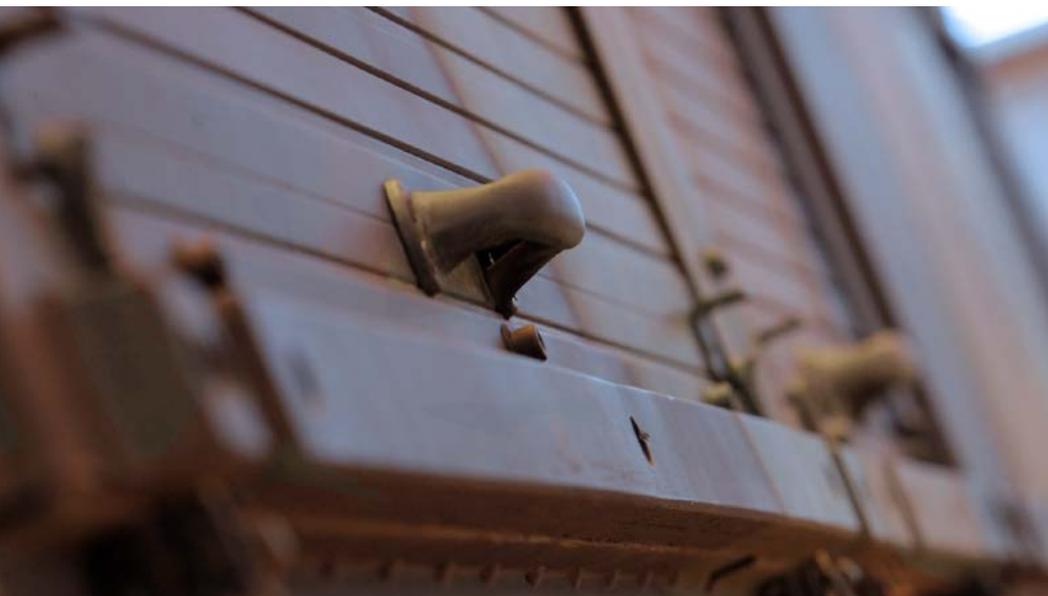
CONTINUOUS RESPONSIBILITY WORK

During the review period, we focused further on responsibility. In February, Patria was in the news when it came to light that our company had connections to a Finnish businessman deceased in Uganda. This led to immediate corrective measures and changes in management in our Land business unit.

Export permits have been in the spotlight on several occasions during the review period. Patria operates in full compliance with Finnish and EU legislation and export licence regulations, and in accordance with the instructions issued by the Board of Directors elected by our shareholders. 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, the Government



During the review period, we focused further on responsibility, as our sector is highly sensitive.



decide on whether to grant the required export licences. A permit will not be granted if the proposed export project would present a risk to Finnish security or be in conflict with Finland's foreign policy.

We have adhered to the principle of transparency in export permits and engaged in public debate, such as on SuomiAreena during the summer and by inviting NGOs to visit us during the autumn.

Our goal is to act responsibly and be active in sharing factual information with our stakeholders - and with the media and NGOs in particular. We have further expanded and deepened our internal ethical training. Our practices are based on the principles of integrity, transparency, accountability and sustainable development. We have zero tolerance for all forms of unethical activity, including bribery and corruption. We do not accept any form of unethical or corrupt conduct from our employees or business associates, and actively seek to prevent it.

EVENTS AFTER THE REVIEW PERIOD

At the beginning of the year, Olli Isotalo left his position as Patria's President & CEO, which he had held since 2016. His position in the company's operative management then ended with immediate effect. Patria's Board of Directors has launched a search for a new CEO. During the transitional period, I will be handling the CEO's tasks as well as those of the CFO.

We expect our new CEO to put a great deal of effort into developing Patria's service business, as we are seeking to expand into various defence sectors with our maintenance and life-cycle services and our system and integration business.

On behalf of the company, I would like to thank Olli Isotalo for his efforts. He systematically developed Patria's internal efficiency and cost structure, and also significantly increased transparency.

LOOKING AHEAD

Patria is on a firm financial footing and is looking forward to growth. This sector rarely produces quick profits, as projects tend to last a long time. Tendering processes alone can last several years before even the procurement stage is reached.

The global political situation and a variety of uncertainty factors have increased defence budgets. This trend can be seen in our operations with a delay of several years, and we believe that it will have a favourable impact on our sales and profitability over the long term.

Patria's biggest Finnish customer (the Finnish Defence Forces) has currently a number of record-breakingly large projects on the go (HX, Squadron 2020). Industrial cooperation is an extremely important and major opportunity for Patria.

I would like to thank all our customers, owners, partners and other stakeholders - as well as all of our employees - for 2018. We will continue to operate as a responsible partner in accordance with our vision: we want to be the #1 trusted partner to our customers in critical conditions.

Ville Jaakonsalo

President and CEO, act.

OPERATING ENVIRONMENT

Forging closer military and civilian collaboration

Finland is engaging in more international cooperation, particularly with the EU and other Nordic countries. This stems from a number of factors, including changes in the security environment and growing hybrid threats. The Finnish Defence Forces currently have several large-scale projects in the pipeline, and Patria will play a major role in two of the most important ones: HX and Squadron 2020. Patria will be paying particular attention to technical competence, responsible operations and strengthening partnerships.

Finland's international networking further expanded into the Nordic countries and EU during 2018. An increased military presence in the immediate vicinity of the EU combined with rapid technological advancements requires cooperation between both nations and the European defence industry.

Changes in world politics and the global security environment are driving joint exercises and R&D projects at both Nordic and EU level. Patria is strengthening its competitive position in tenders in the international defence sector through networking with industry partners and by actively seeking participation in projects initiated by the European Defence Fund.



INCREASED STRATEGIC IMPORTANCE FOR THE ARCTIC REGION AND BALTIC SEA

There is lively debate on the common defence of the EU as a result of increased military presence in both the Arctic region and Baltic Sea. This has increased both the EU and NATO's need to organise joint exercises in the area, and to develop new innovations to combat cyber and hybrid threats. The Finnish Defence Forces have actively participated in both NATO's crisis management operations and international joint military exercises with other EU countries.

Bilateral cooperation between Finland and Sweden has also intensified. Through networking, the Nordic Defence Cooperation (NORDEF) is seeking to promote new openings in defence materials and industrial collaboration.

EU DEFENCE FUND PROMOTES COOPERATION

Due to changes in the security environment, the EU will also be making considerable investments in defence research during 2019 via the European Defence Fund. One of the EU's areas of interest is mobility in extreme conditions, such as in the Arctic region. Patria is involved not only in this area but also in two other EDIDP projects with different countries.



The rapid pace of digitalisation is creating both opportunities and challenges for the defence industry.

In order to strengthen its position in future European Defence Fund tenders, Patria's minority shareholder KONGSBERG has established an office in Brussels. Patria has likewise developed its own organisation and is also preparing for Finland's third presidency of the EU in 2019.

A new position has been established within the Group, Chief Business Development Officer, who will engage in proactive dialogue with the EU and spread the word about Patria's technical product competence and expertise to both decisionmakers and partners. This dialogue will also be strengthened in early 2019 by the Chief Business Development Officer's appointment to the AeroSpace and Defence Industries Association of Europe (ASD)/Defence Business Unit (DBU).

PREPARING FOR CYBER AND HYBRID THREATS

The rapid pace of digitalisation is creating both opportunities and challenges for the defence industry. Increased international military intelligence and hybrid threats are challenging both software developers and patent and IP holders to protect their data and systems more effectively from a variety of cyber threats. The European Centre of Excellence for Countering Hybrid Threats, which is based in Helsinki, plays an important role in identifying and preventing these threats.

Digitalisation is providing Patria with new business opportunities, for example, by utilising its business units' maintenance data in the development and packaging of services. Patria's success is based on premium-quality products, expert personnel, and a flexible, customer-oriented approach. International networking, service commercialisation and marketing are of the utmost importance when competing for new clients. Competition in the international defence market is tough, and new civilian operators are also entering the market.

Patria's market is both growing and becoming more international, and new competitors are entering the sector. Patria must therefore be able to respond to changes in its operating environment by strengthening its own expertise through networking in a variety of partnerships. Patria can bolster its areas of specialist expertise and thereby improve its competitiveness in tenders.



Patria provides top-notch expert maintenance, and investments in exports are vital for successful business growth.

EXPORT PERMITS SPARK OFF DEBATE

Patria provides top-notch expert maintenance, and investments in exports are vital for successful business growth. Export practices for Patria's defence materials became a topic of public debate in 2018, and Patria responded by ensuring that the Group's operations comply with both Finnish and EU export legislation.

Operating responsibly is vital for the success of companies in the defence sector, and responsibility is very evident in Patria's operations. The number of companies who engage in social and corporate responsibility reporting is increasing, both in Finland and abroad. Reporting is also making increased use of Global Reporting Initiative (GRI) guidelines.

FIGHTER PROJECTS PROGRESS TO THE TENDER STAGE

From Patria's perspective, one of the Finnish Defence Forces' most significant future projects is the HX fighter project. Starting in 2025, this project will replace Finland's Hornet fleet with a

solution based on a new multipurpose fighter. Patria will have a major role in the life-cycle support services provided to the Air Force, and the HX project is extremely important for the company. Requests for tenders were launched in 2018, and Patria has invested heavily in industrial collaboration by negotiating with all other operators.

Patria has also been actively negotiating with several combat system suppliers in 2018, as the procurement process for the Finnish Defence Forces' Squadron 2020 combat vessel project progressed.

Squadron 2020 is a project that will replace the Finnish Navy's Rauma Class Fast Attack Craft and Hämeenmaa Class Minelayers before they become obsolete.

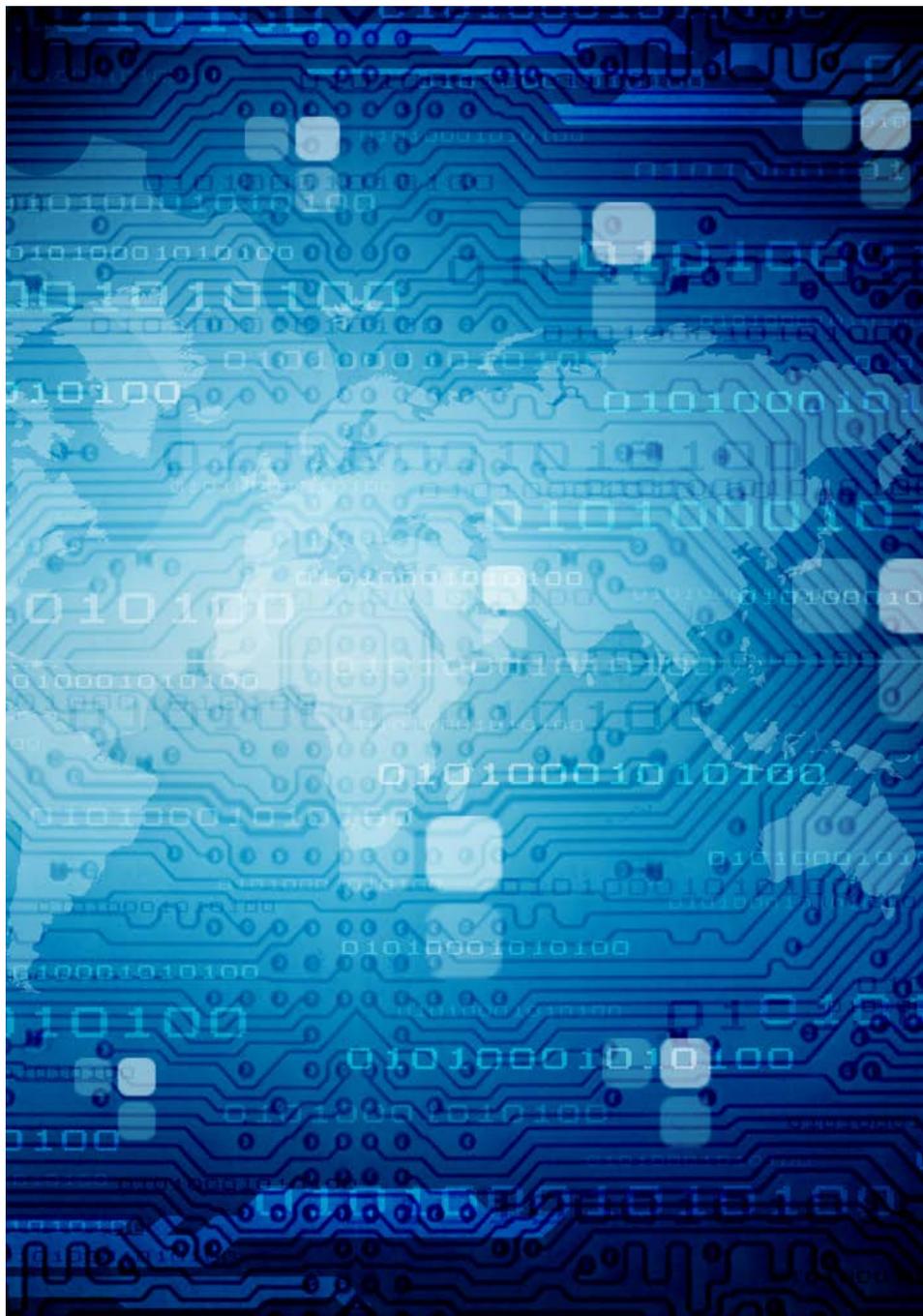
CONSOLIDATION AND CLOSER PARTNERSHIPS

International competition in defence markets is getting even tougher. This has led to consolidation, with larger operators forming in the market. Patria's ownership structure constitutes significant consolidation: Patria is owned by the Finnish State (50.1%) and Kongsberg Defence & Aerospace AS (49.9%). This structure is supported by the Nammo Group, which is owned 50-50 by Patria and the Norwegian State.

Patria's growth areas are strategic partnerships in life-cycle support services for defence forces (particularly in Northern Europe); international helicopter maintenance services; and selected intelligence, surveillance and management system products and services. In recent years, Patria has expended internationally via corporate acquisitions, that is, by acquiring a majority holding in the Estonian company Milrem LCM and a minority holding in the Norwegian company Aim Norway.

Project-specific partnerships between operators from different sectors are the key to success, particularly in large-scale projects.

In 2018, Patria and Kongsberg Defence & Aerospace agreed on opportunities to collaborate on the development of missile systems. The agreement covers the establishment of a centre of excellence in missile technologies in Finland, the use of Open Tactical Framework (OFT) technology and system software in Finnish missile projects, and their associated international opportunities.



Strategy review

In line with its updated strategy, Patria focuses on providing aerospace and military customers with equipment availability, continuous performance development as well as intelligence, surveillance and management system products and services. Patria's mission is to give its customers confidence in all conditions, and its vision is to be the #1 partner for critical operations.

The implementation of this strategy is supported by Patria's overhauled, flexible operating method, which emphasises productisation, marketing and international networking.

Patria started implementing the strategy last year. Growth in international maintenance operations is at the core of Patria's strategy. Growth areas include strategic partnerships with the armed forces in life-cycle support services, particularly in northern Europe, and international helicopter maintenance services.

In 2018, Patria founded a new subsidiary, Patria ISP Oy, which focuses on expanding international maintenance and life-cycle support business in line with the strategy. A practical example of international networking was carried out at the end of the year: Kongsberg Defence & Aerospace (KDA) made an agreement with the Norwegian Ministry of Defence to acquire Aerospace Industrial Maintenance Norway AS (AIM Norway). AIM Norway is a Norwegian Armed Forces business that is responsible for the maintenance, upkeep and modernisation of the Norwegian Air Force's helicopters and other aircraft. In order to bolster the deliveries, capabilities and expertise of AIM Norway, KDA and Patria have agreed on sharing ownership such that KDA owns 50.1 per cent and Patria 49.9 per cent.

Another strategic growing trend is the system and integration business and its internationalisation. The international growth areas are selected intelligence,

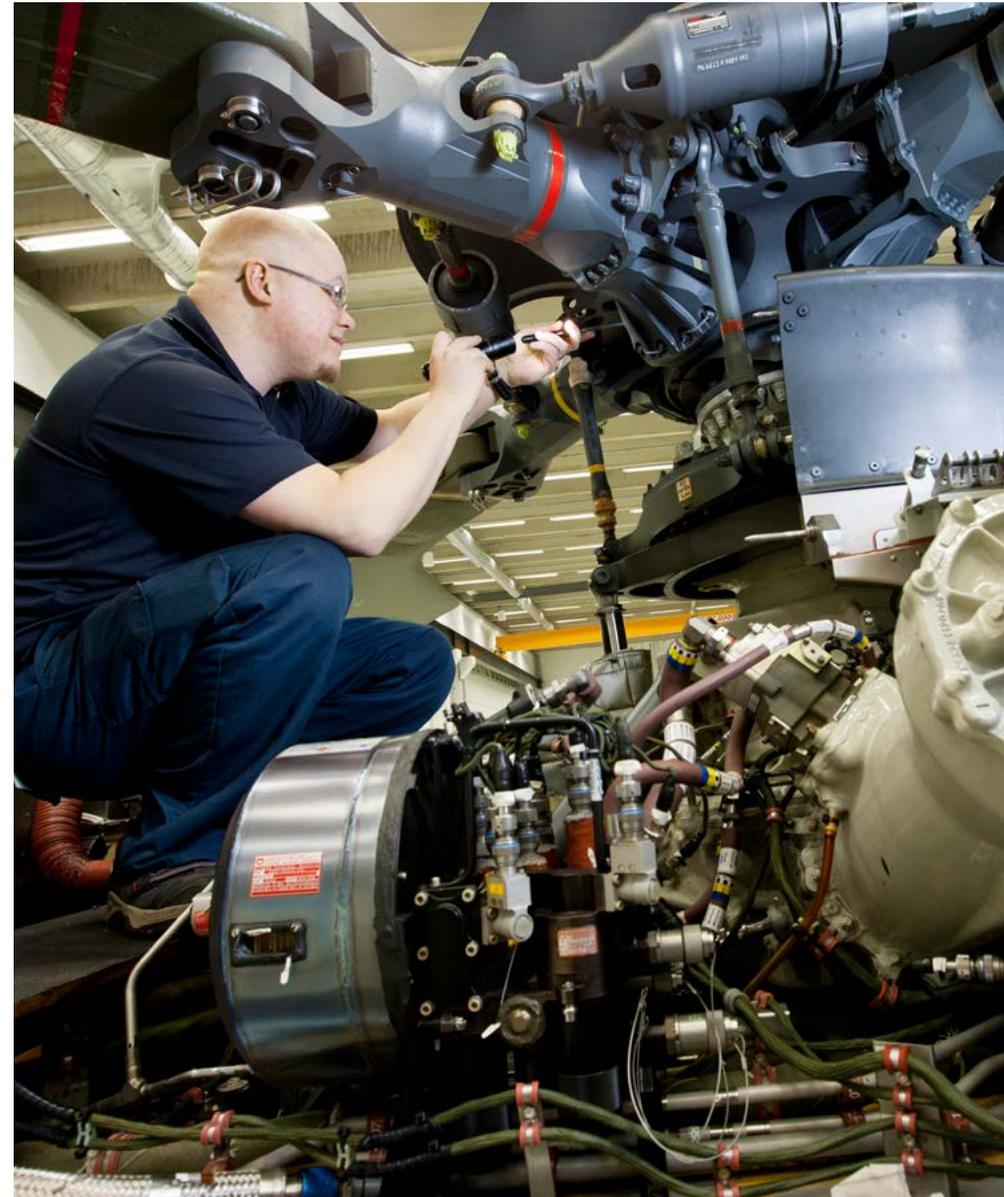
surveillance and management system products. The Finnish Defence Forces currently have strategically important and exceptionally large projects underway. These projects will be decisive for the future of Finland's defence industry. Last year, Patria made outlays not only on large Finnish projects, but also on implementing R&D plans for export products.

Last year, the company decided to designate the long-term development of the Land business as a third priority alongside maintenance and system products in the new strategy period.

Patria's subsidiary Millog, which specialises in maintenance and life-cycle management and materiel services, also updated its strategy in 2018. Its three focuses are even deeper strategic partnership with the Finnish Defence Forces, providing services for new customers and boosting efficiency to a new level through smart use of digital tools.

Nammo, owned 50-50 by Patria and the state of Norway, overhauled its organisation last year to adapt more agilely to challenges in the operating environment. Nammo develops and produces high-tech ammunition for both military and civilian use. During the year, it focused on strengthening its position in its core markets in Europe and North America.

Growth in international maintenance operations is at the core of Patria's strategy.





BUSINESS

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- 40 Nammo



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.

737
Personnel

18%
Net sales as a share of group net sales

26%
Personnel as a share of group personnel



AVIATION

Operating model revised to better serve customers

The Aviation business continued with the revisions to its operating model that began in 2017. It is the biggest change in the entire history of this business area.

During 2018, Aviation implemented the change programme for the AviUp! operating model, which standardised core processes in 15 operative units. The revised operating model will provide customers with a customer care organisation that can take end-to-end responsibility for handling each customer's individual needs.

Service production reporting was transferred to a single operative director who will be responsible for mobilising the new operating model at all locations. This includes standardising production planning, clarifying work supervision roles and responsibilities, and making more effective use of the ERP system in operations.

There has been more work than expected, and Aviation has therefore been operating under capacity for most of the year. There is a clear labour shortage throughout the sector and particularly with regard to sheet metal workers, installation technicians and structural analysts. Patria wants to be involved in training new experts for the sector. The University of Tampere has established a professorship in aircraft engineering education and Patria committed a considerable sum to funding this teaching for a period of ten years.

In 2017, Patria established the International Support Partnerships business unit. Patria transferred Aviation's international operations to this unit and continued to hive off operations during 2018.

NEW ELEMENTARY TRAINING AIRCRAFT

The project to renew the Finnish Air Force's elementary training fleet progressed to the implementation phase in 2018. The modernisation of Grob 115E elementary training aircraft, including cockpit modification, was launched. The first modernised training aircraft to replace L-70 Vinkas was also delivered to the Finnish Defence Forces in September 2018. Aviation will continue to provide Defence Force pilots with elementary training as a service that covers both flight instructors and aircraft maintenance and upkeep. The first elementary training course to use Grob aircraft will be held in early 2020.

Avionic modifications to the Finnish Border Guard's Agusta Bell 412EP fleet have created significant potential for new business. They are the first modifications to civilian aircraft that have received a Supplementary Type Certificate (STC) from the European Aviation Safety Agency (EASA). This has opened up significant new business opportunities for Patria in the maintenance and upkeep of civilian aircraft. It also constitutes an important industrial reference, and demonstrates that Patria has become a major European provider of life-cycle services for aircraft.

The retrofit programmes for NH90 helicopters that began in 2017 have progressed as expected in both Finland and Sweden. All Finnish helicopters will have been modified by early 2019. Patria's work with the Swedish Air Force will continue for several years, during which all 13 helicopters will be modified.



Structural repairs to Hornets have generated a lot more work for Aviation than originally expected. A large Hawk development project was implemented, so Aviation also spent more time working on these aircraft than in previous years. There have been some delays in these deliveries, but Aviation took corrective measures during 2018 and has managed to get back on schedule.

FIGHTER PROCUREMENT OPENS UP NEW OPPORTUNITIES

The HX project will acquire fighters to replace Finland's fleet of Hornets over the next decade, and it provided significantly more work for the Aviation business in 2018 than in previous years. Patria is a neutral strategic partner to the Finnish Defence Forces in this project.

All manufacturers have been informed of the expertise and cooperation that Patria can offer with regard to new types of aircraft. The most important task will involve cooperation to meet the

requirements of industrial collaboration and to ensure domestic security of supply and fleet maintenance in line with the tender. Cooperation within the HX project is expected to increase considerably during 2019 and again in the following years.

FLIGHT TRAINING IN PIRKKALA

Civilian flight training has now been operating out of Pirkkala for the first full year. During the year, Patria almost attained the maximum training volume possible at this capacity level (120 students). The global need for commercial flight training is growing, which means increasing demand for Patria's services.

Patria's main strength in pilot training is the Airbus Multi-Crew Pilot Licence. Pilots receive training in both this aircraft type and the requirements of cockpit work for the airline in question. It is an intensive course: pilots graduate in 18 months. The first Finnair and Norra pilots graduated from Pirkkala in 2018. In December 2018, a pilot training agreement was signed with Air Astana. It will run until 2022.

Civil aviation is growing all across the world, airlines are increasing their capacity, and there is increasing demand for pilot training. This demand is creating significant business growth potential for Aviation.

THE ENVIRONMENTAL PROGRAMME IN EVERYDAY LIFE

Aviation adopted the ISO 14001 environmental standard in 2018. The business unit has revised its environmental policy and made considerable outlays on communicating the updates. Compliance, sustainability and responsibility are the cornerstones of the environmental policy. Aviation is aware of the environmental impacts of its services and keeps them under control throughout a service's entire life-cycle. Risks can be predicted and Aviation has operating methods in place to prevent their realisation.

The business unit renewed its environmental permit for its Halli location, and carried out the required measures for this during 2018. They included groundwater protection, stormwater treatment, and building basins around areas used for emptying fuel tanks and tankers.

The business unit continued to implement REACH regulations for chemical handling in 2018. Aviation has sought alternatives for chemicals that can be replaced and has applied for a special permit to use chemicals that cannot be replaced. Monitoring changes in REACH regulations and complying with changing norms have been an essential aspect of business continuity management.

PERSONNEL AND FINANCES

The number of employees remained largely unchanged during 2018, that is, about 750 employees in five municipalities. Aviation hired about 100 new employees to compensate for natural turnover. The business unit has been actively recruiting, and will manage to resolve its undercapacity issues during 2019.

The financial position improved significantly on 2017, and is now satisfactory. Aviation successfully boosted its production efficiency during 2018 and the outlook for 2019 is favourable.

Aviation's success in 2019 requires the business area to effectively complete the change programme launched in 2018, to ensure that operations meet growing demand, and to fully harness the unique opportunities afforded by the HX project.

The HX project will acquire fighters to replace Finland's fleet of Hornets over the next decade, and it provided significantly more work for the Aviation business. Patria is a neutral strategic partner to the Finnish Defence Forces in this project.



Systems

The Systems business unit provides demanding deliveries of systems and devices to both security authorities and the defence forces of various countries. Areas of special expertise include reconnaissance, surveillance and command systems, as well as their integration, software and life-cycle support. Systems is an expert in system integration. Its strength lies in its decades of experience in both national and international projects and technologies.

309
Personnel

14%
Net sales as a share of group net sales

11%
Personnel as a share of group personnel



SYSTEMS

Controlled growth

During the year, the Systems business was able to put both domestic and international projects into practice. The brisk recruitment of new talent also continued.

Product development and negotiations in previous years began to bear fruit for Systems in 2018. MLU refits to extend the lifespan of Hamina-class vessels were launched after an agreement was signed with the Finnish Defence Forces in January. A strategic partnership with the Finnish Air Force, which covers the maintenance, overhaul and improvement of avionics systems, brought in considerable additional business. Avionics updates to Hawk Mk51 aircraft also progressed as planned.

Systems launched the update and design of avionics and electronics for Crob elementary training aircraft, and began the delivery of new training simulators. Major product launches were made in the passive sensors product family, in signals intelligence and passive radar systems. Systems both began and completed a financially demanding software project in collaboration with a client. Overall, the Systems business unit has achieved controlled growth during 2018 and will seek to further strengthen profitability during 2019.



Progress was made in negotiations to replace the Finnish Defence Forces' fleet of Hornet fighters. This is a strategically important project for several of Patria's business units. Systems and Aviation will continue their input in the joint project team, which seeks to develop cooperation and promote networking with Finnish and foreign industrial partners and potential aircraft suppliers. During the year, Systems also made considerable progress in the Squadron 2020 project, which will replace the Finnish Navy's aging combat vessels, which will become obsolete in the 2020s. The primary goals are to get Patria's own product offering included in the overall package delivered by combat system suppliers and to obtain a significant role in the construction and maintenance phases.

BRISK RECRUITMENT

The environment in which Patria's clients operate is digitalising at a rapid pace, and this generates both opportunities and challenges for a software and systems specialist such as Systems. In the Finnish market, solid cooperation with security-critical authorities will offer more room to manoeuvre, as new solutions and added-value services are sought to meet the challenges arising from digitalisation and cybersecurity.

Systems strengthened its own competence in 2018 by recruiting plenty of new talent: 50 new experts were recruited during the year. The number of people employed by the business unit grew by about 18% in 2018. Although there is tough competition for experts in the software industry, Systems succeeded in keeping its existing experts and hiring new talents.

Systems' strengths are meaningful work and interesting tasks for employees, and employees' commitment to their employer. When developing personnel competence and enhancing work satisfaction, Patria takes care of its employees by ensuring proper induction and maintaining and enhancing supervisory work, leadership coaching and expert training. During 2019, Systems will continue to invest in new tools that will help to monitor progress in personnel competence development more effectively.

When it comes to enhancing working capacity and wellbeing, open internal communication and constructive feedback promote work contentment.



NEW PRODUCT MANAGEMENT ORGANISATION BRINGS AGILITY

The Systems business unit was structurally reorganised in 2018 with the creation of a new product management organisation and by investing more strongly in commercialisation, sales and marketing. Systems' internal process change - shifting from expert work towards Patria's own products and exports - aims towards greater agility in internationalisation, promotes the market entry of Patria's IPR and export products, and also enhances operational profitability, project management, operational reliability, and continual improvements in quality.

RESPONSIBILITY FOR THE ENVIRONMENT AND SAFETY

Systems complies with the Patria Group's environmental objectives and monitors the achievement of its targets in a responsible manner, in everything from everyday office recycling to property energy efficiency. An indoor air improvement contract was completed in the autumn at Systems' location in Halli. Ergonomics have also been improved by acquiring electrical tables for clerical employees. Expansion work has also begun in Espoo to meet increases in the number of personnel there.

In a data-intensive business, occupational safety means not only carrying out your tasks safely, but also paying attention to information security when you are working on strategically confidential collaborative projects. Issues relating to data security are regularly monitored and any deviations in security are reported on a quarterly basis. Corrective measures are also taken as necessary.



Overall, the Systems business has achieved controlled growth during 2018 and will seek to further strengthen profitability during 2019.



International Support Partnerships

International Support Partnerships offers international life-cycle support services. The core functions of the new business unit are maintenance and repairs, modifications, spare parts supply and technical support.

167
Personnel

5%
Net sales as a share of group net sales

6%
Personnel as a share of group personnel



INTERNATIONAL SUPPORT PARTNERSHIPS

International Support Partnerships as an international spearhead

In 2018, the International Support Partnerships (ISP) business unit was defined by three things: organising itself as an independent profit centre, boosting the efficiency of operations in Sweden, and the December acquisition of AIM Norway.

Hiving ISP off from Aviation as a separate company progressed according to plan during 2018. ISP completely restructured its operating model and organisation to create a service provider that can successfully supply the international defence solutions industry. ISP will therefore be the vanguard for the internationalisation of the Patria Group as a whole.



The targets set for the company have been achieved almost in accordance with forecasts. Delays with the AIM acquisition and a weaker-than-expected financial result for the business in Sweden have lowered the result to some extent. However, the Swedish operations have shown a clear improvement on the previous year and ISP will work to keep things moving in this positive direction during 2019.

No significant changes occurred in the operating environment during the past year. After getting off to a good start, ISP will continue to provide comprehensive partnerships to both defence and civilian authorities. There is growing interest in ISP's services in the market. This means both the potential for business growth in the existing core business and opportunities to develop new services.

SPEARHEADING INTERNATIONALISATION

Patria and Kongsberg Defence & Aerospace (KDA) acquired AIM Norway, which is responsible for the maintenance and modernisation of the Norwegian Air Force's helicopters and other aircraft. The deal includes the Belgium Engine Center (BEC), a company that operates out of Belgium and specialises in engine maintenance, repair and overhaul.

The acquisition also marks the creation of a new international operating method for Patria. It is based on profound technical expertise coupled with a strategic partnership concept that Patria has been honing for decades and local, customer-centric maintenance and upkeep services in each country.

The acquisition of AIM Norway means a threefold increase in terms of both net sales and personnel when compared to the size of the ISP business unit. The broadened range of expertise in, for example, fighters and fighter engine maintenance will also enable Patria to provide more comprehensive services to demanding international customers.

A THIRD CORNERSTONE FOR MAINTENANCE

Patria has extended its agreement on Black Hawk helicopters with the Swedish Defence Materiel Administration, and the maintenance contract for NH90 helicopters in Norway will also continue. In Estonia, a maintenance contract was signed for XA and CV90 vehicles.

These agreements will strengthen Patria's ability to provide maintenance and upkeep services for both army vehicles and helicopters. Thanks to the AIM acquisition, the service offering has also significantly expanded into both engine and overall maintenance and upkeep for F16 and F35 fighters in addition to domestic F18 maintenance.

PERSONNEL ENCOURAGED TO JOB ROTATION

ISP's new organisation has drawn attention to the fact that personnel have the opportunity to transfer between locations and develop in their work. This applies equally to those in managerial and maintenance positions.

For example, someone has transferred from Finland to Estonia as a technical manager and Finnish helicopter maintenance experts have worked extensively in the Norwegian unit. Patria intends to continue promoting operational flexibility and competence mobility in line with customers' changing requirements.

The most important task in 2019 will be to take full advantage of the AIM acquisition and hone a shared operating model for the ISP business unit. The operating method should suit both the current situation and future growth. Growth is being sought both organically and by seeking suitable acquisitions – and also by creating partnerships and joint ventures with others in the sector.

Patria's objective is to create a brand-new approach to its international business, and to build up a network of units operating in various countries. ISP is already well on the way to this goal and there is great confidence in future growth for the Group as a whole.



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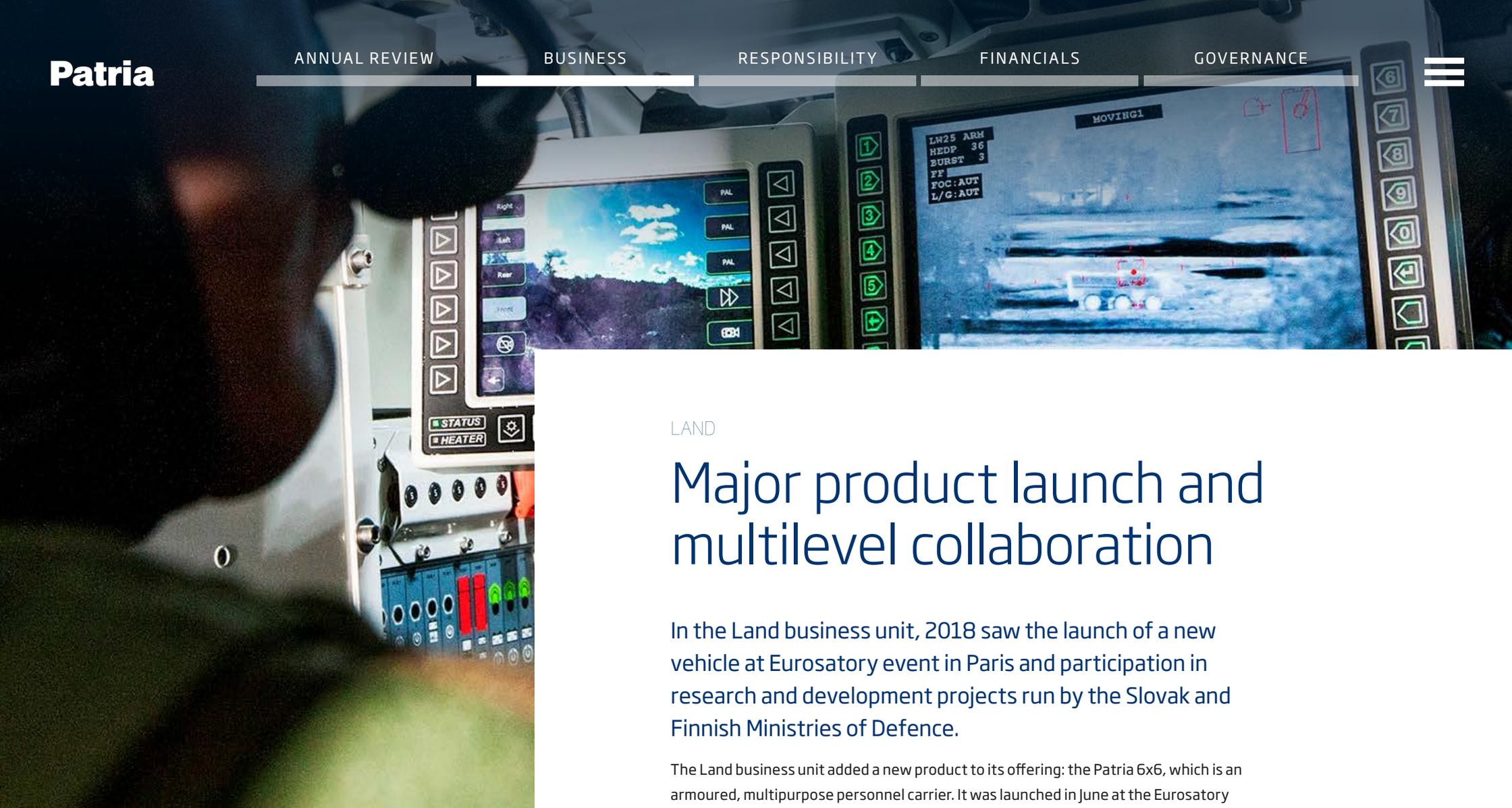
Land

Land's core competence lies in high-quality armoured wheeled vehicles and mortar turrets, and their life-cycle support services. Its best-known products are the Patria AMV and 6x6 vehicles, and the Patria Nemo and AMOS mortar systems. Land sells products globally to both armies and navies.

273
Personnel

16%
Net sales as a share of group net sales

10%
Personnel as a share of group personnel



LAND

Major product launch and multilevel collaboration

In the Land business unit, 2018 saw the launch of a new vehicle at Eurosatory event in Paris and participation in research and development projects run by the Slovak and Finnish Ministries of Defence.

The Land business unit added a new product to its offering: the Patria 6x6, which is an armoured, multipurpose personnel carrier. It was launched in June at the Eurosatory event in Paris. The first prototype of this new vehicle has been manufactured and tested in Finland's demanding conditions, and testing will continue during 2019.

Good cooperation with the Finnish Defence Forces on the modernisation of XA-180 personnel carriers continued as agreed and in accordance with targets. In May, Land signed an agreement to deliver a fleet of armoured bridge-layers to the Finnish Defence Forces. Land also delivered a new prototype of the AMV^{XP} vehicle platform for a joint R&D project between the Finnish and Slovak Ministries of Defence. On the basis of the

results of this R&D programme, Slovakia is planning to order 81 IFV vehicles as part of its military fleet modernisation programme (2018–2024). In spite of its good achievements, the Land business unit fell short of its targets due to delayed projects and March's lost tender to supply Australia with personnel carriers.

SERVICE BUSINESS GROWING IN IMPORTANCE

Land made considerable investments in its service business and sales development, which resulted in organisational restructuring to meet their demands. Growth is being sought from Land's expanded product offering, and also from maintenance and life-cycle support services. The business unit is also aiming to further develop its multilevel collaboration, for example within the framework of the Finnish Defence Forces' Arctic mobility concept.

The market situation continues to be challenging. Land is aware that the complexity of political processes poses a challenge for business. The success of future projects will require even greater specialist expertise.

After the Uganda incident, Land systematically revised its sales process. The Gate model for projects was also updated. The Management Team will approve both new sales projects and project phases on the basis of process-compliant presentations.

TRAINING PROGRAMMES AND OCCUPATIONAL SAFETY PROGRESS AS PLANNED

In the spring, Land engaged in cooperation negotiations that covered all personnel in Hämeenlinna and Tampere. The negotiations were launched for financial and production-related reasons: order volumes had fallen due to some projects coming to an end, and there was some work reorganisation. The focus was on reorganising tasks and reallocating people to new positions. The negotiations resulted in ten employees being made redundant and a change of position for another 25 employees.

In May 2018, Land established its own service business function with the aim of increasing the volume of business accounted for by the service business. Land continued to run its existing training programmes in performance management and leadership coaching.

In occupational safety, both the number of accidents and sickness absences remained at a good level. A total of seven accidents occurred during 2018, three of which resulted

Land business unit is aiming to further develop its multilevel collaboration, for example within the framework of the Finnish Defence Forces' Arctic mobility concept.

in sickness absence. According to averages calculated from monthly figures, the sickness absence rate was 1.2 for clerical employees and 4.8 for other employees.

New measures to improve working conditions and occupational safety were also launched during 2018. In the spring, Land achieved a world-class ranking (level II classification) in the Institute of Occupational Health's Zero Accident Forum.

PERSONNEL MOTIVATION AND ENVIRONMENTAL PROTECTION AT A GOOD LEVEL

Land's response rate in November's Patria People personnel satisfaction survey was excellent (92.8 per cent). On the basis of the survey results, the business area's strengths lie in its committed and motivated personnel, and supervisors' trust in their subordinates.

Land's direct environmental impacts are relatively minor. During 2018, the business area achieved its internal environmental targets. Land's environmental issues mainly revolve around managing the environmental impacts of test shooting, which is based on statutory obligations and official requirements. Land also drew up its own environmental policy. This process included identifying and assessing the life-cycle environmental impacts of products, services and subcontractors' operations, and their associated risks.



Aerostructures

The Aerostructures business unit designs and manufactures advanced composite structures for aircraft and defence industry applications. It is also actively involved in development programmes for new composite technologies. Aerostructures' core competencies are expertise in the manufacture of composite structures and efficient production processes. Its main customers are Airbus, Saab and other aerospace companies.

130
Personnel

5%
Net sales as a share of group net sales

5%
Personnel as a share of group personnel



AEROSTRUCTURES

Efficient production visible in delivery volumes

In the Aerostructures business unit, 2018 was crowned by the delivery of carbon-fibre structures for over six hundred Airbus A320 aircraft and the adoption of paperless production. Operational adjustments were also required in the face of continuing tough global competition.

Aerostructures' successes in 2018 included getting the production of carbon-fibre tail-fin structures for Airbus A320s up to full speed and implementing Airborne Early Warning radar structures and antennas for Saab surveillance aircraft to a record-breakingly fast schedule. Deliveries for Airbus A320 aircraft progressed to phase one in collaboration with a Turkish partner. The launch of production in Turkey will strengthen Aerostructures' presence in one of the main market areas for aircraft manufacturers.

In June, Aerostructures acquired the entire share capital of Patricomp from Aernova Aerospace SAU's subsidiary. Patricomp manufactures thin steel sheet structures for aircraft, and also carries out associated surface treatments and assembly. The acquisition was confirmed in October 2018, and the integration of Patricomp's operations will continue during 2019.

Competition in Aerostructures' global operating field remained tough, which made it challenging to increase sales volumes. Aerostructures has responded to the market situation by enhancing automation and adopting paperless production. The introduction of new digital operating methods got off to a flying start in 2018 with training for all personnel.

The focal points for Aerostructures in 2019 will be improving trends in profitability and ensuring and achieving growth. One of the year's major challenges will be participating in the tender phase of the Finnish Air Force's HX fighter project. Aerostructures will also be seeking to improve and boost the efficiency of its operations by promoting competence development and responding to changes in production and workloads. The key measures in achieving this will be updating and revising HR and training plans.

SUPPORT AND WORKING ABILITY, WITHOUT FORGETTING THE ENVIRONMENT

Aerostructures engaged in cooperation negotiations during 2018. The negotiations were launched for financial and production-related reasons: project delivery volumes had fallen and some work reorganisation was carried out. The negotiations resulted in five employees being made redundant and eight employees being laid-off for either a fixed period or until further notice. The average duration of the lay-offs was 2-3 weeks. All of the measures were carried out in 2018.

The occupational health action plan for the reporting period sought to prevent and reduce musculoskeletal disorders with the aid of shared measures; conduct workplace visits; and adopt an early intervention model. Occupational healthcare negotiations and any resulting support programmes will be carried out as necessary.

On the environmental front, Aerostructures continued to operate, monitor and report in accordance with the ISO14001 standard. No environmental damage occurred,

and waste management focused on recycling and minimising waste volumes. Aerostructures worked continuously to minimise consumption and maximise material efficiency.



Millog

Millog specialises in maintenance, material and life-cycle management services. As a strategic partner to the Finnish Defence Forces, Millog has developed into an expert organisation with more than a thousand employees at over twenty locations. The company is owned by Patria Oyj, Insta Group Oy and the Finnish State.

Millog's wholly owned subsidiary Senop Oy provides optoelectronic systems and system integration services.

1,096

Personnel

42%

Net sales as a share of group net sales

39%

Personnel as a share of group personnel



MILLOG

Millog's roadmap for the future

According to Millog's new strategy the company wants to engage in even closer cooperation with the Finnish Defence Forces, and competence must be ensured at every turn. Occupational safety was the theme for 2018.

Millog achieved the targets set for both its net sales and operating result in 2018. Agreed work was implemented as planned and customer satisfaction remained at a high level throughout the year.

The drafting of Millog's new strategy was one of the major events of 2018. Millog wanted its strategy to reflect the operations and requirements of the entire organisation. Personnel throughout the entire organisation were involved in the process. The new strategy was successfully internalised, and its mobilisation will continue during 2019.

The strategy was published in the summer and has three focal areas. The most important one is the desire to forge an even closer partnership with the Finnish Defence Forces. Millog wants to create growth potential by expanding into new areas. The second objective is to produce services for new customers who value operating methods and partnerships that meet high security standards and ensure security of supply.

The third spearhead of Millog's strategy is to raise efficiency to a new level. This will be achieved through the use of smart digital tools, by developing competence and resources, and by breaking in new operating models, such as the routine management model for supervisors and the introduction of Lean 6S.

OCCUPATIONAL SAFETY UNDER THE MAGNIFYING GLASS

Millog's main development theme for 2018 was occupational safety. An increased level of awareness led to a tenfold increase in the number of safety observations that were made. Awareness and paying due attention to occupational safety when planning implementation will have a positive impact on future accident statistics.

The most important focus area is Millog's desire to forge an even closer partnership with the Finnish Defence Forces. In addition to this, Millog wants to create growth potential by expanding into new areas.

In summer 2018, Millog opened a new, modern maintenance facility in Kajaani. The next investment in premises will be made in Upinniemi, with the aim of launching the construction of a new repair shop in 2019.

Millog has joined the Government Secure Network (TUVE), which will forge an even closer strategic partnership and lead to greater efficiency in the use of shared information systems. The TUVE project is scheduled for completion in 2019.

Millog currently has eight environmental permits, the last of which was issued in December 2018. The area around the Pansio surface treatment building was made more environmentally friendly with asphalt surfacing and the installation of a stormwater management system. During the year, Millog also enhanced waste reporting processes and improved energy efficiency by replacing doors and windows.

SUBSIDIARY SENOP FOCUSED ON R&D

Millog's wholly owned subsidiary Senop Oy develops and manufactures products for security and defence. The company specialises in high-tech night vision systems, MIL-compliant platforms for technical and management systems, and demanding system integrations.

Although Senop is currently investing in internationalisation, progress has been slower than expected. This can be seen in the lower-than-expected order level and result for Senop's operations. In 2019, Senop will focus on developing its sales networks in particular.

During 2018, Senop developed and began the manufacture of a next-generation hyperspectral camera, which received excellent feedback from trial customers. The new hyperspectral camera will be launched at industry trade fairs in February 2019. The hyperspectral camera market is expected to grow substantially over the coming years through the development of usage applications.

Senop has also developed future lens technology (Free Form) that will be harnessed in a new generation of night vision systems, which are scheduled for launch during 2019.

In 2018, Senop engaged in cooperation negotiations that resulted in the redundancy of two employees.

A FAIR SUPERVISOR AND A FAIR COLLEAGUE

Millog continued to invest in leadership development. Almost all supervisors completed the Fair Management training programme last year, and this has led to a significant improvement in management. Alongside this Fair Management training, Millog also introduced Fair Colleague training aimed at improving social skills in the workplace. Two pilots have currently been carried out, and more will follow in 2019.

HR management achieved its main objectives in 2018. These were developing Talent Management, improving Millog's employer image, and ensuring GDPR compliance. Millog reached the final in Ilmarinen's Work Ability competition, as one of the five best companies in Finland.

Due to the high average age of Millog's personnel, the company also invests in systematic plans to replace employees who will retire over the coming years. This will also enable Millog to change its competence profile to meet future needs. 89 people were hired during 2018.



Nammo

Nammo is an international aerospace and defence company headquartered in Norway. With 2,400 staff spread across more than 30 sites and offices in 13 countries, Nammo is one of the world's leading providers of ammunition, rocket motors and demilitarization services for both military and civilian customers. Nammo is owned in equal shares by Patria (50%) and the state of Norway (50%).

Nammo Group was redefined at the beginning of 2013 as a joint venture and was 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.

2,400

Personnel

512.4 EUR million

Net sales



NAMMO

Nammo celebrating its twentieth anniversary

Owned 50% by Patria, the Norwegian aerospace and defence innovator keeps pushing the boundaries of hi-tech

In 2018, Nammo celebrated its twentieth anniversary. Since Nammo was founded in 1998 as a conglomeration of Nordic ammunition businesses, the company has quadrupled its revenues and expanded its operations from four to 13 countries.

In the process, Nammo has become a truly international company, which now counts US citizens as the second largest nationality among its 2,400 employees.

Nammo currently operates through five business units: Commercial Ammunition, Small and Medium Calibre Ammunition, Large Calibre Ammunition, Shoulder Fired Systems, and Aerospace Propulsion.



INNOVATION RULES

Nammo is driven by precision engineering and the development of innovative, global solutions. The company seeks growth in its current markets, both organically and through acquisitions. At the same time, the company is strengthening its presence in its European and North American core markets.

All key markets, except for the Demil market, had a positive underlying trend in 2018. To rectify that particular situation, the Demil business unit was merged with the Small and Medium Calibre Ammunition business unit in 2018. The merger reflected Nammo's commitment to continuously developing its organisation and to adapting to the business environment, which features its share of challenges.

The key issues for Nammo in 2018 were maintaining profitability and seeking growth. At the same time, the company was concentrating on delivering products with top-level performance to its customers.

CLEARED FOR LAUNCH

In 2018, Nammo continued to push the boundaries in technology and innovation. In September, Nammo successfully completed the first launch of Nucleus, a sounding rocket powered by its new hybrid rocket motor. Launched from Andøya Space Centre in Northern Norway, Nucleus reached an altitude of 107.4 km.

Another notable breakthrough for the year was Nammo's 30 mm Swimmer (APFSDS-T MK 258 Mod 1), which started full-scale production. While traditional ammunition is either stopped or deflected when it hits water, Nammo's 30 mm Swimmer swims straight through water. In 2018, deliveries for Swimmer were made to both the US Navy and Army.

LEAN ATTITUDE

With regards to productivity, Nammo continues to invest in automated production. Together with a Lean 6 Sigma programme, the goal is to create processes and a production environment that are state-of-the-art.

Looking into 2019, Nammo continues on its growth path, seeking to continue improving its profitability. Gains on long-term profitability can be achieved by means of, for example, structural, legal, and operational venues.



RESPONSIBILITY

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Corporate responsibility in Patria

Corporate responsibility is a part and a solid basis of all business, but especially of the defence industry. Good corporate citizenship is a prerequisite for the operations of the company, which is majority-owned by the Finnish state. Patria has an important role in the security of supply in Finnish society as a strategic partner of the Finnish Defence Forces. Internationalisation of the operations as well as export practices are linked to the strategic role of Patria. In 2018, Patria faced some negative media coverage related to its export business and therefore re-evaluated certain processes.

Patria's corporate responsibility is strongly connected to its area of industry and its role as a strategic partner of the Finnish Defence Forces. Security of supply is basically a guarantee of supply of goods and services sufficient for a state to discharge its defence and security commitments in accordance with its foreign and security policy requirements. 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 related training. Patria aims to maintain the awareness of personnel and their ability to have an impact on responsible conduct within the work community.

MAJOR EVENTS IN 2018

In 2018, Patria was in the news when it came to light that its Land business unit had connections to a Finnish businessman deceased in Uganda. In connection to this case, the Land business unit's marketing procedure and business partner selection





were reviewed. In its communication to media and other stakeholders Patria was transparent and honest, as is its practice. Due to this case, Patria clarified internally its decision-making processes, made changes in its personnel, and immediately started business partner selection training in every business unit, with 120 people attending the training sessions. Also, an internal audit was conducted following this incident. The audit concluded that nothing could be found which would require new, major corrective measures in addition to those already conducted by the company. Nevertheless, in 2019 Patria will continue to develop the ethical training even further.

Another topic in a vivid discussion was export licences. There was some footage in the media of what appeared to be a Patria vehicle in the Yemen war. As the photo experts were not able to confirm the origin of the footage i.e. where and when the photos were taken Patria was able only confirm that the vehicle was Patria AMV but not the origin.

EXPORT PRACTICES

The basic principles in export business are issues such as

- All defence related products need an export license
- All technology export related to them need an export license
- All integrations, partly or entirely, need an export license.

Patria complies with the national legislation and international commitments. A decision made by government officials to grant an export license is made on a case by case basis with the overall situation and one of the prerequisites is a reliable end user of the materiel. Also, possibilities of a misuse of the materiel are considered. Granting a license is based on EU criteria and in consultation with other EU countries.

In addition to the evaluation of the end user reliability, the product properties are assessed. Defence material has categories, which in connection with the licenses, may mean that one category products may be exported but at the same time another category is off the list. In certain situations, one may for example export vehicles but not weapons or ammunition.

In 2018, the Finnish Government decided on restricted export authorisations to Saudi Arabia and the United Arab Emirates. Patria relies on the government officials' capability

to evaluate the end user reliability and other export prerequisites when assessing the possibility of export in complex situations and circumstances.

DEVELOPMENT OF REPORTING

In 2018, a project related to the development of corporate responsibility reporting was conducted with an external expert organisation. The objective is to improve compliance with the Global Reporting Initiative (GRI) standards and thus produce clearer and more comparable reports for stakeholders. A GRI Gap Analysis created a better view of the report as a whole, with practical steps for proceeding with this work.

FOCUS AREAS IN 2019

In 2019, the focus areas in Patria's corporate responsibility are: continuous improvement in reporting, supplier chain management, the business partner selection process, and an internal environment campaign in order to raise awareness of the climate change among Patria employees.

GENERAL PRINCIPLES

Patria is committed to complying with the laws and regulations of the countries in which it operates. Patria respects the international rules such as the United Nations (UN) Declaration of Human Rights and the ILO conventions.

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 (UNGC) and its Nordic network. In 2018, the Finnish UNGC Network was established, and Patria has its representative as a member of the board.

Patria has a solid Ethical [Code of Conduct](#) updated in 2017, available publicly at as well as a [Corporate Responsibility Policy](#) to determine the framework, outlines and responsibilities of corporate responsibility.



MANAGEMENT AND MONITORING

Patria has a Corporate Responsibility Team that includes the Chief Communications Officer (leading the team and responsible for corporate responsibility, except for ethics and compliance), the General Counsel and Chief Compliance Officer, and the Human Resources Officer. Together with the Group's financial, HR, and environmental experts, and representatives of the business units, these persons form the entire Corporate Responsibility Team.

The General Counsel and Chief Compliance Officer is responsible for matters involving ethics and compliance (including anti-corruption). Matters related to ethics and compliance are reviewed by Patria's Board of Management, and the General Counsel and Chief Compliance Officer reports regularly to the Board of Directors and the Audit Committee on these topics. Approval of the ethics and compliance programme at Patria is the responsibility of the Patria Oyj Board of Directors. Specific responsibility for the supervision of matters related to ethics and compliance rests with the Audit Committee appointed by the Board, and as per the Audit Committee Charter approved by the Patria Board of Directors.

The responsibility of financial management lies with the business units and their appointed organisations, Group-wide operations and reporting is lead by the Chief Financial Officer and related Group-level organisation.

The responsibility of social management is shared by the Chief HR Officer together with the Group-wide HR team and Chief Communications Officer, responsible for stakeholder collaboration.

The responsibility of environmental management lies with business units and their appointed organisations, reporting to the respective Management Groups. A Group-wide environmental work group aims to enhance further collaboration and the sharing of information between various business units and developing and reporting on the group's environmental responsibility.

Corporate responsibility forms part of the work and duties of each Patria employee. Guidelines related to corporate responsibility are available in Patria's Integrated Management System and they are reviewed annually.

Annual General Meeting

- The Annual General Meeting is the highest organ of the company. It confirms Patria's corporate responsibility activities.

Board of Directors

- The Board of Directors is responsible for making sure that corporate responsibility is organised and integrated into 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.

Board of Management

- 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 and monitors the achievement of the related objectives.
- A member nominated by the Board of Management acts as the Director of Corporate Responsibility, who leads the Corporate Responsibility Team.

Corporate Responsibility Team

- The Corporate Responsibility Team consists of experts from Patria's businesses and corporate management.
- The team prepares and is responsible for the achievement of objectives within the group.
- The team is also responsible for the annual corporate responsibility report.

Business units

- Businesses are responsible for their activities and act in accordance with the corporate responsibility policy in order to achieve their goals.



ESSENTIAL THEMES DETERMINED IN 2017

The essential themes of Patria’s responsibility have been updated in 2017 on the basis of a stakeholder survey among customers, suppliers, authorities, subcontractors and non-governmental organisations. The key themes of Patria’s corporate responsibility were then boiled down to five areas by the Board of Management: 1. Security of supply

and the company’s role as a strategic partner of the Defence Forces, 2. Responsible defence materiel export practices, 3. Ethical operations and good governance, 4. Financial performance, and 5. Occupational well-being.

MAIN LONG-TERM OBJECTIVE TO BE RECOGNISED AS A COMPANY WITH HIGH ETHICAL STANDARDS

The long-term goals have not changed: Patria Group’s objective is to be recognised as an ethical operator in the industry.

- Patria’s principles regarding ethical practices and anti-corruption measures it takes have permeated the company’s stakeholders, with Patria being viewed as a company with a high standard for ethical practices.
- Patria’s most important partners operate on a level corresponding to, at a minimum, that specified in Patria’s ethical guidelines.
- Patria’s personnel are aware of the ethical principles and the right conduct that governs various aspects of their work.

Patria’s corporate responsibility short-term goals and their indicators were defined in 2017 and were not changed in 2018.



Patria has an important role in the security of supply in the Finnish society as a strategic partner of the Finnish Defence Forces. Internationalisation of the operations as well as export practices are linked to the strategic role of Patria.



Essential area of corporate responsibility	Role as a partner of the Finnish Defence Forces and security of supply	Responsible defence export practices	Ethical operations and good governance	Financial performance	Occupational well-being
Long-term objectives	To be a sought-after and trusted partner	To be a trusted exporter of defence material	To be recognised as an ethical operator in the industry	Financial profitability	To offer a safe and inspiring working environment for all employees
Indicators	A corporate image survey: a) Patria operates on a customer-oriented basis (3.76 in 2017), goal of 4 in 2020. b) Patria operates in a networked manner and in good cooperation with partners (3.81), goal of 4 in 2020.	a) Level B based on the external results of Transparency International Defence Companies Anti-Corruption Index. b) 100% of employees whose work is export-related, has got specific ethics and compliance training.	a) Annual training for the entire staff each year, with 100% coverage of staff. b) Development of corporate image among Finnish customers and stakeholders as an indicator: (3.24 in 2015, 3.73 in 2017), goal of a minimum of the 2017 level in the 2020 survey	Achieving the profit targets budgeted for each year	a) Sick leave indicator: goal of less than 3.5% (3.5% in 2018) b) Job satisfaction as an indicator: a new goal will be set in Q1 2019, based on survey conducted 12/2018
Realisation 2018	Patria continued its close cooperation with the Finnish Defence Forces as planned and for its part participated in the preparations for the Defence Forces big projects such as (HX, SQ 2020). In international market, Patria continued co-operation in the ongoing projects, eg. Slovakia, Poland, UEA.	Transparency International UK's Defence Companies Anti-corruption Index 2019 related draft questionnaire was evaluated and feedback was provided. Patria examined its anti-corruption policies and processes, updated the related information at www.patria.fi . In-depth class-room ethics and compliance training for top/middle management, marketing and sales, procurement, offset and finance teams was prepared, and Patria Board of Management was trained. Business Partner Selection related training was offered to 120 persons in different business unit.	The annual ethical training offered for all Patria personnel was conducted in Q4 in all locations in all related languages. The rate of attendance was good; 98.4% but did not meet the objective of 100%.	Patria Group's sales and profitability for the financial year 2018 increased from the previous year but did not meet the objectives mainly due to the certain large Land export projects not realising.	The rate of absence due to illness declined from 4% to the target level 3.5%. Patria Personnel Survey was conducted in 2018. Clear strengths include commitment, motivation in work, interesting tasks, team spirit and occupational safety. Personnel feel that their work is important, interesting and sufficiently challenging. Employees are proud of their work, and employment relationships are long. The areas in need of development include the operational and management culture, the recent business developments as well as employee wellbeing.
Actions 2019	The implementation of the strategy will be continued. Patria focuses on providing aerospace and military customers with equipment availability, continuous performance development as well as intelligence, surveillance and management system products and services. Growth in international maintenance operations is at the core of the strategy. Growth areas include strategic partnerships with the armed forces in life-cycle support services, particularly in northern Europe, and international helicopter maintenance services. Corporate image survey, action and lobbying plan.	TI survey to take place in 2019. Specific ethics and compliance training offered for top/middle management, marketing and sales, procurement, offset and finance teams during 2019. Follow up internal audit on sales and marketing activities (incl. business partners).	General Data Protection Regulation (GDPR) related project was run in 2018 to ensure compliance with the regulations. The GDPR processes and practices will be further developed during 2019 and further training will be provided. Supplier Code of Conduct to be created. Carbon footprint to be analysed and targets to be defined.	Strategy update and incorporating CSR into strategy and BU level targets.	A new goal for the employee satisfaction will be set in Q1 2019. At the corporate level strategy communications is a special focus area. Business units have their own specific focus areas.



RISKS AND OPPORTUNITIES

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.

On the other hand, the development of ethical conduct is seen as an opportunity to be recognised as an ethical operator and to increase Patria's attraction as a partner. In addition, environmental awareness with regard to defence materiel may present a future opportunity for Patria.



RESPONSIBILITY REPORTING AND CALCULATION PRINCIPLES

The report covers the parent company, Patria Oyj, its majority-owned subsidiaries in Finland in 2018, namely 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 later on will include the figures of Patria's overseas subsidiaries. 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.

Patria reports environmental indicators for nine sites (Tampere, Espoo, Helsinki, Hämeenlinna, Halli, Linnavuori, Pirkkala, Tikkakoski and Utti). The environmental indicators are collated using figures from the following business units: Aviation, Land, Systems and Aerostructures. As Aerostructures completed the acquisition of Patricomp in October 2018, only the last three months of Patricomp figures are included. These figures have been determined by calculating their share from the entire year's figures and therefore they do not reflect the actual figures of those months. Figures for energy and water consumption are not available for Pirkkala. However, Pirkkala has only a minor impact on total consumption volumes (<1.7%). No indicators (other than for waste) have been reported for Millog Oy, as its data collection system is still under development.



POLICIES

Patria has a corporate responsibility policy that determines the framework, outlines, and responsibilities of corporate responsibility, and which is based on the basic ethical guidelines defined in [the Code of Conduct](#). In addition to these, there are several more detailed policies such as

- Business Partner Selection
- Related Parties' Transactions
- Risk Management Process
- Sponsorship and Donations
- Public Relations (Hospitality and Gifts)
- HR Policy and Equality Plan
- Communications
- Lobbying and Opinion Forming
- Patria in social media

Patria has an important role in the security of supply in the Finnish society as a strategic partner of the Finnish Defence Forces. Internationalisation of the operations as well as export practices are linked to the strategic role of Patria.

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.

Patria's mission is to give confidence to its customers in all conditions, and its vision is to be the #1 partner for critical operations. This mission also guides our efforts in ethical conduct.

Patria Group's most important long-term objective is to be recognised as an operator with high ethical standards in the industry. This is achieved with unyielding work in putting into practice Patria's principles regarding ethical practices and the anti-corruption measures, and also by expecting the most important partners to operate on a level corresponding, at minimum, to that specified in Patria's ethical guidelines. We at Patria have 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.

Through continuous training, we make sure Patria's personnel are aware of the ethical principles and the right conduct in the various aspects of their work.

Our responsible operation in certain fields was questioned in 2018. We answered with total transparency and clarity related to the actions taken internally. Time will tell if the good reputation of the company was restored.

We do understand that the global unsettled climate will affect our ethical operations even more in the future. Also, discussion around export licences will continue.

We will continue the work to maintain and develop our ethical conduct, and will keep on communicating with our stakeholders with the utmost transparency and accuracy.

Ville Jaakonsalo, President and CEO, act.



INPUT

FINANCE

- Total Shareholders' equity 251.4 MEUR
- Interest bearing liabilities 56.3 MEUR
- Cash and cash equivalents 8.1 MEUR

PERSONNEL

- 2,800
- Turnover 6.6%

INFRASTRUCTURE

- Locations in Finland (over 30), Sweden, Estonia and Norway, 50% ownership in Nammo
- 3,200 suppliers in 40 countries
- 65% of purchases from Finnish companies

INTELLECTUAL CAPITAL

- Product rights
- Product range
- Strategic partnerships
- References
- Special competences

NATURAL RESOURCES

- Energy consumption
- Water consumption

OTHER RELATIONSHIPS

- Open dialogue with stakeholders

MISSION, VISION, VALUES, OPERATION MODEL

MISSION

We give our customers confidence in all conditions.

VISION

We want to be the #1 partner for critical operations.

VALUES

- We want to succeed.
- Our operations are customer oriented.
- Together we create successes.

PATRIA'S OPERATION IS DEFINED BY

- State of Finland as a majority owner
- Demanding field in defence industry
- Strict regulations
- Strategic partnerships
- Security of supply

OFFERING

- Innovative solutions and products as well as their life-cycle services to the authorities and defence forces in the Baltics and Northern Europe.
- Strategic partnership

IMPACTS

FINANCIAL

- Stakeholder-specific capital flows

	2018	2017
Customers	494.2	488.5
Suppliers	274.3	266.1
Personnel	171.1	171.2
Public sector	7.3	9.5
Non-profit foundations	0.2	0.2
Shareholders	16.7	31.2

- Responsible defence materiel export and development of international co-operation.

SOCIAL

- Expert jobs
- Unique competences
- Unique technologies

ENVIRONMENTAL

- Recycling
- Environmental impacts during the entire life-cycle of the products

VALUE CREATION

SOCIETY

- Security by giving the governments possibility to safeguard the society

CUSTOMERS

- Confidence as trustworthy partner offering reliable products

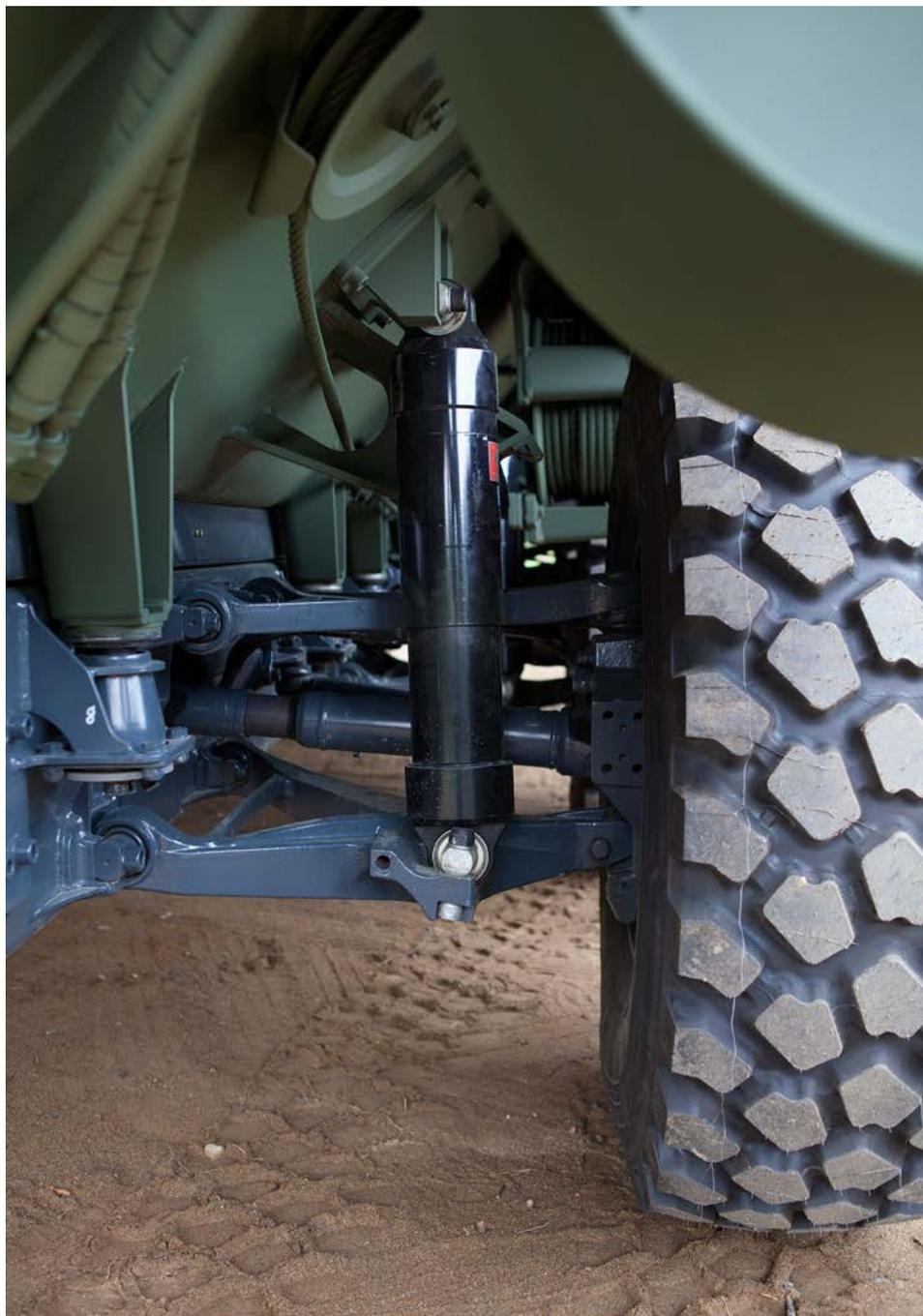
PERSONNEL

- Safety as a reliable employer committed to create safe working environment

OTHER STAKEHOLDERS

- Long-term reliability as a good partner





Patria and society

Patria's role in society is defined by its owners as the majority is owned by the Finnish state and a slight minority by a Norwegian company, Kongsberg Defence & Aerospace, both expecting profitable and ethical business operations. The role of a strategic partner to the Finnish Defence Forces requires high ethical standards and also sets limits to the corporate security of operations and data. The growth strategy and further internationalisation are setting new demands for CSR. Patria's goal is to act in an open and transparent manner in order to maintain the trust of its stakeholders.

In 2018, Patria continued its close cooperation with the Finnish Defence Forces as planned and participated in the preparations of large programmes for the Defence Forces, such as the HX programme, set up to replace the current Hornet fleet with new fighters.

Internationalisation is one of Patria's strategic focus areas. The integration of Estonian Milrem LCM continued in 2018. Also, Patria together with KONGSBERG published that they will acquire AIM Norway and take over the maintenance, overhaul and upgrade of aircraft and helicopters for the Norwegian Air Force. These new businesses will set further demands on responsible business abroad.



SECURITY OF OPERATIONS

In Patria, corporate security plays a central role in ensuring uninterrupted operations. The task of corporate security at Patria is

- to enable its 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 provides business units and support functions with services in corporate security. Corporate security 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 security of production and operations, emergency preparedness, contingency 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.

National Security Authority (NSA) has granted Facility Security Clearance (up to level secret) to Patria Aviation Oy, Patria Land Systems Oy and Patria Land Services Oy in 2018.

SUPPLIERS AND SUBCONTRACTORS

Patria shall make every effort to only deal with suppliers, subcontractors, consultants and agents who are prepared to work in accordance with the principles presented in Patria's Code of Conduct. Patria requires that suppliers, subcontractors, consultants and agents comply with local legislation in all countries in which they operate. Risk evaluation, including ethical risks, is performed regularly.

Patria has some 3,300 suppliers in 42 countries. Almost 70% of them are Finnish companies. Other notable countries are Sweden, Great Britain, Germany and France.

FINANCIAL RESPONSIBILITY

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.

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.

More information on [financial performance is available in the financial statements section](#).

ACTIONS 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 report unethical activities.

More about the measures how Patria develops its ethical operation, including actions against money laundering and bribery, in section [Ethical operation](#).

More information on anti-corruption activities at <https://www.patria.fi/en/corporate-responsibility/management-organisation-and-objectives/active-anti-corruption>



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 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 the applicable tax legislation does not provide clear instructions on a particular issue, the guiding principles are prudence, a conservative approach and transparency.

Tax footprint

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

2018	Finland	Sweden	Poland	Total
Direct taxes payable for the financial year, EUR million (taxes and tax-like charges paid directly by the company)				
Income taxes (business income taxes)	3.4			3.4
Employer contributions (employer's pension and social security contributions, etc.)	1.1	1.7		2.8
Property taxes	0.3			0.3
Indirect taxes payable for the financial year, EUR million (taxes paid by the company as part of the price of the service/product and recognised as expenses.)				
Other taxes	0.1			0.1
Taxes to be remitted for the financial year, EUR million (taxes that the company collects from its customers or employees which it remits to the tax authorities)				
Wage taxes (withholding, employee social security contributions, etc.)	34.2	1.8		36.0
VAT, sales	98.5	5.9	10.9	115.3
VAT, procurements	-63.6	-4.5	-5.2	-73.3

The figures include the most essential international operations. In addition, the group companies have paid taxes to Estonia and Norway.

HUMAN RIGHTS

Patria respects and promotes universal human rights as defined by the United Nations Universal Declaration of Human Rights in its operations. Among the rights that Patria considers fundamental and universal are: freedom of thought, opinion, expression, religion and peaceful assembly as well as freedom from any discrimination based on race, age, nationality, gender or sexual orientation. Furthermore, Patria does not tolerate any use of forced or child labour. The human rights of employees are compliant with ILO Conventions.

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. Sale of defence material is highly regulated and Patria complies with the national legislation and international commitments. 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.

STAKEHOLDER COLLABORATION

Patria collaborates with national and international stakeholders, such as private operators, state owned enterprises, governments and government officials, and agencies, on a variety of levels and in numerous ways (e.g. as a corporate citizen, taxpayer, supplier, business partner, and employer). Collaborating and conducting business with any and all these stakeholders requires high ethical standards, integrity, and transparency. This collaboration is subject to strict requirements concerning anti-corruption and anti-bribery, as well as requirements concerning procurement practices, lobbying, sponsorship, representation, conflict of interest situations, gifts, and benefits.

Patria directors, officers, employees, and business partners are required to conduct business with high integrity and ethical standards and in a transparent manner when collaborating and interacting with any and all of the aforementioned stakeholders, and to comply strictly with the Patria Ethical Code of Conduct and related guidelines and policies, as well as with any and all applicable laws and regulations.

Patria works in close, long-term cooperation with these stakeholders and understands good partnership to be professional, reliable, responsible, open, and transparent collaboration that all parties involved can accept without reservation. Patria manages its stakeholder relations honestly, ethically, fairly, and confidentially. Patria does not tolerate any deviation from high ethical standards of integrity, transparency, ethical conduct, and compliance.

Excellent examples of 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.





Key stakeholders

Patria's key stakeholders include owners, personnel, customers, suppliers, authorities, and various industry and business organisations, as well as non-governmental organisations, certain educational establishments, and their students and media.

Stakeholder	Interaction	Assessment
Owners	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
Personnel	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
Customers	Regular customer contact, life-cycle customer support for products, customer events and seminars, customer magazines, the internet, conferences and fairs, product documentation, customer feedback system, customer satisfaction surveys	Customer questionnaires, feedback, QA system, audits
Suppliers	Open and active interaction between the purchasing organisation and the suppliers, the ERP system, supplier days	Suppliers evaluations, audits
Authorities	Cooperation and reporting with the authorities regarding, e.g. the environment, occupational safety and security, CSR reports, company presentations, communication and the internet	Stakeholder questionnaires, feedback
Industry and business organisations	Membership in and active involvement with industry organisations (such as PIA, NORDEFECO, ADS, ELDIG, Federation of Finnish Technology Industries)	Interaction, meetings, stakeholder feedback, visibility
Non-governmental organisations	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
Educational establishments, students	Offering training and working opportunities, research and development projects, guest lectures, recruitment events, general presentations, visits, seminars, supporting student activities, the internet, the social media, campaigns and open door events	Employer image surveys, stakeholder feedback, number of recruitment event participants and questionnaires, feedback received
Media	National and international publications, magazines, online media, fairs and events, interviews, bulletins, 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



According to the results of the stakeholder survey, Patria has comprehensive special expertise and is a reliable partner.

There is a list of requirements to be used in identifying a key stakeholder:

- The key stakeholder has a major impact on the organisation's performance.
- Patria's business units and/or support functions can identify what they want or need from the key stakeholder.
- Patria wants to maintain or develop a relationship with the key stakeholder further.
- The key stakeholder is not easy to replace.

Each unit and project also identifies its own key stakeholders that are essential for the success of the project. They categorise stakeholders to get a more detailed analysis of their influence and importance. It is essential to have a clear overview of the nature and role of the stakeholder. After the project, the impact of the efforts of the key stakeholders and their needs are analysed to enable further development of the relationship.

Stakeholder interaction

There are several ways of interacting with key stakeholders. Regular, transparent, and open dialogue is a basis for interaction with stakeholders. See the table on [page 56](#).

Every third year, Patria conducts a group-level stakeholder survey, in which stakeholders can rate, for example, Patria's way of working, expertise, reliability, image, and corporate social responsibility. The last survey was done in 2017. In the survey, more than 90% of stakeholders 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. The next survey will be conducted in 2020. Besides this large survey, the business units conduct project-specific surveys throughout the year.

Patria also has several feedback channels for stakeholders on its web pages, including an anonymous tool.

When the feedback is received, it is forwarded to the unit specialising in that issue, and they answer or take care of the request. In this way, Patria ensures that all the interests of stakeholders are covered and taken care of.

Key topics

In 2018, there were two main key topics and concerns that were raised by stakeholders. These were arms exports and business partner selection. Both topics were widely discussed in public. To identify the topics and concerns, Patria has a media monitoring tool that analyses the issues, the content, and the source of news daily. Patria communicated openly on all the topical issues, arranged several press conferences, and arranged several media background meetings, besides which it also held several discussions with other key stakeholders. Patria also organised a public arms export panel with several experts in SuomiAreena in Pori. That event was also held to highlight the transparency in the company's activities.

Responsible stakeholder co-operation

Patria and Tampere University of Technology (TUT) signed a collaboration agreement in the field of aeronautical engineering in June 2018. Patria has pledged significant financial support to TUT over a ten-year period. The purpose of the collaboration is to ensure the continuous availability of high-quality aeronautical engineering expertise in Finland, and to support and strengthen research in the field. TUT will be the first university in Finland where students can major in aeronautical engineering.

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 prevention of the marginalisation of young people. More information about Myrsky project at: <https://www.vlmyrsky.fi/>

Patria also continued its long-term cooperation with the Finnish Military Sports 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 2018–2019 season.

In addition, Patria met representatives of non-governmental organisations at various events. The company organised a morning event with commonly agreed agenda of current topics for the representatives of national organisations, continuing an established tradition of engaging in the related discussions.

The company also continued its dialogue on compliance issues and responsibility with Transparency International UK. In the autumn, Patria, among other major defence companies, was asked to give its response to the coming Defence Companies Anti-Corruption Index 2019 survey.

With its Christmas donation funds, the company supported the Red Cross Emergency Youth Shelters, which offer support for youth and their families when they need outside help.

MEMBERSHIP IN ORGANISATIONS

Patria Oyj is a member of several organisations. Patria participates in the United Nations Global Compact and supports its work through annual contribution. Leading Finnish companies operating in international and domestic markets established the Global Compact Finland Network to gather all the Finnish companies and organisations committed to the principles of the UN Global Compact. Patria has a representative on the Global Compact Finland Network Board. Patria is also a member of the Finnish Corporate Responsibility Network FIBS.

Patria is also a member of industry-related groups. Patria is a member of the Association of Finnish Defence and Aerospace Industries (AFDA), and Patria's representative acts as Chairman of the Board. AFDA covers almost all the defence-related industries in Finland, with about 120 member companies. AFDA has close relations with the Finnish Ministry of Defence and Defence Forces. AFDA is the focal point for defence industries in Finland, and AFDA is a member of the Aerospace and Defence Industries Association of Europe (ASD). Patria is also a member of the AmCham in Finland and the Chamber of Commerce in the Helsinki region.

STAKEHOLDER-SPECIFIC CAPITAL FLOWS

Direct economic value, EUR million			2018	2017	2016	2015
		Consolidated net sales	476.1	467.2	489.9	427.7
		Other operating income	17.7	21.2	23.4	20.4
		Financial income	0.4	0.1	0.4	0.1
Customers	Sales	Income, total	494.2	488.5	513.8	448.2
Suppliers	Goods, materials and services	Operating costs excluding depreciation and personnel expenses	274.3	266.1	254.2	217.3
Personnel	Wages, salaries and fees	Personnel expenses	171.1	171.2	169.7	170.0
Public sector	Taxes	Payments to government (taxes)	7.3	9.5	4.3	4.3
Not-for-profit organisations	Support and donations	Donations and other charitable payments	0.0	0.0	0.0	0.0
		Payments made to shareholders and loan providers				
Shareholders	Dividends	Dividends	16.7	31.2	13.9	13.9
Investors	Financial costs	Interest and other financial expenses	2.6	2.7	3.3	2.5
	Expenses	Distributed, total	472.0	480.6	445.4	408.0
	Sales-expenses= added value	Economic value retained for operational development	22.2	7.9	68.4	40.2
Investments		Investments in tangible and intangible assets as well as acquisitions	7.3	19.6	16.5	23.9

Ethical operation

Patria's ethical operation is based on a group-wide attitude of responsibility. The ethical operation is described in Patria's Ethical Code of Conduct setting standards for ethical conduct. Patria acts responsibly and expects the same from its current and future partners and therefore clear Business Partner Selection process is a prerequisite for all operations.

During the spring of 2018 Patria commissioned an internal audit targeted at Patria's international operations and especially the key processes in sales, marketing, and selection of business partners. The audit was performed by an external party specialised in internal audits. The audit was initiated after February 2018, when it came to light that a sales person at Patria had given written permission to a party, who was not a consultant or market representative of Patria as per the Patria policy, to distribute Patria product brochures. The audit concluded that nothing could be found which would require new, major corrective measures.

Patria continued to develop its ethics and compliance training further. In addition to the annual online training for all personnel there will be in-depth class training for specific groups with stakeholder relations. This new training will be implemented in 2019. In addition, in 2018 Patria arranged extensive in class training for selected groups of personnel concerning the Business Partner Selection Process. Also, the Group-level Business Partner Selection process was further developed, and the new process will be finalized and implemented during 2019.





ETHICAL CONDUCT - PROCESS ELEMENTS

Prevention - raising awareness through clear policies and training to ensure ethical decision-making and ethical business conduct.

- Through annual basic training for all personnel and more in-depth training for special groups.

Detection - encouraging people to report any concerns or suspected cases of unethical conduct and offering tools to identify potential issues.

- Pulse taken every other year by personnel and selected other stakeholders via surveys, with explicit questions on possible corrupt activities or other unethical conduct
- Part of the general personnel engagement surveys, the latest being in 2018
- Stakeholder feedback enabled via a channel on the website
- Internal and external whistleblowing channels, including the possibility for anonymous reporting

Correction - investigating all reported concerns and taking appropriate corrective action when a case of corruption or other unethical conduct is discovered or suspected.

- Process in place and available internally for personnel in the Integrated Management Systems.
- Responsibility of the General Counsel/Chief Compliance Officer

Interaction - collaborating with others in the industry to promote wider adoption of anti-corruption and anti-bribery measures.

ETHICAL TRAINING

All Patria employees complete a mandatory online training course annually on ethical business conduct, which is based on the Patria Ethical Code of Conduct and related guidelines and policies. The training materials cover and include practical cases on ethical decision making, ethical business conduct, working with third parties, conflict of interest situations, gifts and benefits, and other topics focusing specifically on anti-corruption and anti-bribery. The goal of the training is to ensure that all Patria

employees have the knowledge that is required to conduct business in an ethical and compliant manner and through that contribute to Patria's overall goal of actively fighting corruption. The training is available in several languages corresponding to Patria's operation in different countries. Furthermore, the training informs about the channels available for reporting concerns.

In addition, especially for employees working closely with different stakeholders, such as personnel in sales and marketing, procurement, finance and project management, mandatory tailored class-room training is provided. The training material cover themes such as anti-corruption, anti-bribery, gifts and hospitality, conflict of interest situations, sponsoring, lobbying, business partner selection and working with third parties, money laundering, etc.

New Patria employees get acquainted with Patria's ethical business conduct requirements and Patria's Ethical Code of Conduct (and related guidelines and policies) in a general introduction training soon after their employment has commenced. New Patria supervisors take ethical business conduct training in connection with Superior Passport Training as one part of that overall course.

Strategic suppliers and business partners are introduced to the Patria Ethical Code of Conduct and are required to commit to acting responsibly and ethically. In addition, key business partners are trained in class on Patria's requirements regarding ethical business conduct, with a special focus on anti-corruption and anti-bribery.

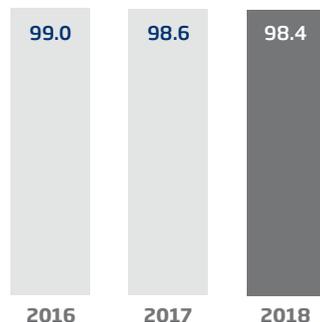
In 2018, Patria continued to develop its ethical training so that in addition to the annual training for all personnel there is an in-depth training for the specific groups with stakeholder relations. 98.4% of all Patria people completed the ethics online training. Online training took place in Patria's business units in Finland, Sweden and Norway. Milrem in Estonia and personnel of the newly acquired Patricomp took part in class room trainings. Millog will implement the online ethics training independently in the beginning of 2019. In the 2017 figures Millog was included. In-depth class-room trainings will take place in April 2019.

In 2018, special emphasis was given to the Business Partner selection process, as 120 persons from various business units attended the related training. An update process involving all related experts in the company was started. A new, more flexible process will be taken into use in 2019.



ETHICAL TRAINING

% OF EMPLOYEES TRAINED



2018 online training took place in Patria's business units in Finland, Sweden, and Norway. Personnel from Milrem in Estonia and the newly acquired Patricomp took part in classroom trainings. Millog will implement online ethics training independently in the beginning of 2019. Millog was included in the 2017 figures.

RAISING CONCERNS

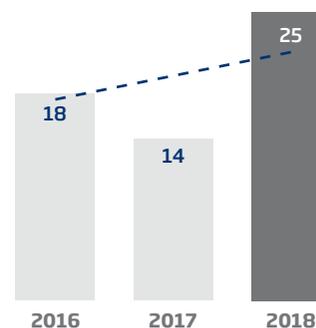
Acts in violation of Patria's Code of Conduct, even when done with the best of intentions, may cause significant long-term damage to Patria's reputation and may lead to legal actions against the company and its personnel. Any member of Patria's personnel who violates the Code is subject to strict discipline, up to and including termination of employment or contract.

The Code (or materials related to the Code) cannot possibly address every specific situation that Patria's personnel will face in the complex business environment. In case of uncertainty, Patria personnel are advised to discuss the matter with their nearest superior, the Human Resources Department, or to seek advice from Patria's Legal Department. Furthermore, all personnel members are obligated to diligently report any compliance concerns or potential or suspected violations of this Code to their own superior or to the General Counsel. Channels for reporting are

- an email address leading to the Chief Compliance Officer and
- Patria's internal channel, also enabling anonymous reporting.
- External stakeholders can contact Patria via the feedback link.

In all instances, the rights and privacy of both the reporting person(s) and the one(s) accused of violations are adequately protected and assured. Patria will not tolerate any adverse employment action or retaliation against a person who raises a compliance concern. Any person who retaliates against another for raising a compliance concern in good faith will be subject to strict discipline, up to and including termination of employment.

WHISTLEBLOWING REPORTS



Reports on alleged misconduct show an upward trend. With no serious misconducts reported, more reports is seen as an indicator for growing trust in the system. The number of reports in proportion to the headcount is at a standard level, which, according to some sources, is around 1-1.4% of the number of employees.

No serious incidents were reported in 2018. Reports concerned issues falling within the responsibility of HR and management, such as managerial duties, recruitment, and inappropriate behaviour.

GENERAL DATA PROTECTION REGULATION

General Data Protection Regulation (GDPR) related project was run to ensure compliance with the regulations. Also, GDPR online training was provided to personnel. The GDPR processes and practices will be further developed during 2019 and further training will be provided.



A responsible employer

Patria is a significant employer of specialists, and currently employs more than 2,700 professionals both in Finland and abroad. Occupational wellbeing is one of the core themes of Patria's corporate responsibility. The company aims to provide its personnel with a safe and motivating working environment, and uses the sickness absence rate and the results of the personnel survey as key indicators.

Patria provides a safe, productive and health work environment, where each individual and team can give an excellent performance in a well-managed organisation. Sickness absences remained at last year's level on around 3.5 per cent, mainly due to the successful measures implemented in Patria's various business units. The main area for development identified by the job satisfaction survey (Patria People) was the company's leadership culture. Measures to address this will be at the centre of attention in 2019.

The content of Patria's Group-level specialist training programmes focused on leadership and management competence were updated on the basis of the company's strategy.

A lot of effort was put on the employer image development, Patria created and published its employer image concept in 2018.

ORGANISATIONAL CHANGES AND PERSONNEL TURNOVER

As a consequence of the Group-wide cooperation negotiations that concluded in late 2017, some task reductions and reorganisations were implemented during 2018.



Significant changes were made to Patria’s organisational and operating models at business unit level, and operating methods were also renewed in Group-level functions. As a result, the personnel turnover rate was 6.6 per cent compared to 5.5 per cent in the previous year. This is higher than the average turnover in the sector. However, this figure is expected to fall during 2019 as the situation re-stabilises. 171 new permanent employees were hired during 2018.

ANALYSING EMPLOYEES’ OPINIONS

In November 2018, Patria conducted a personnel survey called Patria People. The aim was to analyse employees’ opinions of their own work, their local workplace community, leadership, and overall functionality throughout the Group after organisational restructuring. The survey was conducted in all business units in all countries excluding Millog. Last survey was conducted in 2015 and the next one is planned to conduct in 2020.

A response rate of 87 per cent indicates that Patria personnel are genuinely interested in influencing both the company’s operations and their own working environment. The survey showed clear strengths at Group-level: commitment, motivation, interesting tasks, a good team spirit and good occupational safety. A large proportion of respondents felt that their work is beneficial, interesting and sufficiently challenging. Patria employees take pride in their work and tend to remain with the company for a long time.

According to the survey, the areas in need of development at Group-level include operational and leadership culture and issues relating to recent business developments. Many respondents also felt that the company should invest more in employee wellbeing. Management should also be more visible and provide more information about targets.

The Board of Management has examined the survey results and discussed the most salient points, and Patria’s core strengths and areas for development have been identified. It has also reviewed the development plans made by the business units. The planned development actions will be carried out in the business units and they will be regularly reviewed by the related business units’ Management Group but also by the Board of Management.

On the Group-level special focus is put on the communication of strategy and targets to all personnel.

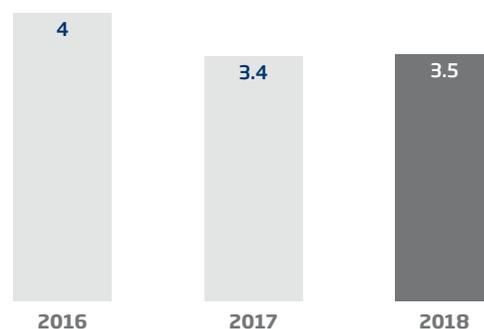
ENSURING WORKING CAPACITY

Ensuring working capacity was once again one of Patria’s main themes in 2018. Actions have included the systematic introduction of an early intervention model, close cooperation with occupational healthcare and Patria’s pension company, and coaching for supervisors in occupational wellbeing themes. In order to control the risks involved in the working capacity the measures have been started in an early stage by e.g. online health questionnaires. Change support during the organisational restructuring has also been provided in cooperation with the occupational healthcare.

According to the personnel survey conducted in 2018 Patria employees consider their working environment to be safe. In Patria development of occupational safety and wellbeing of the working community is a common goal. An active occupational safety and health operation promotes the wellbeing of both individuals and the community.

In addition to the other channels there is a channel for reporting unethical conduct. A significant proportion of the reports received via this channel concerned HR issues, mainly suspected cases of inappropriate conduct in the workplace. All reports were investigated and appropriate actions were taken.

SICK LEAVE TREND AT PATRIA GROUP



The average absence rate increased to 3.5% from the previous year’s 3.4%.



Patria’s accident frequency rate fell to 15 incidents per million hours worked (21 in 2017). This is a good level for the sector. Occupational safety has been one of the main themes in Millog in 2018 but also in other business units systematic work has been continued. At the Patria Group’s joint occupational health and safety days, participants heard about efforts to promote safety culture in the Aviation business unit and the outputs from the project “Safety-criticalness as a success factor”.

Patria’s occupational healthcare is run by Finla Työterveys Oy, which centrally coordinates healthcare for all of Patria’s locations. This operating model helps to ensure that all locations comply with Patria’s shared operating and reporting principles, and that costs are centrally managed regardless of the service provider.

Measures taken by business units to reduce sickness absences have borne fruit. Sickness absences remained at the same level as in the previous year, with an average of 3.5 per cent in 2018 compared to 3.4 per cent in 2017. These figures correspond to the industry average and meet Patria’s target setting.

RENEWAL AND CONTINUAL LEARNING

Renewal and competence development lie at the heart of Patria’s strategy, at both Group and business unit level. Successful competence development requires a learning plan to be drawn up with employees and holding performance and development discussions. 67 per cent of Group personnel attended a performance and development discussion in 2018 compared to 90 per cent in 2017. The low figure for 2018 was partially due to the fact that some discussions were not recorded in Patria’s Kampus e-learning system. Organisational restructuring also increased the number of change management discussions that were held, which meant that performance and development discussions played a less important role than usual in 2018.

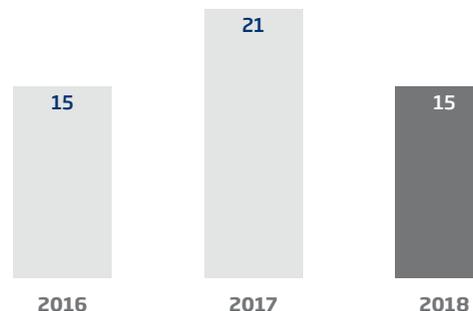
Patria’s competence development revolves around ensuring successful customer interactions and the realisation of the company’s strategy. The content of Patria’s Group-level programmes (LEAP, STEP and Pro Point) was updated on the basis of the company’s strategy. A tender was also issued to find a provider for the LEAP3 leadership programme, in order to better meet the requirements of Patria’s international business.

Two programmes that began in 2017 were concluded during 2018: LEAP2 and Pro Point 2, which focused on competence development for specialists. STEP4 – a supervisor training programme with new content – also ran in 2018. LEAP2 programme had 26 participants, Pro Point 2 programme 19 and STEP4 19.

Patria provides a game **On Board with Patria** to support the induction of new employees, and its content has also been updated.

Due to the popularity of online courses, in late 2018 an open call was issued for Patria employees interested in training as e-learning professionals. The goal is to expand content production expertise at Patria, so that even higher-quality study materials can be produced for Kampus. A total of 14 people joined the scheme.

FREQUENCY OF ACCIDENTS AT PATRIA GROUP, BROKEN DOWN BY THE NUMBER OF ACCIDENTS PER MILLION WORKING HOURS



The frequency of accidents decreased to 15 from the previous year’s 21.



COMPENSATION

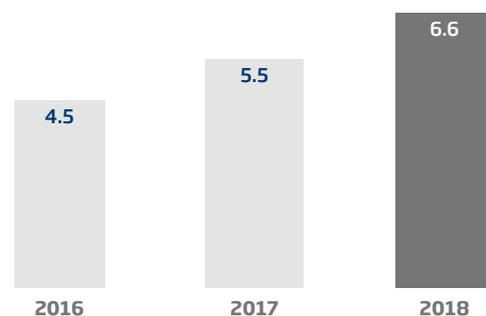
Compensation for both blue-collar and white-collar employees is determined by collective agreements. Individual agreements are made with senior salaried employees, using the International Position Evaluation (IPE) system for competence classification.

Successes and good performance are also 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 equivalent to 1.8 times their monthly salary. This system is described in more detail 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, and approximately 20 per cent of Patria personnel have invested their bonuses and profit shares in this fund since 2015.

Patria offers flexitime to all personnel, and has been able to arrange part-time work, job rotation and study leave opportunities. Employer support for recreational activities totalled EUR 115 per person in 2018.

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 6.6% compared to 5.5% in the previous year. This turnover rate is above the industry average.

PERSONNEL STATISTICS

Personnel	2018	2017	2016
Personnel average	2,791	2,792	2,765
Personnel in Finland	2,626	2,664	2,646
Blue collar, %	41	42	43
Salaried, %	19	20	21
Senior salaried, %	40	38	36
Proportion of women, %	15	15	15
Proportion of women in Board of Directors	2/8	2/8	2/8
Proportion of women in Board of Management	3/9	3/9	2/8
Education			
University, %	17	16	15
University of applied sciences, %	30	30	31
Vocational/upper secondary school, %	51	51	52
Basic education, %	2	2	2
Employment			
Average age	45.7	45.6	45.4
Average length of service, yrs	14.7	15	15.1
Personnel turnover, %	6.6	5.5	4.5
Permanent employees, %	95.3	96.5	95
Part-time employees, %	2.2	2.5	2.1
Occupational health and safety			
Absenteeism attributable to sickness, %	3.5	3.4	4
The frequency of accidents qty per million work hours	15	21	15



EMPLOYEE INFLUENCE

Patria applies the collective agreements of the Federation of Finnish Technology Industries, and about 96 per cent of personnel fall within their scope. Patria honours the negotiation arrangements currently in force. All employment matters are primarily dealt with between employees and their supervisors. This basic relationship is supported by the shop steward and negotiation systems contained in the collective agreements. Local agreements are also part of established cooperation, and local agreements are made at different levels of the organisation depending on the issue at hand. 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 that regularly handle matters required by the Act on Cooperation within Undertakings. Traditional initiative management procedure has been gradually replaced with the Lean model, one business unit at a time.

EQUALITY AND DIVERSITY

By default, every Patria employee should promote equality in their behaviour and actions. Everyone has the right and responsibility to intervene in the case of observed grievances. This is an important foundation for good management and, thereby, also profitable operations. Patria has an equality policy and unit-specific equality plans. Every second or third year, a personnel survey is conducted to measure success in equality issues. The business units will then update their equality plans on the basis of its results.

EMPLOYER IMAGE

Patria seeks an attractive employer image that supports the company's strategy while also providing a guideline for both internal development and external communications. It is important for Patria employees to have a positive image of their employer, as it is Patria employees and their stakeholders who play the most important roles in creating the company's employer image.

Patria created and published its employer image concept in 2018. The company's HR and communications professionals researched and encapsulated Patria's strengths as an employer in the opinion of its employees. During spring and summer 2018, these results were used to create a new employer promise, its associated arguments, and the key elements of Patria's employer image.

Development of the employer image is being measured from three viewpoints. Firstly, Patria employees' views, which have been charted in the personnel survey in 2018. According to the survey 70 percent of the personnel is ready to recommend Patria as an employer. Corresponding figure in 2015 was 63. Secondly, the view of the professionals outside Patria. Patria ranked as 26th in the Universum survey on the most attractive employers among IT professionals (31st in 2017) and among engineering 25th (no corresponding figure from 2017). Thirdly, the students; Patria was ranked 41st among IT students (30th in 2017) and engineering students 32nd. Increase was mainly seen among the professionals. Decrease was especially among the IT students.



EMPLOYER PROMISE

You make the difference

Securing society: we are proud to advance national and international security. It requires a responsible attitude and excellence that guarantees reliability in all conditions.

You have an impact: at Patria, you have an impact in the contents of your work, career development, your clients' and the whole company's success. You can be as good as you can ever be.

Focus on the essential: do what you love and see the results of your work. You are crucial to us. We want you to be well and live a full life.

A great bunch of people: we work in innovative and energetic teams where smiling is allowed. We believe that the best results are achieved in a good atmosphere.



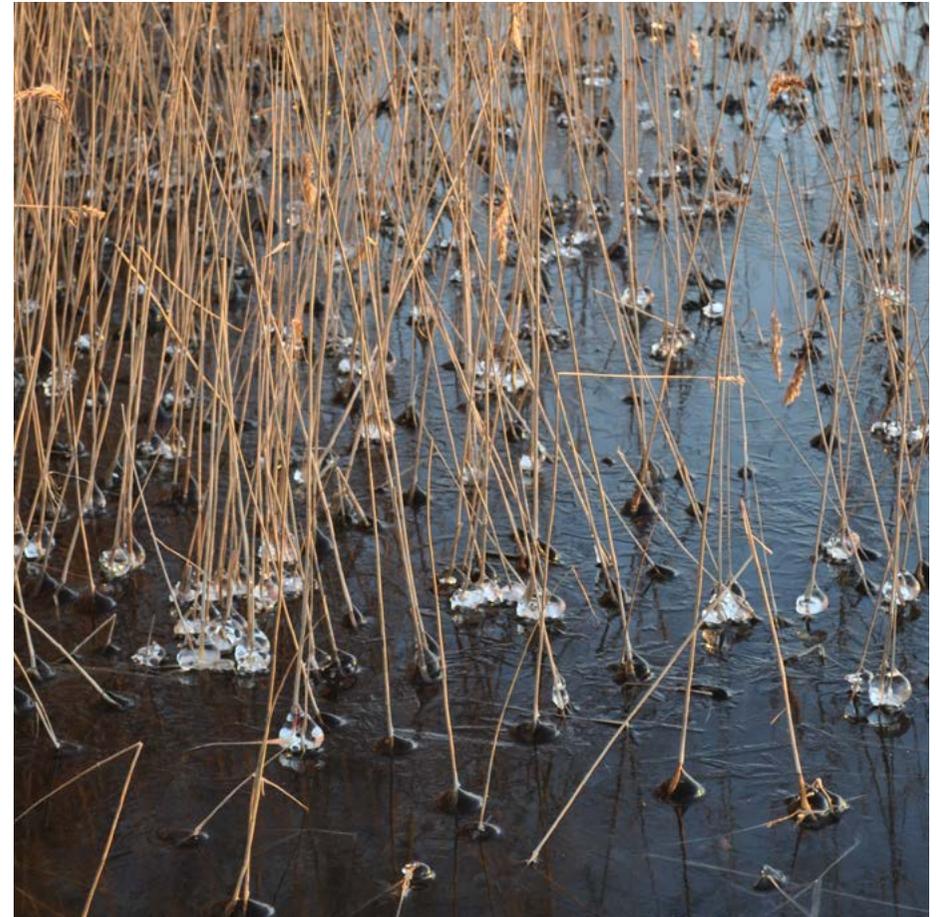
Environmental responsibility

Patria's environmental responsibility is guided by the Group's environmental policy, and the international principles for environmental responsibility to which the company is committed. According to our stakeholder survey, the key aspects of Patria's environmental responsibility are compliance with chemicals and environmental legislation, waste recycling and energy efficiency.

Patria has promised to take concrete measures to promote sustainable development in its operations. Patria seeks to make energy and water consumption more efficient, and to have a positive impact on the recycling and responsible disposal of waste. Our main focus in 2018 was on developing reporting, such as by promoting transparency. Our environmental reporting has also been developed to better meet the Global Reporting Initiative Standard (GRI).

Responsibility for Patria's environmental responsibility development lies with the Environmental Work Group. This group is tasked with furthering collaboration, sharing information between various business units, and planning and reporting on the Patria Group's environmental responsibility. An external expert organisation (Ecobio Oy) is responsible for the development and coordination of the Environmental Work Group. Ecobio is seeking to enhance the Work Group's reporting practices.

Patria reports environmental indicators for nine sites (Tampere, Espoo, Helsinki, Hämeenlinna, Halli, Linnavuori, Pirkkala, Tikkakoski and Utti). The environmental





indicators are collated using figures from the following business units: Aviation, Land, Systems and Aerostructures. As Aerostructures completed the acquisition of Patricomp in October 2018, only the last three months of Patricomp figures are included. These figures have been determined by calculating their share from the entire year's figures and therefore they do not reflect the actual figures of those months. Figures for energy and water consumption are not available for Pirkkala. However, Pirkkala has only a minor impact on total consumption volumes (<1.7%). No indicators (other than for waste) have been reported for Millog Oy, as its data collection system is still under development.

Patria's business units have objectives that are specific to each unit and site, and take 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 a life-cycle perspective whenever possible.

ENVIRONMENTAL MANAGEMENT SYSTEMS

Patria's most significant production sites have ISO 14 001 certified environmental management systems. With the aid of the environmental management system, Patria aims improving the management of our environmental impact and the level of environmental protection within the Patria Group.

Patria Aviation Oy updated its environmental management system to meet requirements of the ISO 14001:2015 standard in 2018. Patria's subsidiary Millog updated its environmental management system to ISO 14001:2015 in 2016 and Land in 2017.

ENERGY CONSUMPTION

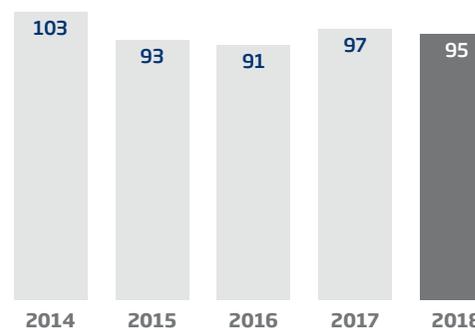
Patria's indirect energy consumption consists of electricity and thermal energy consumption, with direct primary energy consumption deriving from fuel consumption by aircraft, vehicles, gas turbines and diesel engines.

Heat consumption

As part of Society's Commitment to Sustainable Development, coordinated by the Ministry of the Environment, Patria (excluding Millog) sought to reduce the energy consumption of the key properties that it manages by three per cent by 2018 (that is, compared to 2014). This target has not completely been achieved in all Patria facilities in which variation is considerable. New targets are to be set.

The weather-normalised thermal energy consumption of properties managed by Patria decreased by 1.2%. Specific heat consumption, which defines energy consumption in proportion to the number of heated building cubic metres, decreased by 7.3%. This figure does not include Patricomp.

HEAT (TJ)



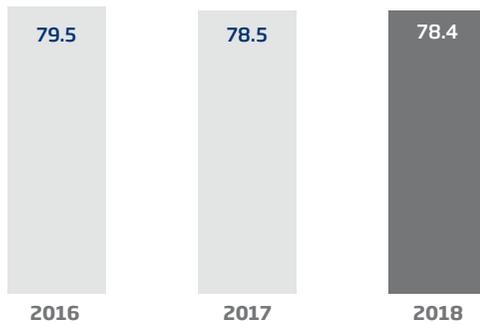
Patria's thermal energy consumption in terajoules, 2014-2018.



Electricity consumption

In 2018, Patria’s electricity consumption remained the same as in 2017. Specific electric energy consumption, which defines energy consumption in proportion to the number of electrified building cubic metres, decreased by 2.9%. These figures do not include Patricomp. Patria has taken measures to decrease the consumption of electricity in cooperation with its property management company (Caverion Suomi Oy) by, for example, replacing lighting systems.

ELECTRICITY (TJ)



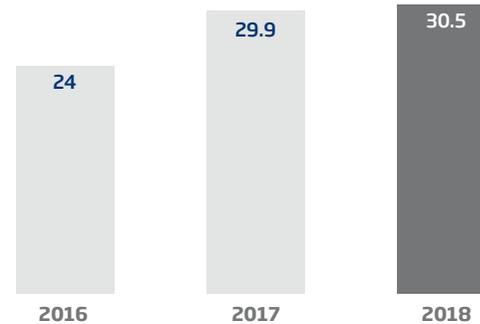
Electricity consumption in terajoules, 2016–2018.

Fuel consumption

In 2018, Patria’s total fuel consumption increased by 1.3% on the previous year. The consumption of light fuel oils rose by 20%, while the consumption of diesel decreased by almost 50% and that of motor gasoline by almost 20%. There were no significant changes in the consumption levels of other fuels. Fuel consumption rose by about 0.6 terajoules.

The Finnish Defence Forces monitor the consumption of fuels used by its aircraft in military flight training and maintenance test flights.

FUEL ENERGY (TJ)

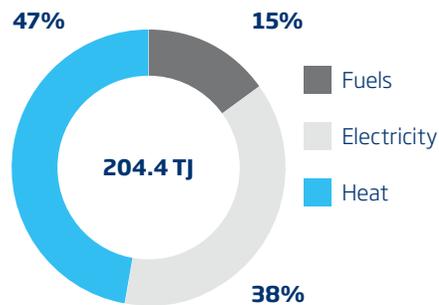


Fuel energy consumption in terajoules, 2016–2018.



As a whole, Patria's various operations consumed a total of about 200 terajoules of energy in 2018. Total energy consumption fell somewhat due to changes in the formulae used to calculate fuel energy consumption.

ENERGY CONSUMPTION 2018



Breakdown of total energy consumption, 2018.

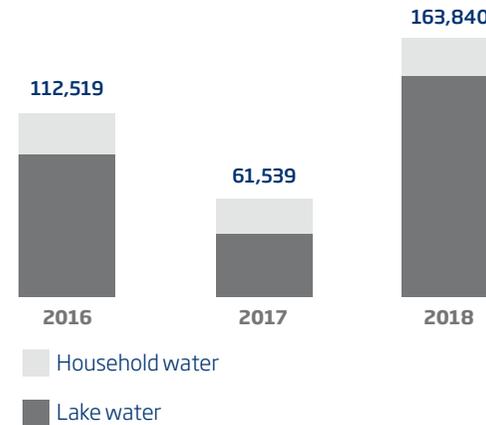
WATER CONSUMPTION

Total water consumption

Patria's (excl. Millog) total water consumption (household water and lake water) rose by 166%. The consumption of lake water increased by 3.5 times what it was in 2017. This is due to fluctuations in the number and type of engines that are overhauled in different years. At the Linnavuori site, lake water is used to cool engines during test runs and to dry ovens and vacuum furnaces. The used cooling water is fed back into Lake Jokinen. Lake water accounted for 85% of total water consumption.

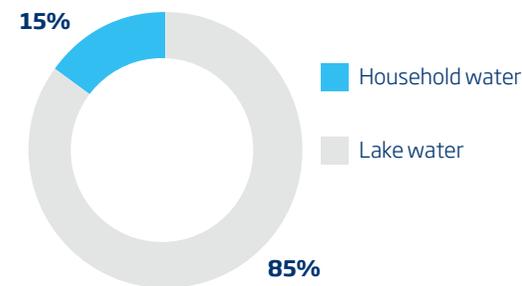
Patria's total consumption of household water rose by 13% on 2017. Production volumes also affect water consumption.

TOTAL WATER CONSUMPTION (M³)



Total water consumption, 2016-2018.

WATER CONSUMPTION 2018



Breakdown of household and lake water consumption, 2018.



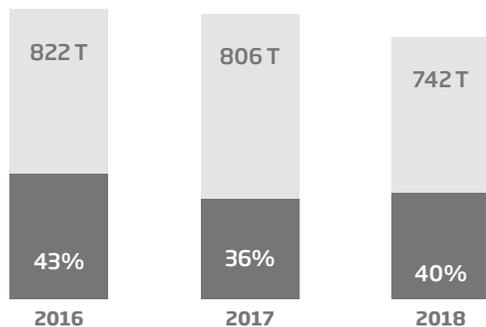
WASTE

The Group's operations primarily generate common municipal waste, scrap metal, hazardous waste, and construction and industrial waste. The total volume of waste generated by Patria in 2018 was approximately 742 tonnes, which is about 8% less than in 2017. Patria's 2018 recycling ratio was 40% of its total waste volume, compared to 36% in the previous year.

Most (81%) of this waste consisted of common waste, that is, municipal and construction waste and scrap metal (578 tonnes). The rest (19%) of the waste was hazardous (163 tonnes). 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, precipitate and other waste classified as hazardous.

THE TOTAL VOLUME OF WASTE AND RECYCLING RATIO BETWEEN 2016 AND 2018

PATRIA

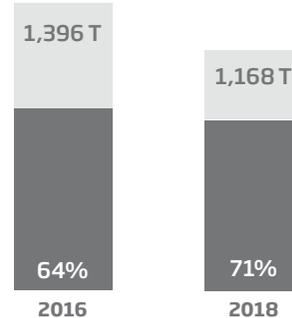


- Utilisation of waste as energy, deposits at landfills, or other processing
- Recycling

Waste volumes for Patria 2016–2018.

THE TOTAL VOLUME OF WASTE AND RECYCLING RATIO BETWEEN 2016 AND 2018

MILLOG



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

Waste volumes for Millog, 2016–2018. 2017 figures for Millog are not available.



There are no comparison figures available for Millog, which is part of the Patria Group, as Millog did not report its waste figures for 2017. Millog's total waste volume for 2018 was about 1,168 tonnes. Most of the reported waste (732 t) is metal scrap as Millog destroys the Defence Force's obsolete equipment. This big amount of metal scrap affects the recycling figures of both Millog, and Patria Group as a whole, which should be considered when studying the figures.

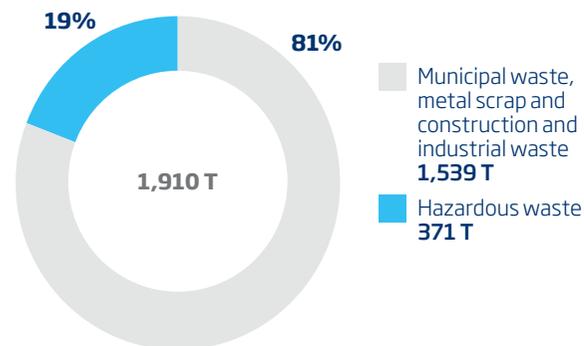
The Patria Group's waste volume totalled about 1,910 tonnes, including waste figures for Patria and Millog.

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

The waste usage rate (treatment methods other than landfill) was about 92% and the recycling rate was about 59% (if Millog's waste is also included). Approximately 65% of municipal waste was recycled, constituting an increase of five percentage points on 2016). Without Millog's figures, the municipal waste recycling percentage rose by four percentage points compared to the previous year. The total amount of municipal waste also decreased by roughly 35 tonnes.

Approximately 34% of hazardous waste was recycled, constituting a decrease of about one percentage points compared to year 2016. Without Millog's figures, the hazardous waste recycling percentage stood at 17%, representing a increase of three percentage points. The amount of hazardous waste increased by about 30 tonnes compared to the previous year.

VOLUME OF WASTE PRODUCED BY PATRIA 2018

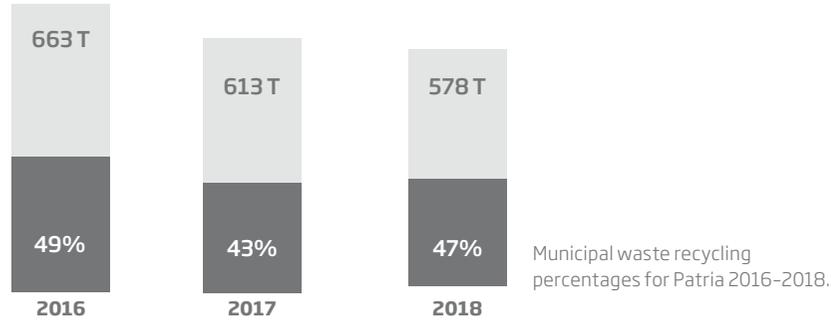


A breakdown of the volumes of municipal and hazardous waste generated by the Patria Group's operations in 2018. Includes waste figures for Patria and Millog.



MUNICIPAL WASTE, METAL SCRAP AND CONSTRUCTION AND INDUSTRIAL WASTE

PATRIA



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

Recycling

MUNICIPAL WASTE, METAL SCRAP AND CONSTRUCTION AND INDUSTRIAL WASTE

MILLOG

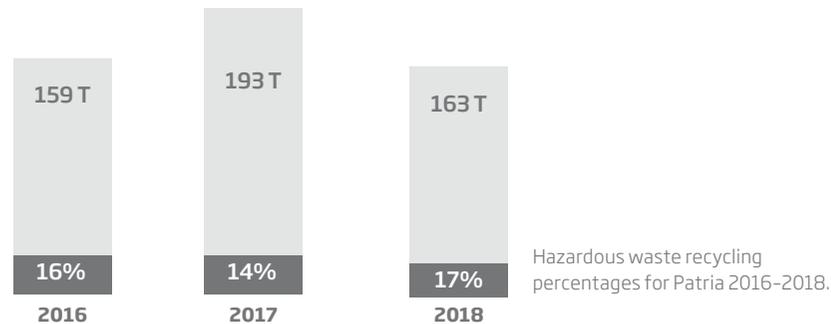


Utilisation of waste as energy, deposits at landfills, or other processing

Recycling

HAZARDOUS WASTE

PATRIA

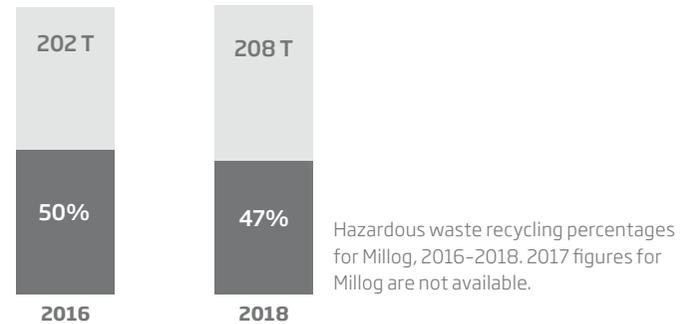


Utilisation of waste as energy, deposits at landfills, or other processing

Recycling

HAZARDOUS WASTE

MILLOG



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

Recycling



GRI Index

Patria uses the Standards as a general guideline for good reporting principles. In the future, Patria aims to report in accordance with the GRI standards at Core level.

GRI Standard numbers	GRI Disclosure (based on new GRI Standards)	Page number	Additional information
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102-24	Nominating and selecting the highest governance body	113-115	
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102-48 - 102-49	Restatements of information, Changes in reporting	46-47, 89	Restatements regarding financial information.
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102-56	External assurance		The report has not been externally assured



GRI Standard numbers	GRI Disclosure (based on new GRI Standards)	Page number	Additional information
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Board of Directors' Report

NEW ORDERS AND ORDER STOCK

The value of new orders received during the financial period was EUR 474.1 million (EUR 309.5 million in 2017). Defence material and life cycle support accounted for 95% (92%) and civilian products for 5% (8%) of the new orders. At the end of December, the Group's order stock was EUR 687.1 million (EUR 691.9 million).

NET SALES AND PROFITABILITY

The Group's net sales for the financial period totalled EUR 476.1 million (EUR 467.2 million in 2017 and EUR 489.9 million in 2016). Defence material and maintenance accounted for 92% (94%) and civilian products for 8% (6%) of the net sales. Sales outside Finland for the financial period accounted for 27% (33%) of the net sales.

The Group's operating profit for the financial period was EUR 35.9 million, representing 7.5% of net sales (2017: EUR 34.6 million, 7.4%; 2016: EUR 74.6 million, 15.2%). The consolidated income before taxes for the financial period amounted to EUR 33.7 million (2017: EUR 32.1 million; 2016: EUR 71.7 million). The Group's return on equity for the financial period was 11.8% (2017: 10.7%; 2016: 26.2%).

Patria Group's net sales and profitability for the financial period increased from the previous year mainly due to the large projects causing annual fluctuation. The Squadron 2000 project started, and Patria had an active role as strategic partner of the Finnish Defence Forces and in assisting in the HX Fighter Program.

FINANCING AND OWNERSHIP

The Group's equity ratio at the end of December was 54.4% (2017: 53.7%; 2016: 58.3%) and net gearing 26.8% (2017: 27.7%; 2016: 8.9%).

Consolidated liquid funds at the end of December amounted to EUR 8.1 million (EUR 5.9 million). The Group's interest-bearing liabilities totalled EUR 75.5 million (EUR 73.8 million) at the end of December. The interest-bearing liabilities included finance lease liabilities of EUR 19.2 million (EUR 20.6 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 7.3 million (EUR 15.1 million). Capital expenditure was mainly related to facilities and equipment, IT and production. In addition, a total of EUR 0.0 million (EUR 4.5 million) was spent on acquisitions.

Patria Finance Oyj was merged with Patria Oyj 31.12.2017, and accordingly Patria Finance Oyj was dissolved on 1 January 2018.

Sinrob OÜ sold its shares of 40% in Milrem LCM OÜ to Mootor Grupp. Patria continued to be the majority shareholder of Milrem LCM with an ownership of 60%.

Patria ISP Oy was established on 3 July 2018.

In October Patria Aerostructures Oy completed the acquisition of all the shares in Patricomp Oy from Aerometallic Components SAU. Patricomp operates in aircraft sheet metal part manufacturing, surface treatments and assemblies. Patricomp net sales totalled EUR 6.6 million in 2017. Patricomp is located in Halli, Jämsä and employs some 50 employees.

RESEARCH AND DEVELOPMENT

The Group's expenditure on research and development for the financial period amounted to EUR 9.1 million (EUR 9.4 million), representing 1.9% (2.0%) 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 2,791 (2017: 2,792; 2016: 2,765) persons. At the end of December, the personnel totalled 2,816 (2017: 2,762; 2016: 2,750).

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 2018, the total amount of salaries and wages paid was EUR 140.1 million (2017: EUR 138.9 million; 2016: EUR 136.9 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. In Patria, special emphasis is given to employee well-being as well as safe and healthy working environment. Employee well-being is measured against e.g. sickness absence rates and frequency of work-related accidents.

Patria has a long-term programme to identify talents and develop future management resources for leading positions in the Business Units as well as on Group level. Participants are offered career development opportunities through strategy work. In addition, business units' managers have been coached to improve the quality of performance management.

During April and May, employee cooperation negotiations in Patria's Aerostructures and Land business unit were finalized. The negotiations concerned all personnel and were started due to production and financial reasons. In Aerostructures the negotiations resulted in reductions that affected 13 persons as redundancies or lay-offs until further notice. 14 persons were temporarily laid off part-time. In Land, the need for reduction was determined as 10 persons and at most 25 persons had their duties adjusted.

KEY EVENTS DURING YEAR 2018

In 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 total value of the delivery contract, excluding options, is around EUR 170 million. The estimated employment effect of the programme in Finland will be around 300 person-years. Patria will act as the prime contractor, designer and lead system integrator having the overall responsibility for the project.

In January Kongsberg Defence & Aerospace and Patria entered into an agreement 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 Estonian Centre for Defence Investment 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 March Patria's subsidiary Senop Oy signed a contract with the Norwegian Kongsberg Defence & Aerospace AS for the supply of the integrated command post shelters. The contract is a continuation for a long-term cooperation between Kongsberg and Senop. The deliveries will take place in 2019.

In April Patria signed an agreement on bridge-laying equipment systems, providing the Finnish Defence Forces with four new Leopard 2L bridge tanks with ability to handle Leguan bridges of different lengths. The purchase's total value is EUR 28.6 million and its employment effect with options in Finland is some 55 person-years of which Patria's employment effect is some 35 person-years. The deliveries will take place in 2019-2021.

In April Patria's subsidiary Milrem LCM and BAE Systems signed a contract to support Estonia's fleet of CV9035 Infantry Fighting Vehicles (IFVs). Milrem LCM will provide maintenance and repair services for CV9035 vehicles from its facilities in Estonia.



In June Patria launched new products at Eurosatory event in Paris: two new passive RF sensor products, MUSCL (Multi-Static Coherent Location) for battle-proof air surveillance, ARIS-E ESM (Electronic Support Measures) system for tactical situational awareness and a new Patria 6x6 vehicle with its multifunctional transport capacity and modularity that adapts easily to the customer's needs.

In September, Patria AMV 8x8 vehicle took part in the European Land Robot Trial (ELROB) in Belgium. One of the R&D focus area within users of military vehicles is unmanned feature and to this end Patria has developed integrated drive-by-wire control system. This system enables use of remote and autonomous functions while keeping standard driver operated operation possibility in the same vehicle.

In October Patria Helicopters AB received an order for Hkp16 (Black Hawk) maintenance as the Swedish Defence Materiel Administration (FMV) exercised its option included in the agreement from 2014 on the support of the Swedish Armed Forces Hkp16 Black Hawk helicopters' maintenance. Estimated value of the agreement, including options, was approximately EUR 25 million.

In November Patria Helicopters AS received an order for NH90 helicopters heavy maintenance taking place in Bardufoss, Norway as the Norwegian Defence Logistics Organisation (NDLO) released the first one-year option from April 2019 onwards. The estimated value of the agreement, including options, is approximately EUR 10 million.

In December Patria Pilot Training made an agreement with the Kazakh airline Air Astana to train their new pilots until 2022. The first students chosen by Air Astana will start their training in February 2019.

Kongsberg Defence & Aerospace (KDA), entered into agreement with the Norwegian Ministry of Defence for the purchase of Aerospace Industrial Maintenance Norway AS (AIM Norway), which is the Norwegian armed force's business for maintenance, overhaul and upgrade of the Air Force's aircraft and helicopters. In order to further strengthen AIM Norway's deliveries, capability and competence, KDA and Patria entered into agreement for a shared ownership where KDA's ownership is 50.1% and Patria's 49.9%. AIM Norway has 440 employees and revenues of EUR 113 million (in 2017).

ADMINISTRATION

In the beginning of the financial period 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 Annual General Meeting held in Helsinki on 23 March 2018 adopted the Consolidated Financial Statements for the financial period that ended on 31st December 2017. It was also decided to discharge the members of the Board of Directors and the President and

CEO from liability for the financial period of 2017. Furthermore, the Annual General Meeting decided, according to the Board of Directors' proposal, to distribute a dividend of EUR 0.60 per share, totally EUR 16 705 133.40.

Christer Granskog, MSc (Eng.) continued as the Chairman of the Board of Directors of Patria Oyj, and Päivi Marttila, CEO, Sievi Capital plc; Ari Puheloinen, General (ret.); Harald Aarø, Executive Vice President Business Development and Strategy, Kongsberg and Eirik Lie, Executive Vice President, Kongsberg Defence & Aerospace continued as members of the Board of Directors. Kimmo Viertola, Senior Financial Counsellor, the Ownership Steering Department in the Prime Minister's Office; Gyrid Skalleberg Ingerø, Chief Financial Officer and Executive Vice President, Kongsberg and Jarle Næss, Senior Vice President Business Development, Kongsberg Defence & Aerospace were elected as the new members of the Board of Directors.

The Extraordinary General Meeting of Shareholders held on 30 November 2018 appointed the new Board of Directors to Patria Oyj. Esa Rautalinko, Master of Economic Sciences, was appointed as Chairman of the Board of Directors and Petri Vihervuori, Senior Financial Adviser, the Ownership Steering Department in the Prime Minister's Office was appointed as a member of the Board as of 30th of November 2018. Päivi Marttila, Ari Puheloinen, Harald Aarø, Eirik Lie, Jarle Næss and Gyrid Skalleberg Ingerø continued 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, chairman (until 30 November 2018), Esa Rautalinko, chairman (as of 30 November 2018), Harald Aarø, Jarle Næss replacing Geir Håøy as of 23 March 2018 and Ari Puheloinen. The Nomination and Compensation Committee prepares the compensation structures of the company management and compensation and benefits programs as well as decides on the most important management nominations.

The Audit Committee consisted, during financial period, of Kimmo Viertola, chairman replacing Marko Hyvärinen as of 23 March 2018 (until 30 November 2018), Petri Vihervuori, chairman replacing Kimmo Viertola as of 30 November 2018, Eirik Lie, Päivi Marttila and Gyrid Skalleberg Ingerø replacing Janne Sølvi Weseth as of 23 March 2018. 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, Member of Parliament, continued as the Chairman of Patria Oyj's Consultative Committee and Markus Mustajärvi, Member of Parliament was appointed as the Vice Chairman. Mika Kari, Member of Parliament; Lieutenant General Timo Kivinen, Chief of Defence Command, Mikko Savola, Member of Parliament; Petri Peltonen, Under-Secretary of State at Ministry of Economic Affairs and Employment; Raimo Vistbacka, Master of Laws; Jussi Karimäki, Equipment Assembler, Patria; Juha Kuusi, System Specialist, Patria; Petri Pitkänen, Logistics Manager Patria; and Tomi Virtanen, Production Planner, Patria were appointed as members of the Consultative Committee.

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. These sales contracts may entail product development, require extensive subcontracting and partnering and result in deliveries taking place over a period of several years. In addition, the delivery content and the industrial set-up with the collaborative partners 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 2018 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.

The Helsinki Court of Appeal rendered its ruling on 25 June 2018 concerning a case in which Patria Land Services Oy's former contract party has demanded compensation from Patria for sales commissions that the contract party allegedly had a right to. The court proceedings relate to the Patria AMV vehicle deals. The cases had been pending since 2009. In 2016 the Helsinki District Court dismissed RHG's claims and obliged RHG to cover Patria's legal expenses. RHG appealed to the Helsinki Court of Appeal. The Court of Appeal dismissed both claims of RHG.

The Court of Appeal stated in its ruling that RHG's performance has been essentially insufficient and in breach of the contract terms and the law. The Court of Appeal stated that Patria has not had a contractual obligation to issue the payments to RHG and RHG is not justified to any compensation for its performance. The Court of Appeal obliged RHG to compensate Patria's legal expenses for both the District Court and the Court of Appeal proceedings. RHG had a right to apply for an appeal from the Supreme Court by 24 August 2018. As this was not done by RHG, the ruling of the Court of Appeal is final and binding.

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 2018.

In Patria, 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 and compliance related matters is clearly specified in the Board of Director's Audit Committee's charter. In 2018 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 2018 Patria continued with the annual ethical online training for the personnel and introduced also Global Data Protection Regulation (GDPR) related online training to its 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. Statistics and nature of issues concerning the reports received via these reporting channels were regularly reported to the Audit Committee.

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.

Export license practices were a topic of a vivid discussion during 2018. Patria complies with the national legislation and international commitments. A decision made by the government officials to grant an export license is made on a case by case basis with the big picture in mind and one of the prerequisites is a reliable end user of the materiel. Granting a license is based on the EU criteria and in consultation with other EU countries. Patria leans on the government officials' capability to evaluate the end user reliability and other export prerequisites when assessing the possibility of export in complex situations and circumstances.

During spring 2018, in relation to public attention in connection with a Finnish businessman tragically deceased in Uganda, Patria commissioned an internal audit targeted at Patria's international operations and especially the key processes in sales, marketing, and selection of business partners. The audit was performed by an external party specialised in internal audits. The audit was initiated after in February 2018 it turned out that a sales person at Patria had given a written permission to a party, who was not a consultant or market representative of Patria, to distribute Patria product brochures. The audit concluded that nothing could be found which would require new, major corrective measures.

Patria continued to develop its ethics and compliance training further. In addition to the annual online training for all personnel there will be in-depth class training for specific groups with stakeholder relations. This new training will be implemented in 2019. In addition, in 2018 Patria arranged extensive in class training for selected groups of personnel concerning the Business Partner Selection Process. Also, the group level Business Partner Selection process was further

developed, and the new process will be finalized and implemented in the beginning of 2019.

Patria continued to support third-sector work to prevent social exclusion of young. The group supports the restoration of the VL Myrsky, the only Finnish fighter aircraft having entered into serial production.

EVENTS AFTER THE FINANCIAL PERIOD

In January 2019 the President and CEO Olli Isotalo left Patria and CFO Ville Jaakonsalo was named interim CEO for the transition period. The new CEO is expected to have a strong emphasis on Patria's service offering.

In January 2019 Patria and the Finnish Defence Forces signed an agreement on preliminary and basic pilot training services. The contract with Patria Aviation Oy covers in addition to pilot training, maintenance of aircraft necessary during training. The contract is related to the development program concerning air defence and to the development of pilot training. The training will focus on the Vinka and Grob aircraft used in basic pilot training.

OUTLOOK

Patria's domestic customer, the Finnish Defence Forces, has significant projects (HX and SQ 2020) in progress. Industrial participation is extremely important and a great opportunity to Patria. General development and changes in the security environment have also increased defence budgets and readiness requirements. These are likely to have an effect for Patria's sales and profitability in the long run.

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, 2018 is EUR 242,666,546.63 of which the net profit for the financial period is EUR 14,356,598.82.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.50 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 13,920,944.50. The Board of Directors further proposes that the remaining non-restricted equity, EUR 228,745,602.13 be retained and carried forward.

ANNUAL GENERAL MEETING 2019

The Annual General Meeting of Patria Oyj will be held on 27 March 2019 in Helsinki, Finland.



Consolidated Financial Statements (IFRS)

Consolidated Statement of Financial Position

EUR million	Note	31/12/2018	Restated 31/12/2017
Assets			
Non-current assets			
Intangible assets	11		
Intangible rights		1.6	1.8
Goodwill	8, 11	28.0	27.5
Advance payments		0.2	0.0
Tangible assets	11		
Land and water		2.2	2.2
Buildings and constructions		50.7	54.1
Machinery and equipment		20.5	22.4
Other tangible assets		0.3	0.3
Advance payments and construction in progress		0.8	1.5
Investments in joint ventures	12	164.5	158.6
Other shares	13, 16	0.2	0.2
Deferred tax assets	10	2.9	3.8
Other receivables		6.0	6.8
Long-term receivables from joint ventures	12	0.4	0.4
Total Non-current assets		278.2	279.4
Current assets			
Inventories	14		
Raw materials and supplies		38.0	40.2
Work in progress		23.3	19.0
Finished goods		1.9	3.5
Advance payments		3.2	2.8
Receivables			
Accounts receivable	2	106.0	111.9
Receivables from joint ventures	12	0.0	0.0
Other receivables		1.5	1.1
Prepaid expenses and accrued income	14	36.4	21.8
Derivative financial instruments	22	0.1	0.4
Current tax asset		4.9	1.4
Cash and cash equivalents		8.1	5.9
Total Current assets		223.4	207.9
Total Assets		501.7	487.3

EUR million	Note	31/12/2018	Restated 31/12/2017
Shareholders' equity and liabilities			
Shareholders' equity	18		
Share capital		38.0	38.0
Fair value reserve	17	0.1	0.5
Invested non-restricted equity fund		164.1	164.1
Translation differences		-2.2	-1.3
Retained earnings		1.1	-4.4
Net income for the period		29.3	27.0
Equity attributable to shareholders of parent company		230.4	223.9
Non-controlling interests		21.0	21.1
Total Shareholders' equity		251.4	245.0
Non-current liabilities			
Deferred tax liability	10	1.4	1.2
Pension provisions	7	4.1	4.3
Provisions	20	18.0	26.0
Interest-bearing liabilities	2, 19	24.5	26.4
Total Non-current liabilities		48.0	57.8
Current liabilities			
Interest-bearing liabilities	2, 19	51.0	47.4
Advance payments	4	53.8	47.1
Accounts payable		39.2	25.3
Liabilities to joint ventures	12	0.0	0.0
Other current liabilities		16.5	17.5
Accruals and deferred income	15	41.7	46.3
Derivative financial instruments	22	0.1	0.3
Current tax liability		0.0	0.5
Total Current liabilities		202.3	184.5
Total Shareholders' equity and liabilities		501.7	487.3

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



Consolidated Statement of Income

EUR million	Note	1-12/2018	%	Restated 1-12/2017	%
Net sales	4	476.1		467.2	
Other operating income	5	4.8		7.2	
Share of joint ventures result		12.9		13.9	
Change in inventories of finished goods and work in progress		-0.2		-0.2	
Production for own use		0.2		3.2	
Raw materials and supplies		-127.1		-139.9	
Change in inventories of raw materials		-2.4		-0.2	
Services purchased		-71.0		-54.7	
Employee benefit expenses	7	-171.1		-171.2	
Depreciation, amortization and impairments	8	-12.5		-16.5	
Other operating expenses	5	-73.8		-74.4	
Operating profit		35.9	7.5%	34.6	7.4%
Financial income and expenses	9				
Interest and other financial income		0.2		0.1	
Interest and other financial expenses		-2.6		-2.7	
Exchange gains and losses		0.1		0.0	
Income before taxes		33.7	7.1%	32.1	6.9%
Income taxes	10	-4.3		-5.0	
Profit for the period		29.3	6.2%	27.0	5.8%
Net income attributable to non-controlling interests		4.1		5.4	
Net income attributable to equity shareholders		25.2		21.6	
Profit for the period		29.3	6.2%	27.0	5.8%

Consolidated Statement of Comprehensive Income

EUR million	Note	1-12/2018	%	Restated 1-12/2017	%
Profit for the period		29.3		27.0	
Other comprehensive income					
Items that may be reclassified to profit or loss in subsequent periods					
Cash flow hedges		-0.4		1.6	
Change of translation difference		-0.8		-0.3	
Items that will not be reclassified to profit or loss in subsequent periods					
Actuarial gains/losses on defined benefit plans		0.6		0.6	
Share of comprehensive income in joint ventures		-1.6		-1.5	
Total comprehensive income		27.1	5.7%	27.4	5.9%
Total comprehensive income attributable to non-controlling interests		4.4		5.7	
Total comprehensive income attributable to equity shareholders		22.7		21.7	
Total comprehensive income		27.1	5.7%	27.4	5.9%

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



Consolidated Statement of Cash Flows

EUR million	Note	1-12/2018	Restated 1-12/2017
Net income for the period		29.3	27.0
Depreciation, amortization and impairments	8	12.5	16.5
Capital gains/losses		-1.2	-0.3
Other adjustments			
Share of result in joint ventures		-12.9	-13.9
Dividends received from joint ventures		4.7	7.3
Other adjustments		0.1	0.1
Financing items		2.4	2.6
Taxes	10	4.3	5.0
Change in receivables		-7.7	8.7
Change in payables		5.3	-26.4
Change in inventories		-0.3	-0.7
Cash flow from operations		36.7	26.0
Interest received		0.3	0.1
Interest paid		-1.7	-1.8
Dividends received		0.0	0.0
Other financial items		-0.8	-0.6
Income taxes paid		-7.3	-9.5
Cash flow from operating activities		27.1	14.1
Acquisitions, net of cash		0.2	-4.5
Other capital expenditures		-7.3	-15.1
Sale of other shares		0.0	0.0
Sale of other fixed assets and other changes		2.2	0.4
Cash flow from investing activities		-5.0	-19.2
Repayments of long-term loans		-1.5	-3.9
Borrowings of long-term loans		20.0	0.0
Change in short-term financing		-16.9	42.0
Dividends paid to equity shareholders		-16.7	-31.2
Dividends paid to non-controlling interests		-4.3	-2.2
Other changes		-0.6	-0.3
Cash flow from financing activities		-20.0	4.4
Change in liquid funds	2	2.2	-0.7
Change		2.2	-0.7
Liquid funds at the beginning of the period		5.9	6.6
Liquid funds at the end of the period		8.1	5.9
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	0.5	-1.3	22.6	223.9	21.1	245.0
Dividends paid						-16.7	-16.7		-16.7
Other comprehensive income	10								
Cash flow hedges				-0.4			-0.4		-0.4
Change of translation difference					-0.8		-0.8		-0.8
Actuarial gains/losses on defined benefit plans						0.6	0.6		0.6
Share of comprehensive income in joint ventures						-1.6	-1.6		-1.6
Non-controlling interests						-4.1	-4.1	-0.2	-4.3
Exchange rate difference						-1.5	-1.5		-1.5
Corrections to previous year's bookings*						1.8	1.8		1.8
Net income for the period						29.3	29.3		29.3
31 Dec 2018		38.0	164.1	0.1	-2.2	30.4	230.4	21.0	251.4
Opening balance		38.0	164.1	-1.1	9.4	34.9	245.2	17.6	262.8
Restatement due to IFRS 15						-1.5	-1.5		-1.5
1 Jan 2017		38.0	164.1	-1.1	9.4	33.4	243.7	17.6	261.3
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*					-10.3	9.8	-0.5		-0.5
Net income for the period (Restated due to IFRS 15)						27.0	27.0		27.0
31 Dec 2017		38.0	164.1	0.5	-1.3	22.6	223.9	21.1	245.0

* IASB corrections 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.

BASIS OF PREPARATION

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 assets are classified into three main categories: to be measured at amortised cost, at fair value through income statement and at fair value through other comprehensive income. Earlier, under IAS 39 standard, financial instruments were 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.

Category to be measured at amortised cost includes non-current receivables from joint ventures, other receivables, commercial papers, trade receivables, cash and cash equivalents, interest-bearing financial liabilities and trade payables. Financial liabilities are recognised at the settlement date and measured at amortised cost using the effective interest rate method.

Other investments (securities), interest-bearing investments and derivatives (not under hedge accounting) are measured at fair values through income statement.

Derivatives under hedge accounting are measured at fair value through other comprehensive income.

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.

The Group applies hedge accounting under IFRS 9 while hedging estimated future cash flows with foreign currency derivatives and the loan portfolio with interest rate derivatives (cash flow hedging). Foreign exchange spots are defined as derivatives when those consider cash flow hedging. Interest component of the foreign exchange forward contract is recognised in financial income or expense in the income statement. 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 from equity to income statement in the period when the hedged cash flow affects income. The main reason for the hedge inefficiency is the timing difference between the derivative maturity date and the expected date of hedged foreign exchange future cash flows. 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.

NET SALES AND REVENUE RECOGNITION

Revenue is presented net of indirect sales taxes, penalties and discounts. Revenue is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods and services. The transaction price may include variable considerations, such as penalties or compensations for damages.

Product sales consist of sales of spare parts and standard equipment for which the revenue is recognised at a point in time when

the control of the products has transferred to the customer, in general upon delivery of the goods. Product sales also consist of project delivery (armoured wheeled vehicles and mortar systems as well as systems and system integration) for which, depending on the contract terms and the duration of the project, the revenue is recognised at a point in time or over time.

Sales of services consist of maintenance, repair, modification and hourly based services. The revenue is recognised over time based on hours performed or costs incurred depending on the contract terms and the duration of the project, or at a point in time, if the duration of the project is short-term and result impact is insignificant.

Revenue recognised over time is measured in accordance with the percentage of completion method based on hours performed or costs incurred when the outcome of the contract can be estimated reliably. When the outcome cannot be reliably determined, the costs arising are expensed in the same financial period in which they occur, but the revenue is recognized only to the extent that the company will receive an amount corresponding to actual costs. Any losses are expensed immediately.

Patria provides its customers standard payment terms. If extended payment terms exceeding one year are offered to customers, the invoiced amount is discounted to its present value and interest income is recognized over the credit term.

Patria does not have significant customer arrangements that do not meet the criteria set out in the IFRS 15 for a contract. Patria typically issues contractual product warranties under which it generally guarantees the functioning of equipment delivered during the agreed warranty period.

Patria receives payments from customers based on invoicing schedules as agreed in the customer contracts. Changes in contract assets and liabilities are due to Patria's performance under the contracts. Amounts due from customers under revenue contracts primarily relate to Patria's right to consideration for work completed but not yet invoiced at the reporting date. These assets are transferred to account receivables when Patria has contractual right to issue an invoice. Significant part of amounts due to customers relate to advance consideration received from customer in long-term contracts for which revenue is recognized over time. These amounts are recognized as revenue as Patria performs under the contracts.

To identify the performance obligations in the contract requires management to make estimates and judgements that may affect the reported revenue amount and timing.

Products and services contracts generally include one performance obligation. Long-term contracts include maintenance contracts for which revenue is in general recognized over time and the contracts generally include one performance obligation per delivery.



Contract assets are included in Prepaid expenses and accrued income in the Balance sheet and Contract liabilities in Advance payments in the Balance sheet (Note 14).

At the end of 2018, Patria had no costs to obtain or fulfil contracts capitalized under IFRS 15.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as they are incurred. Capitalised unaccomplished development costs are subject to regular impairment 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 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 labour, 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 B standard and will not disclose financial information by segment in the financial statements.

APPLICATION OF NEW AND AMENDED IFRS STANDARDS AND IFRIC INTERPRETATIONS

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 9 Financial Instruments

The Group has adopted IFRS 9 Financial Instruments standard from 1 January 2018. The standard replaced IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes guidance for classification, recognition and measurement of financial assets and liabilities. It also includes new regulations regarding the hedge accounting and new impairment model for financial assets. Comparative information is presented in accordance with IAS 39 and it is comparable.

Financial assets are classified into three main categories: to be measured at amortised cost, at fair values through income statement and at fair value through other comprehensive income.

Category to be measured at amortised cost includes long-term receivables from joint ventures, other receivables, commercial papers, trade receivables, cash and cash equivalents, interest-bearing financial liabilities and trade payables. The standard did not change the classification of financial liabilities. Financial liabilities are recognised at the settlement date and measured at amortised cost using the effective interest rate method.

Listed and unlisted securities, interest-bearing investments and derivatives (not under hedge accounting) are measured at fair values through income statement.

Derivatives under hedge accounting are measured at fair value through other comprehensive income.

RECLASSIFICATION OF FINANCIAL INSTRUMENTS DUE TO THE APPLICATION OF IFRS 9 AS OF 1 JANUARY 2018, EUR MILLION

Balance sheet item	Classification under IAS 39	Classification under IFRS 9	Carrying amount		Difference
			IAS 39	IFRS 9	
Non-current financial assets					
Non-current loan receivables from joint ventures	Loans and other receivables	Amortised cost	0.4	0.4	
Other investments (securities)	Available-for sale investments	Fair value through income statement	0.2	0.2	
Interest-bearing investments	Loans and other receivables	Fair value through income statement	0.0	0.0	
Other receivables	Loans and other receivables	Amortised cost	0.7	0.7	
Current financial assets					
Trade receivables	Loans and other receivables	Amortised cost	111.9	111.9	
Commercial papers	Loans and other receivables	Amortised cost	0.0	0.0	
Other receivables	Loans and other receivables	Amortised cost	0.0	0.0	
Derivatives (under hedge accounting)	Fair value through other comprehensive income	Fair value through other comprehensive income	0.2	0.2	
Derivatives (not under hedge accounting)	Fair value through income statement	Fair value through income statement	0.2	0.2	
Available-for-sale trade receivables	Loans and other receivables	Fair value through income statement	0.0	0.0	
Cash and cash equivalents	Loans and other receivables	Amortised cost	5.9	5.9	
Non-current financial liabilities					
Interest-bearing financial liabilities (non-current)	Amortised cost	Amortised cost	26.4	26.4	
Current financial liabilities					
Derivatives (under hedge accounting)	Fair value through other comprehensive income	Fair value through other comprehensive income	0.1	0.1	
Derivatives (not under hedge accounting)	Fair value through income statement	Fair value through income statement	0.2	0.2	
Current interest-bearing financial liabilities	Amortised cost	Amortised cost	47.4	47.4	
Trade payables	Amortised cost	Amortised cost	25.3	25.3	



IFRS 9 did not materially change the Group's hedge accounting. Due to the change, the hedge accounting documentation was updated to reflect the new requirements. In addition, the interest component of the foreign exchange forward contract is recognised in financial income or expense in the income statement. Due to this change, also the previous accounting periods retained earnings have been corrected.

Trade receivables do not have significant risk for credit losses due to the customer base. Mitigation against credit risk is done by including risk reducing terms to sales agreements and requesting guarantees when needed. The group has not recognised material credit losses in the past and no loss allowance provision has been recognised in the adoption of IFRS 9. The group is continuously evaluating the credit loss risk and the possible changes e.g. in the customer base may result to recognition of the loss allowance provision.

IFRS 15 Revenue from Contracts with Customers and related amendments to the standard. The Group has adopted IFRS 15 standard from 1 January 2018. 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 accordance with the standard, revenue is recognized as control is passed either over time or at a point in time. Patria has adopted the new standard on the required effective date using the full retrospective method. The disclosures related to revenue are presented according to the new standard.

Adoption of IFRS 15 led to changes in revenue recognition of some long-term service and maintenance contracts. The revenue recognition will occur over time measured based on percentage of completion method based on cost incurred.

As a result of the restatement retained earnings as of January 1, 2017 was decreased by EUR 1.5 million.

As IFRS 15 was adopted using the full retrospective method, the impact of the restatement is presented in the below table also for the opening balance of the financial period 2017:

CONDENSED INCOME STATEMENT

EUR million	Reported	Restated	Change
	1/1-31/12/2017		
Net sales	467.7	467.2	-0.5
Other operating income	21.2	21.2	0.0
Materials, supplies and services	-193.0	-191.7	1.3
Other expenses	-262.0	-262.0	0.0
Operating profit	33.9	34.6	0.7
Financial income and expenses	-2.6	-2.6	0.0
Income before taxes	31.3	32.1	0.8
Income taxes	-4.9	-5.0	-0.1
Profit for the period	26.4	27.0	0.6

CONDENSED BALANCE SHEET

EUR million	Reported	Restated	Change	Reported	Restated	Change
	31/12/2017			01/01/2017		
Assets						
Intangible assets	29.3	29.3	0.0	27.5	27.5	0.0
Tangible assets	80.4	80.4	0.0	74.0	74.0	0.0
Other non-current assets	169.4	169.7	0.3	176.3	176.7	0.4
Inventories	67.6	65.4	-2.2	67.8	64.4	-3.4
Receivables	133.6	136.6	3.0	139.5	143.3	3.8
Cash and cash equivalents	5.9	5.9	0.0	6.6	6.6	0.0
Total Assets	486.3	487.3	1.0	491.7	492.5	0.8
Shareholders' equity and liabilities						
Shareholders' equity	245.9	245.0	-0.9	262.8	261.3	-1.5
Non-current liabilities	57.8	57.8	0.0	59.3	59.3	0.0
Current liabilities	182.6	184.5	1.9	169.6	171.9	2.3
Total Shareholders' equity and liabilities	486.3	487.3	1.0	491.7	492.5	0.8

IFRS 16 requires lessees to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Patria has decided to apply IFRS 16 using the modified retrospective, thus comparative information will not be restated.

Patria has elected to apply optional exemptions for short-term and low-value leases. The lease expense will be recognized on a straight-line basis over the lease term.

Patria has identified contracts where it acts as a lessor. These contracts do not have a material impact on group's financial statements.

Non-cancellable operating lease commitments at the end of financial year 2018 are disclosed in [note 21](#).

Based on the preliminary assessment the Group expects to recognize right-of-use assets and respective lease liabilities of approximately in range of EUR 58 million to EUR 71 million as of January 1, 2019. The adoption of IFRS 16 is expected to improve operating profit approximately EUR 12 million in the consolidated statement of income since interest cost of leases will be presented in financial expenses. The adoption of new standard will also impact on the presentation of the consolidated statement of cash flows. It is expected that cash flow from operating activities will be increased and cash flow from financing activities decreased, since most of the lease payments are shown in financing cash flow. The impact assessment will be completed during the first quarter of 2019.



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 fully 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 IFRS 9 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, are recognised in other comprehensive income (fair value reserve) to the extent that the hedge is effective. The ineffective portion of the hedging instrument is recognised immediately into financial items in the income statement. Such accumulated fair value changes are released into income statement in the period when the hedged cash flow affects income. The main source of ineffectiveness is the difference in the maturities of the hedged item and the hedging instrument. Hedge accounting is not applied to derivatives hedging balance sheet items.

Hedged item and hedging instrument are considered to have economic relationship if critical terms of hedging instrument and hedged item match. If economic relationship exists it is expected that changes in fair value or cash flows of the hedging instrument offset

changes in fair value or cash flows from the hedged item. The same currency is used for the hedging instrument as the hedged item has, therefore they have an economic relationship.

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 2018 were in the Swedish krona (SEK), and United States dollar (USD).

IFRS 7 SENSITIVITY ANALYSIS - SENSITIVITY TO EXCHANGE RATE FLUCTUATIONS 2018

1,000 EUR	SEK	USD
Net exposure - Balance sheet items	374	1,694
Euro strengthens / weakens 5 % - Effect on income before taxes	-18 / 20	-81 / 89
Net exposure - Derivatives under hedge accounting	168	-12,684
Euro strengthens / weakens 5 % - Effect on equity	-8 / 9	605 / -668

IFRS 7 SENSITIVITY ANALYSIS - SENSITIVITY TO EXCHANGE RATE FLUCTUATIONS 2017

1,000 EUR	SEK	USD
Net exposure - Balance sheet items	-9	-282
Euro strengthens / weakens 5 % - Effect on income before taxes	0 / 0	13 / -15
Net exposure - Derivatives under hedge accounting	405	-16,376
Euro strengthens / weakens 5 % - Effect on equity	-19 / 21	745 / -822

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.

Effects of hedge accounting on the Group's financial position concerning the most significant currencies is presented in the following table.

EFFECTS OF HEDGE ACCOUNTING ON THE FINANCIAL POSITION 2018

Forward foreign exchange contracts - EURUSD	EUR million 31/12/2018
Fair Value	0.1
Nominal Value	17.7
Expected time for the impact on P&L	January 2019 - December 2023
Hedge Ratio	1:1
Change in spot value of outstanding hedging instruments	0.1
Change in value of hedged item used to determine hedge effectiveness	-0.1
Weighted average hedged rate (including forward points)	1.1729

Forward foreign exchange contracts - EURSEK	31/12/2018
Fair Value	0.0
Nominal Value	0.2
Expected time for the impact on P&L	January 2019
Hedge Ratio	1:1
Change in spot value of outstanding hedging instruments	-0.0
Change in value of hedged item used to determine hedge effectiveness	-0.0
Weighted average hedged rate (including forward points)	10,2688

Forward foreign exchange contracts designated as cash flow hedges	31/12/2018
Derivative financial assets	0.1
Derivative financial liabilities	-0.0



EFFECTS OF HEDGE ACCOUNTING ON THE FINANCIAL POSITION 2017

	EUR million 31/12/2017
Forward foreign exchange contracts - EURUSD	
Fair Value	0.1
Nominal Value	24.2
Expected time for the impact on P&L	January 2018 - December 2023
Hedge Ratio	1:1
Change in spot value of outstanding hedging instruments	0.1
Change in value of hedged item used to determine hedge effectiveness	-0.4
Weighted average hedged rate (including forward points)	1.1649
Forward foreign exchange contracts - EURSEK	31/12/2017
Fair Value	0.0
Nominal Value	0.4
Expected time for the impact on P&L	February 2018 - March 2018
Hedge Ratio	1:1
Change in spot value of outstanding hedging instruments	0.0
Change in value of hedged item used to determine hedge effectiveness	0.0
Weighted average hedged rate (including forward points)	9.4879
Forward foreign exchange contracts designated as cash flow hedges	31/12/2017
Derivative financial assets	0.2
Derivative financial liabilities	-0.1

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 2018, the average interest fixing term of the liabilities was 1.9 years (2.4) 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	1.7	0.4		0.8	16.3	19.2
Loans from financial institutions	20.6					20.6
Other interest-bearing liabilities	29.0	6.7				35.7
Interest-bearing receivables	-8.1					-8.1
Total 2018	43.2	7.1	0.0	0.8	16.3	67.5
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
Total 2017	41.3	0.5	8.2	0.0	17.9	67.9

On 31 December 2018, Group's interest-bearing liabilities totalled EUR 75.3 million (73.8) out of which EUR 52.9 million (67.4) was fixed rate and EUR 22.4 million (6.3) was floating rate. Interest-bearing receivables were EUR 8.1 million (5.9) out of which EUR 8.1 million (5.9) 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 2018, would lead to an increase in annual net interest expenses of EUR 143 thousand (4). A corresponding decrease in interest rates would result in an equal effect of opposite sign. The Group didn't have any open interest derivatives (0.3) on 31 December 2018.

LIQUIDITY AND REFINANCING RISKS

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

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

On 31 December 2018 the average maturity of the Group's interest-bearing liabilities was 1.7 years (2.3). The values on the following maturity distribution table are undiscounted.

MATURITY DISTRIBUTION OF FINANCIAL INSTRUMENTS

EUR million	2019	2020	2021	2022	2023	2024 -	Total
Finance lease liabilities	1.4	1.4	1.4	1.5	1.5	12.0	19.2
Loans from financial institutions	20.5	0.1	0.0	0.0	0.0	0.0	20.6
Other interest-bearing liabilities	35.7	0.0	0.0	0.0	0.0	0.0	35.7
Derivative financial liabilities	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Derivative financial assets	-0.1	0.0	0.0	0.0	0.0	0.0	-0.1
Interest payments	0.4	0.4	0.0	0.0	0.0	0.0	0.8
Total 2018	58.1	1.9	1.5	1.5	1.5	12.0	76.4
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
Total 2017	47.7	8.8	1.9	1.5	1.5	13.5	74.8



As a part of its liquidity reserves on 31 December 2018, Patria had the following unused financial reserves: committed credit and overdraft facilities totalling EUR 50.5 million (40.5) and commercial paper program totalling EUR 71.0 million (58.0).

NET DEBT

EUR million	2018	2017
Loans from financial institutions	0.1	0.4
Other interest-bearing loans	6.6	6.7
Finance lease liabilities	17.8	19.2
Non-current interest-bearing liabilities	24.5	26.4
Loans from financial institutions	20.5	3.9
Issued commercial papers	29.0	42.0
Other interest-bearing loans	0.1	0.1
Finance lease liabilities	1.4	1.4
Current interest-bearing liabilities	51.0	47.4
Interest-bearing liabilities total	75.5	73.8
Cash and cash equivalents	8.1	5.9
Net debt	67.5	67.8

CHANGE IN NET DEBT

EUR million	Loans from financial institutions	Commercial papers	Other interest-bearing loans	Finance lease liabilities	Cash and cash equivalents	Total
Carrying value, at 1 January 2018	-4.4	-42.0	-6.8	-20.6	5.9	-67.8
Change in net debt, cash:						
Borrowings of non-current loans	-20.0					-20.0
Repayments of non-current loans	0.1		0.1			0.2
Change in current liabilities	3.9	13.0				16.9
Change in cash and cash equivalents					2.2	2.2
Cash flows total	-16.1	13.0	0.1	0.0	2.2	-0.8
Change in net debt, non-cash:						
Repayments of leasing liabilities				1.4		1.4
Business combinations	-0.2					-0.2
Foreign exchange adjustments					0.0	0.0
Non-cash movements, total	-0.2	0.0	0.0	1.4	0.0	1.2
Carrying value, at 31 December 2018	-20.6	-29.0	-6.7	-19.2	8.1	-67.5

CREDIT AND COUNTERPARTY RISKS

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

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. The maximum risk of sales receivables and investments is the full nominal value of those contracts.

Credit risks related to derivative contracts are managed by using multiple counterparties that are well-defined and have a good credit rating. There are netting agreements valid with the counterparties.

EUR million	Loans from financial institutions	Commercial papers	Other interest-bearing loans	Finance lease liabilities	Cash and cash equivalents	Total
Carrying value, at 1 January 2017	-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
Carrying value, at 31 December 2017	-4.4	-42.0	-6.8	-20.6	5.9	-67.8

ACCOUNTS RECEIVABLE BY AGE

EUR million	2018	2017
Undue accounts receivables	73.0	75.2
Accounts receivables 1-30 days overdue	7.5	10.0
Accounts receivables 31-60 days overdue	1.9	2.7
Accounts receivables more than 60 days overdue	23.6	23.9
Total	106.0	111.9

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 October Patria Aerostructures Oy completed the acquisition of all the shares in Patricomp Oy from Aerometallic Components SAU. Patricomp operates in aircraft sheet metal part manufacturing, surface treatments and assemblies. Patricomp net sales totalled EUR 6.6 million in 2017. Patricomp is located in Halli, Jämsä and employs some 50 employees.

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 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.

ASSETS AND LIABILITIES

EUR million	2018	2017
Acquisition cost transferred	0.0	4.5
Acquisition cost paid in cash	0.0	4.5
Cash flow from the acquisitions		
Acquisition cost paid in cash	0.0	4.5
Cash and cash equivalents of the acquired companies	-0.2	0.0
Cash flow from the acquisitions	-0.2	4.5
Assets and liabilities of the acquired businesses		
Intangible assets	0.0	0.1
Tangible assets	0.2	5.4
Inventories	1.0	0.6
Accounts receivables and other assets	0.8	0.5
Cash and cash equivalents	0.2	0.0
Total assets	2.2	6.6
Interest-bearing loans	1.6	5.3
Other liabilities	1.2	0.5
Total liabilities	2.8	5.8
Net assets	-0.5	0.8
Patria's share of net assets	-0.5	0.5
Goodwill	0.5	4.0

4. Disaggregation of revenue

EUR million	2018	2017
Products	171.7	150.1
Services	304.5	317.1
Total	476.1	467.2
Performance obligation satisfied at a point in time	383.2	391.7
Performance obligation satisfied over time	92.9	75.5
Total	476.1	467.2

5. Other operating income and expenses

OTHER OPERATING INCOME

EUR million	2018	2017
Rental income	1.7	1.7
Capital gain on sale of fixed assets	1.2	0.4
Service revenues	0.0	0.0
Other operating income	1.8	5.0
Grants received	0.2	0.1
Total	4.8	7.2

OTHER OPERATING EXPENSES

EUR million	2018	2017
Research and development	-0.1	-0.2
Rents	-11.8	-10.9
Losses on sale of fixed assets	0.0	0.0
Travel expenses	-8.0	-8.6
Real estate expenses	-16.7	-18.4
Other operating expenses*	-37.2	-36.3
Total	-73.8	-74.4

PRINCIPAL INDEPENDENT AUDITOR'S FEES AND SERVICES

EUR million	2018	2017
Audit fees	-0.2	-0.2
Other audit related fees	0.0	0.0
Other services	-0.2	-0.2
Total	-0.4	-0.4

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



6. Research and development expenses

EUR million	2018	2017
Research and development expenses, total	-9.1	-9.4
Research and development costs expensed during financial period	-6.6	-8.3

7. Employee benefit expenses

EUR million	2018	2017
Salaries and fees paid to Members of Board, Consultative Committee and President and CEO	-0.7	-0.7
Other wages and salaries	-139.4	-138.2
Pension and pension insurance expenses	-23.9	-24.4
Other employer costs	-7.1	-7.9
Total	-171.1	-171.2

COMPENSATION TO BOARD OF DIRECTORS AND ATTENDANCE AT MEETINGS

1,000 EUR	Attendance at meetings			
	2018	Board	Audit Committee	Nomination and Compensation Committee
Board members 31 December 2018				
Esa Rautalinko, Chairman ¹⁾	6	3/3		1/1
Christer Granskog, Chairman ²⁾	39	9/9		1/1
Harald Aarø	0	11/12		2/2
Marko Hyvärinen ⁴⁾	8	3/3	1/1	
Geir Håøy ⁴⁾	0	2/3		1/1
Eirik Lie	0	12/12	5/5	
Päivi Marttila	28	11/12	5/5	
Jarle Næss ³⁾	17	9/9		1/1
Ari Puheloinen	26	12/12		2/2
Gyrid Skalleberg Ingerø ³⁾	0	9/9	4/4	
Kimmo Viertola ⁵⁾	16	3/3	3/3	
Petri Vihervuori ¹⁾	5	3/3	1/1	
Janne Sølvi Weseth ⁴⁾	10	3/3	1/1	
Total	155			

¹⁾ Starting 30 November 2018

²⁾ Until 30 November 2018

³⁾ Starting 23 March 2018

⁴⁾ Until 23 March 2018

⁵⁾ Starting 23 March 2018 until 30 November 2018

COMPENSATION TO BOARD OF DIRECTORS AND ATTENDANCE AT MEETINGS

1,000 EUR	Attendance at meetings			
	2017	Board	Audit Committee	Nomination and Compensation Committee
Board members 31 December 2017				
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	
Total	160			

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

1,000 EUR	2018	Attendance at meetings
Consultative Committee members 1 January - 31 December 2018		
Sinuhe Wallinheimo, Chairman		3 4/4
Markus Mustajärvi, Vice Chairman ¹⁾		1 1/2
Kalle Hyötynen, Vice Chairman ²⁾		1 2/2
Mika Kari		2 3/4
Timo Kivinen		2 3/4
Petri Pelttonen		2 4/4
Mikko Savola		2 4/4
Raimo Vistbacka		2 4/4
Total		14

¹⁾ Starting 23 March 2018

²⁾ Until 22 March 2018



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

¹⁾ Starting 23 March 2018 Tomi Virtanen replaced Ossi Ritala as a member of the Consultative Committee

COMPENSATION TO CONSULTATIVE COMMITTEE AND ATTENDANCE AT MEETINGS

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

¹⁾ Starting 5 June 2017

²⁾ Until 4 June 2017

Personnel representatives attendance at meetings: Eero Järvinen¹⁾ (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.

¹⁾ Starting 8 May 2017 Ossi Ritala replaced Eero Järvinen as a member of the Consultative Committee

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

Salaries, fees and benefits paid to the President and CEO Olli Isotalo during 2018 totalled EUR 535,173.45 (EUR 540,429.40) consisting of

- base salary of EUR 436,800.00 (EUR 429,800.00) (including salary of EUR 416,340.00 (409,340.00) and benefits of EUR 20,460.00 (20,460.00)),
- yearly bonus for the earning period 2017 was EUR 52,815.00 (12.3% of base salary of year 2017 and 24.6% of the maximum

bonus pay out, which is 50% of base salary of year 2017. The yearly bonus earning period 2016 was 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 45,558.45 (EUR 32,999.40) was paid based on long-term incentive plans. EUR 19,799.64 (EUR 32,999.40) based on years 2014-2016 long-term incentive plan and EUR 25,758.81 based on years 2015-2017 long-term incentive plan.

After the financial period in January 2019 the President and CEO Olli Isotalo left Patria. Termination expenses, the salary for the 6 months' notice period and an additional compensation corresponding to the amount of 6 month's salary, totalling EUR 0.5 million are included in the personnel expenses in 2018.

The yearly bonus to be paid to the CEO Olli Isotalo in 2019 for the earning period 2018 is EUR 54,380 (12.4% of base salary of year 2018 and 24.7% of the maximum bonus payout, which is 50% of base salary of year 2018).

The retirement age for 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 President and CEO is assisted in Group management by the Board of Management, which included as of 17, September 2018 10 (10) members. The salaries, fees and benefits paid to the members of the Board of Management totalled EUR 2,212,656.02 (EUR 2,588,536.43).

The remuneration of the President and CEO and the other members of the Board of Management for 2018 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 2016-2018, 2017-2019 and 2018-2020. In addition, bonuses were paid based on the 2013-2015, 2014-2016 and 2015-2017 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 in case of exceptional performance 60% of a participant's annual base salary per year during the whole three-year period of each program. The outcome of the plan is subject to the Board of Directors' approval.

The remunerations will be paid to the participants during three financial periods after each program has ended. The outcome of the 2015-2017 plan was 38.9% of the highest potential remuneration and will be paid to the participants in three instalments during the years 2018, 2019 and 2020 subject to the terms of the plan. The Group has made a relating cost provision in the balance sheet totalling EUR 581,071 (EUR 841,309).

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.

PENSION OBLIGATIONS

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 on 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	2018	2017
Pension expenses - Defined contribution plans	-23.8	-24.2
Pension expenses - Defined benefit plans	-0.2	-0.2
Total	-23.9	-24.4

EXPENSE RECOGNISED IN PROFIT OR LOSS

EUR million	2018	2017
Service cost	-0.1	-0.1
Net interest	-0.1	-0.1
Expense recognised in profit or loss	-0.2	-0.2

STATEMENT OF FINANCIAL POSITION

EUR million	2018	2017
Defined benefit obligation	13.2	13.0
Fair value of plan assets	-9.1	-8.8
Funded status	4.1	4.3
Liability in the balance sheet	4.1	4.3

CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION ARE AS FOLLOWS: DEFINED BENEFIT OBLIGATION (DBO)

EUR million	2018	2017
Opening defined benefit obligation	13.0	14.4
Current service cost	0.1	0.1
Interest cost	0.2	0.2
Benefits paid	-0.3	-0.2
Actuarial gain(-) / loss (+)	0.2	-1.5
Closing defined benefit obligation	13.2	13.0

CHANGES IN THE FAIR VALUE OF PLAN ASSETS ARE AS FOLLOWS: FAIR VALUE OF PLAN ASSETS

EUR million	2018	2017
Opening fair value of plan assets	8.8	10.0
Interest income	0.2	0.2
Contribution paid	-0.3	-0.3
Benefits paid	-0.3	-0.2
Actuarial gain(+) / loss (-)	0.8	-0.9
Closing fair value of plan assets	9.1	8.8

EXPECTED CONTRIBUTION PAID IN THE NEXT FISCAL PERIOD: EXPECTED CONTRIBUTION

EUR million	Estimate 2019	2018	2017
Expected contribution	0.1	0.1	0.1

CHANGES IN OTHER COMPREHENSIVE INCOME

EUR million	2018	2017
Recognised remeasurements in other comprehensive income 1.1.	0.9	0.2
Actuarial gain(+) or loss(-) on obligation	-0.2	1.5
Actuarial gain(+) or loss(-) on plan assets	0.8	-0.9
Recognised remeasurements in other comprehensive income 31.12.	1.5	0.9

PLAN ASSETS

	2018	2017
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 31.12.2018

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	-8%	-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%	8%

CENSUS DATA USED IN THIS VALUATION IS AS FOLLOWS:

	2018	2017
Number of actives	93	108
Number of pensioners	212	159
Number of deferred	811	888
Average age actives (years)	51	51
Average remaining service time	8	9
Average serving time	8	7



8. Depreciation, amortization and impairments

DEPRECIATION ACCORDING TO PLAN AND IMPAIRMENTS

EUR million	2018	2017
Intangible rights	-0.7	-0.8
Buildings and constructions	-5.1	-6.6
Machinery and equipment	-6.7	-7.0
Other tangible assets	0.0	0.0
Impairment losses, non current assets	0.0	-2.0
Total	-12.5	-16.5

IMPAIRMENT TESTS

The recoverable amount of a cash generating unit is determined based on value-in-use calculations. The tested cash generating units were Land, Aviation, Aerostructures, Systems, Millog and International Support Partnerships -business units geographical segments. 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 10.8% p.a. in 2018 (9.75%).

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

In 2017, owing to weak financial performance, the impairment testing result showed 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.

GOODWILL BY BUSINESS UNIT

EUR million	2018	2017
Land	8.9	8.9
Aviation	4.8	4.8
ISP, Baltics	4.0	4.0
ISP, Norway	0.8	0.8
Aerostructures	0.5	0.0
Systems	1.7	1.7
Millog	7.2	7.2
Total	28.0	27.5
1 Jan	27.5	25.6
Additions	0.5	4.0
Impairment	0.0	-2.0
Translation differences	0.0	-0.1
31 Dec	28.0	27.5

9. Financial income and expenses

FINANCIAL INCOME AND EXPENSES

EUR million	2018	2017
Interest income		
Deposits and investments	0.1	0.1
Other	0.1	0.0
Other financial income	0.0	0.0
Interest expenses		
Interest-bearing liabilities	-0.5	-0.6
Financial lease	-1.2	-1.3
Other financial expense	-0.9	-0.9
Exchange rate difference		
Foreign exchange derivatives, non-hedge accounted	-0.4	0.8
Other	0.6	-0.8
Total	-2.2	-2.6

AGGREGATE FOREIGN EXCHANGE GAINS AND LOSSES INCLUDED IN CONSOLIDATED INCOME STATEMENT

EUR million	2018	2017
Net sales	0.0	-0.6
Expenses	0.2	0.2
Financial income and expenses	0.1	0.0
Total	0.3	-0.4

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	2018	2017
Foreign exchange rate derivative contracts under hedge accounting	0.0	-0.7
Total	0.0	-0.7

10. Income taxes

EUR million	2018	2017
Income taxes	-3.4	-4.4
Income taxes previous period	0.0	0.0
Change in deferred tax receivable	-0.7	-0.6
Change in deferred tax liability	-0.2	0.0
Total	-4.3	-5.0

TAXES RELATED TO OTHER COMPREHENSIVE INCOME 2018

EUR million	Before-tax amount	Tax	Net-of-tax amount
Cash flow hedges	-0.6	0.1	-0.4
Change of translation difference	-0.8	-	-0.8
Actuarial gains/losses on defined benefit plans	0.6	0.0	0.6
Share of comprehensive income in joint ventures	-2.0	0.5	-1.6
Total	-2.8	0.6	-2.3



2017

EUR million	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
Total	0.4	0.0	0.4

DIFFERENCES BETWEEN INCOME TAX EXPENSE CALCULATED AT STATUTORY RATES COMPARED TO THE INCOME STATEMENT (TAX RATE IN FINLAND 2018: 20%, 2017: 20%)

EUR million	2018	2017
Income tax expense at statutory rate	-6.5	-6.4
Effect of statutory tax rates of foreign companies	0.1	0.1
Untaxed income	0.3	0.0
Non-deductible expenses	-0.3	-0.4
Fiscal losses of the period	-0.6	-1.2
Effect of associated company result	2.6	2.8
Returns from previous tax years	0.0	0.0
Other items	0.1	0.0
Income taxes	-4.3	-5.0

RECONCILIATION OF DEFERRED TAX RECEIVABLES

EUR million	2018	2017
Fixed assets depreciation differences	0.7	0.8
Untaxed reserves	2.0	2.8
Tax losses carried forward	0.2	0.0
Other temporary differences	0.0	0.2
	2.9	3.8
1 Jan	3.8	4.6
Translation difference	0.0	0.0
Income statement	-0.7	-0.6
Fair value of derivative financial instruments	0.0	-0.3
Equity	-0.2	0.0
31 Dec	2.9	3.8

RECONCILIATION OF DEFERRED TAX LIABILITIES

EUR million	2018	2017
Fixed assets depreciation differences	1.4	1.1
Fair value of derivative financial instruments	0.0	0.1
	1.4	1.2
1 Jan	1.2	0.9
Income statement	0.2	0.0
Fair value of derivative financial instruments	-0.1	0.1
Acquisition and others	0.0	0.2
31 Dec	1.4	1.2

The tax losses, for which no deferred tax assets are recognized due to the uncertainty of the utilization of the losses, amounted to EUR 27.6 million in the year of 2018 (EUR 24.3 million). These losses do not expire.

11. Intangible assets and tangible assets

INTANGIBLE ASSETS

EUR million	Goodwill	Development expenses	Intangible rights	Advance payments	Total
Acquisition cost 1 Jan 2018	33.5	12.3	19.0	0.0	64.8
Translation differences	-0.1	0.0	0.0	0.0	-0.1
Reclassifications	0.0	0.0	0.1	0.0	0.0
Companies acquired	0.5	0.0	0.0	0.0	0.5
Additions	0.0	0.0	0.4	0.9	1.3
Disposals	0.0	0.0	-0.1	-0.7	-0.8
Acquisition cost 31 Dec 2018	33.9	12.3	19.4	0.2	65.8
Accumulated amortization and impairment losses 1 Jan 2018	-6.0	-12.3	-17.2	0.0	-35.4
Translation differences	0.1	0.0	0.0	0.0	0.1
Reclassifications	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.1	0.0	0.1
Amortization for the period incl. exchange rate diff. in P&L	0.0	0.0	-0.7	0.0	-0.7
Accumulated amortization and impairment losses 31 Dec 2018	-5.9	-12.3	-17.8	0.0	-35.9
Net book value at 31 Dec 2018	28.0	0.0	1.6	0.2	29.8

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
Additions	0.0	0.0	0.9	0.0	0.9
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
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
Net book value at 31 Dec 2017	27.5	0.0	1.8	0.0	29.3



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 2018	2.2	124.4	92.0	1.8	2.7	223.0
Translation differences	0.0	-0.4	-0.2	0.0	0.0	-0.5
Reclassifications	0.0	0.4	4.8	0.0	-1.5	3.7
Scrapping	0.0	0.0	-2.9	0.0	0.0	-2.9
Additions	0.0	1.5	4.4	0.0	1.0	7.0
Disposals	0.0	0.0	-2.1	0.0	-0.2	-2.3
Acquisition cost 31 Dec 2018	2.2	125.9	96.1	1.8	2.0	228.0
Accumulated depreciation and impairment losses 1 Jan 2018	0.0	-70.4	-69.5	-1.4	-1.2	-142.6
Translation differences	0.0	0.3	0.1	0.0	0.0	0.4
Reclassifications	0.0	0.0	-3.5	0.0	0.0	-3.5
Scrapping	0.0	-0.9	2.9	0.0	0.0	2.0
Disposals	0.0	0.0	1.0	0.0	0.0	1.0
Depreciation for the period incl. exchange rate diff. in P&L	0.0	-4.3	-6.7	0.0	0.0	-11.0
Impairment	0.0	0.0	0.0	0.0	0.0	0.0
Accumulated depreciation and impairment losses 31 Dec 2018	0.0	-75.2	-75.7	-1.5	-1.2	-153.6
Net book value at 31 Dec 2018	2.2	50.7	20.5	0.3	0.8	74.4
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 depreciation 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
Depreciation for the period incl. exchange rate diff. in P&L	0.0	-6.6	-7.0	0.0	0.0	-13.6
Accumulated depreciation and impairment losses 31 Dec 2017	0.0	-70.4	-69.5	-1.4	-1.2	-142.6
Net book value at 31 Dec 2017	2.2	54.1	22.4	0.3	1.5	80.4

TANGIBLE ASSETS INCLUDE CAPITALIZED FINANCE LEASES AS FOLLOWS

EUR million	Buildings and constructions	Machinery and equipment	Total
Acquisition cost 31 Dec 2018	36.6	6.8	43.2
Accumulated depreciation	-18.4	-6.8	-25.1
Net book value at 31 Dec 2018	18.2	0.0	18.2
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
Net book value at 31 Dec 2017	19.6	0.0	19.6

12. Investments in joint ventures

	Domicile	Ownership %
Nammo AS	Raufoss, Norway	50.0
Svensk Försvarsløstistik AB	Stockholm, Sweden	50.0
Silverskin Information Security Oy	Helsinki, Finland	25.0

2017

EUR million	Domicile	Ownership %	Assets	Liabilities	Net sales	Profit/Loss
Nammo AS	Raufoss, Norway	50.0	567.9	314.3	478.3	19.4

SHARES IN JOINT VENTURES

EUR million	2018	2017
1 Jan	158.6	164.4
Share of results in joint ventures	12.9	13.9
Share of comprehensive income in joint ventures	-1.6	-1.5
Dividend income	-4.7	-7.3
Exchange rate differences and other changes	-0.6	-10.9
31 Dec	164.5	158.6



BUSINESS OPERATIONS WITH JOINT VENTURES

EUR million	2018	2017
Sales to joint ventures	0.0	0.5

RECEIVABLES AND LIABILITIES, JOINT VENTURES

EUR million	2018	2017
Subordinated loan receivable	0.4	0.4
Accounts receivables	0.0	0.0
Accounts payable	0.0	0.0

13. Other shares

EUR million	2018	2017
Book value	0.2	0.2

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	2018	2017
Contract assets	17.2	15.8
Other items	19.2	6.0
Total	36.4	21.8

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

CONTRACT BALANCES

EUR million	2018	2017
Trade receivables	106.0	113.7
Contract assets	17.2	15.8
Contract liabilities		
Advances received, other	16.2	15.0
Advances received, over time	37.6	32.1
Revenue recognised in the financial period that was included in the contract liability on 1 January	4.9	31.1
Remaining performance obligations from projects and contracts under execution	318.2	161.9

15. Accruals and deferred income

EUR million	2018	2017
Accrued wages, salaries and social security costs	23.1	21.6
Other items	18.6	24.7
Total	41.7	46.3

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

16. Financial assets valued as fair value

EUR million	Shares	Total
1 Jan 2018	0.2	0.2
Exchange rate differences and other changes	0.0	0.0
31 Dec 2018	0.2	0.2
1 Jan 2017	0.2	0.2
Deductions and other changes	0.0	0.0
31 Dec 2017	0.2	0.2

17. Financial instruments

FAIR VALUE RESERVE INCLUDING FORWARD CONTRACTS

EUR million	2018	2017
Fair value	0.1	0.6
Deferred taxes	0.0	-0.1
Fair value reserve 31 Dec	0.1	0.5
Fair value changes recognized in equity	-0.5	2.6
Fair value changes recognized in income statement	0.0	-0.5
Deferred taxes	0.1	-0.4
Change	-0.4	1.6
Fair value	0.6	-1.4
Deferred taxes	-0.1	0.3
Fair value reserve 1 Jan	0.5	-1.1



CARRYING AMOUNTS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORIES AND FAIR VALUE HIERARCHY

2018 EUR million	At fair value through other comprehensive income Level 2	At fair value through income statement Level 2	Measured at amortised cost	Book value	Note
Non-current financial assets					
Long-term receivables from joint ventures			0.4	0.4	12
Other shares		0.2	0.0	0.2	13
Current financial assets					
Accounts receivable			106.0	106.0	2
Derivative financial instruments	0.1	0.0		0.1	22
Cash and bank balances			8.1	8.1	16
Carrying amount by category	0.1	0.2	114.4	114.8	
Non-current financial liabilities					
Interest-bearing liabilities			24.5	24.5	19
Current financial liabilities					
Interest-bearing liabilities			51.0	51.0	19
Accounts payable			39.2	39.2	
Derivative financial instruments	0.0	0.0		0.1	22
Carrying amount by category	0.0	0.0	114.7	114.8	

2017 EUR million	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	Note
Non-current financial assets							
Long-term receivables from joint ventures			0.4			0.4	12
Other shares			0.0	0.2		0.2	13
Other receivables			0.7			0.7	
Current financial assets							
Accounts receivable			111.9			111.9	2
Derivative financial instruments	0.2	0.2				0.4	22
Cash and bank balances			5.9			5.9	16
Carrying amount by category	0.2	0.2	118.9	0.2	0.0	119.4	
Non-current financial liabilities							
Interest-bearing liabilities					26.4	26.4	19
Current financial liabilities							
Interest-bearing liabilities					47.4	47.4	19
Accounts payable					25.3	25.3	
Derivative financial instruments	0.1	0.2				0.3	22
Carrying amount by category	0.1	0.2	0.0	0.0	99.1	99.4	

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

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

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



18. Shareholders' equity

Share Capital: Patria Oyj share capital on 31 December 2018 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 2018, and the fund stood at EUR 164,1 million on 31 December 2018.

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 of 27,841,889 shares and one series of shares.

DISTRIBUTABLE FUNDS

The parent company's non-restricted equity on December 31, 2018 is EUR 242,666,546.63 of which the net profit for the financial period is EUR 14,356,598.82.

DIVIDEND PER SHARE

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.50 (2017: 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 13,920,944.50 (2017: EUR 16,705,133.40). The Board of Directors further proposes that the remaining non-restricted equity, EUR 228,745,602.13 (2017: EUR 228,309,947.81) be retained and carried forward.

The dividends paid for 2018 will be decided at the Annual General Meeting on 27 March 2019. 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 2019 and 2037 and capital costs of EUR 18.2 million (19.6) are included in Buildings and constructions; the depreciation thereon was EUR 1.5 million (1.4). The aggregate leasing payments amounted to EUR 2.6 million (2.5), the interest element being EUR 1.2 million (1.3).

FINANCE LEASE LIABILITIES MINIMUM LEASE PAYMENTS

EUR million	2018	2017
Not later than 1 year	2.6	2.5
1-5 years	10.2	9.9
Later than 5 years	19.7	23.1
Total	32.5	35.5
Future finance charges	-13.2	-14.8
Present value of minimum lease payments	19.2	20.6

PRESENT VALUE OF MINIMUM LEASE PAYMENTS

EUR million	2018	2017
Not later than 1 year	1.4	1.4
1-5 years	5.8	5.7
Later than 5 years	12.0	13.5
Present value of minimum lease payments	19.2	20.6

20. Provisions

EUR million	2018	2017
Warranty provision	9.5	11.8
Other provision	8.5	14.1
Total	18.0	26.0

During the warranty period the claimed faults will be corrected at Patria's expense. The warranty provisions amounted to EUR 9.5 million (11.8) at the end of 2018. 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	2018	2017
Guarantees given on behalf of others	3.1	2.5
Other own contingent liabilities	7.1	7.5
Total	10.2	10.0

OPERATING LEASE COMMITMENTS

EUR million	2018	2017
Payments due next year	11.1	11.8
1 - 5 years	16.6	21.7
Payments due in thereafter	10.2	18.9
Total	37.9	52.4

Operating lease commitments of joint ventures are not included.

22. Derivative contracts

DERIVATIVE INSTRUMENTS

2018 EUR million	Nominal value	Positive fair values	Negative fair values	Net fair value
Derivative financial instruments designated as cash flow hedges				
Forward foreign exchange contracts	18.2	0.1	0.0	0.1
Buy	3.4	0.1	0.0	0.0
Sell	14.8	0.1	0.0	0.1
Interest rate swap	0.0	0.0	0.0	0.0
Cash flow hedge	18.2	0.1	0.0	0.1
Non-hedge accounting derivative financial instruments				
Forward foreign exchange contracts	31.1	0.0	0.0	0.0
Buy	0.5	0.0	0.0	0.0
Sell	30.6	0.0	0.0	0.0
Non-hedging	31.1	0.0	0.0	0.0
Total	49.3	0.1	-0.1	0.1
EUR million				
Derivative financial assets	0.1	0.0	0.0	0.0
Derivative financial liabilities	-0.1	0.0	0.0	0.0



DERIVATIVE INSTRUMENTS

2017 EUR million	Nominal value	Positive fair values	Negative fair values	Net fair value
Derivative financial instruments designated as cash flow hedges				
Forward foreign exchange contracts	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
Non-hedge accounting derivative financial instruments				
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
Total	61.0	0.4	-0.3	0.1
EUR million				
	2019	2020	2021	2022
Derivative financial assets	0.4	0.0	0.0	0.0
Derivative financial liabilities	-0.3	0.0	0.0	0.0

OFFSETTING OF FINANCIAL INSTRUMENTS

2018 EUR million	Gross amounts in balance sheet	Financial instruments - Related amounts not set off in the balance sheet	Net amount
Derivative financial assets	0.1	0.0	0.1
Derivative financial liabilities	0.1	0.0	0.0
2017 EUR million			
Derivative financial assets	0.4	-0.3	0.1
Derivative financial liabilities	0.3	-0.3	0.1

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
Patricomp 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 ISP Oy	Helsinki, Finland	100.0
Patria Land Services Oy	Helsinki, Finland	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
Patria Polska Sp. z o.o.	Warsaw, Poland	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	2018	2017
Total	48.2	66.2

The policy of internal transfer pricing is to use market 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 2018. 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. In 2016 the Helsinki District Court dismissed RHG's claims and obliged RHG to cover Patria's legal expenses. RHG appealed to the Helsinki Court of Appeal. The Court of Appeal dismissed both claims of RHG. RHG had a right to apply for an appeal from the Supreme Court by 24 August 2018. As this was not done by RHG, the ruling of the Court of Appeal is final and binding.

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	31.12.2018	31.12.2017
Non-current assets			
Intangible assets	9		
Intangible rights		0.6	0.8
Other long-term expenditures		0.1	0.1
Tangible assets	9		
Machinery and equipment		1.3	1.4
Other tangible assets		0.0	0.0
Investments			
Shares in group companies	10	123.3	123.3
Shares in associated and joint venture companies	10	191.7	191.7
Receivables from associated and joint venture companies	11	0.4	0.4
Total Non-current assets		317.4	317.7
Current assets			
Inventories			
Raw materials and supplies		0.1	0.3
Receivables			
Accounts receivable		0.0	0.1
Receivables from group companies	11	83.3	90.3
Prepaid expenses and accrued income	11	5.8	2.8
Cash and bank balances		3.7	1.8
Total Current Assets		93.0	95.3
Total Assets		410.3	413.0

SHAREHOLDERS' EQUITY AND LIABILITIES

EUR million	Note	31.12.2018	31.12.2017
Shareholders' equity	12		
Share capital		38.0	38.0
Other funds			
Reserve for invested unrestricted equity		164.1	164.1
Retained earnings		64.2	63.0
Net income for the period		14.4	18.0
Total Shareholders' equity		280.7	283.0
Non-current liabilities			
Loans from financial institutions		0.0	0.2
Total Non-current liabilities		0.0	0.2
Current liabilities			
Other loans	13	29.0	0.0
Loans from financial institutions	13	20.2	42.5
Accounts payable		2.5	1.4
Liabilities to group companies	13	73.4	79.6
Other current liabilities		1.3	2.0
Accruals and deferred income	13	3.1	4.3
Total Current liabilities		129.7	129.7
Total Shareholders' equity and liabilities		410.3	413.0



Income Statement, Parent company

EUR million	Note	1-12/2018	%	1-12/2017	%
Net sales	2	21.0		4.3	
Other operating income	3	1.6		2.2	
Materials and services					
Raw materials and supplies					
Purchases during the financial period		-0.9		0.0	
Change in inventories		-0.2		0.0	
Personnel expenses	4	-7.4		-2.6	
Depreciation and value adjustments	5	-1.1		0.0	
Other operating expenses	3	-19.0		-7.0	
Operating profit		-6.0	-28.3%	-3.1	-71.1%
Financial income and expenses	6				
Dividend income from group companies		11.7		10.9	
Interest and other financial income		2.6		0.0	
Interest and other financial expenses		-2.1		-1.5	
Exchange gains and losses		0.0		0.0	
Income before appropriations and taxes		6.2	29.5%	6.3	146.0%
Appropriations	7	8.7		12.9	
Income taxes	8	-0.6		-1.3	
Net income		14.4	68.3%	18.0	413.9%

Cash Flow Statement, Parent company

EUR million	1-12/2018	1-12/2017
Income before appropriations and taxes	6.2	6.3
Depreciation	1.1	0.0
Financing items	-12.2	-9.4
Other changes	0.0	-1.9
Change in receivables	2.3	-0.6
Change in inventories	0.2	0.0
Change in liabilities	-1.0	-1.1
Cash flow from operations before financial items and taxes	-3.3	-6.6
Interests paid	-1.6	-1.3
Other financial items	-0.6	-0.2
Dividends received	11.7	10.9
Interests received	2.6	0.0
Paid taxes	-4.1	-5.1
Cash flow from operating activities	4.7	-2.3
Acquired group companies	0.0	-4.5
Capital expenditures	-0.9	0.0
Gains on sales of non-current assets	0.1	0.0
Cash flow from investing activities	-0.8	-4.5
Change in short-term loans	7.0	0.0
Repayment of long-term loans	-0.5	0.0
Change in short-term receivables and liabilities	-4.3	4.4
Dividends paid	-16.7	-31.2
Paid and received group contributions	12.6	33.6
Cash flow from financing activities	-1.9	6.8
Change in liquid funds	2.0	0.0
Liquid funds 1 Jan	1.8	0.0
Liquid funds, merger	0.0	1.8
Liquid funds 31 Dec	3.7	1.8
Change in liquid funds	2.0	0.0



Notes to the Financial Statements, Parent company

1. Accounting principles, Parent company

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

COMPARABILITY OF YEAR 2017 INFORMATION

In 2018 the short term liabilities were reclassified. The liabilities related to unbooked accounts payable and liabilities related to received goods and services not invoiced have been presented in Accounts payable. In 2017 the items were included in Accruals and deferred income. The previous year comparative amounts have not been changed as the change was not material.

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 labour, 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 MARKET AREA

EUR million	2018	2017
Finland	20.4	4.3
Other Europe	0.6	0.0
Total	21.0	4.3

NET SALES BY PRODUCT SEGMENT

EUR million	2018	2017
Civilian products	21.0	4.3
Total	21.0	4.3

REVENUE RECOGNITION

EUR million	2018	2017
Delivery based net sales	21.0	4.3
Total net sales	21.0	4.3

3. Other operating income and expenses

OTHER OPERATING INCOME

EUR million	2018	2017
Rental Income	1.6	0.3
Gains on mergers	0.0	1.9
Other operating income	0.0	0.0
Total	1.6	2.2

OTHER OPERATING EXPENSES

EUR million	2018	2017
Research and development	0.0	0.0
Rents	-3.4	-0.4
Real estate expenses	-1.6	0.0
Losses on sales of non-current assets	0.0	0.0
Travel expenses	-0.4	-0.2
Sales and marketing expenses	-1.1	-1.1
Other operating expenses	-12.5	-5.3
Total	-19.0	-7.0

4. Employee benefits and average number of personnel

EUR million	2018	2017
Salaries and fees paid to members of Board of Directors, Consultative Committee and President and CEO	-0.7	-0.7
Other wages and salaries	-5.5	-1.5
Pension and pension insurance costs	-1.0	-0.4
Other indirect personnel expenses	-0.2	-0.1
Total	-7.4	-2.6
Number of personnel, average		
Salaried staff	79	16
Total	79	16

5. Depreciation

EUR million	2018	2017
Depreciation on Intangible rights	-0.5	0.0
Depreciation on other Intangible rights	0.0	0.0
Depreciation on machinery and equipment	-0.5	0.0
Total	-1.1	0.0

6. Financial income and expenses

FINANCIAL INCOME

EUR million	2018	2017
Dividend income, group	11.7	10.9
Interest income, group	2.5	0.0
Interest income, other	0.1	0.0
Total	14.3	10.9

FINANCIAL EXPENSES

EUR million	2018	2017
Interest expenses, group	-1.4	-1.3
Interest expenses, other	-0.1	0.0
Other financial expenses, other	-0.6	-0.2
Total	-2.1	-1.5

7. Appropriations

EUR million	2018	2017
Group contributions	8.7	12.9
Total	8.7	12.9

8. Direct taxes

EUR million	2018	2017
Income tax from continuing operations	1.2	1.3
Income tax from appropriations	-1.7	-2.6
Total	-0.6	-1.3
EUR million	2018	2017
Income taxes	-0.6	-1.3
Income taxes previous period	0.0	0.0
Total	-0.6	-1.3



9. Intangible and tangible assets

INTANGIBLE ASSETS

EUR million	Intangible rights	Other long-term expenditures	Total
Acquisition cost 1 Jan 2018	6.1	0.2	6.3
Additions	0.3	0.0	0.3
Disposals	0.0	0.0	0.0
Acquisition cost 31 Dec 2018	6.5	0.2	6.6
Accumulated amortization and impairment losses 1 Jan 2018	-5.3	0.0	-5.4
Disposals	0.0	0.0	0.0
Amortization for the period incl. exchange rate diff. in P&L	-0.5	0.0	-0.6
Accumulated amortization and impairment losses 31 Dec 2018	-5.8	-0.1	-5.9
Net book value at 31 Dec 2018	0.6	0.1	0.7
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
Net book value at 31 Dec 2017	0.8	0.1	0.9

TANGIBLE ASSETS

EUR million	Machinery and equipment	Other tangible assets	Total
Acquisition cost 1 Jan 2018	7.0	0.0	7.1
Scrapping	-2.7	0.0	-2.7
Additions	0.6	0.0	0.6
Disposals	-0.3	0.0	-0.3
Acquisition cost 31 Dec 2018	4.6	0.0	4.6
Accumulated depreciation and impairment losses 1 Jan 2018	-5.6	0.0	-5.6
Scrapping	2.7	0.0	2.7
Disposals	0.2	0.0	0.2
Depreciation for the period incl. exchange rate diff. in P&L	-0.5	0.0	-0.5
Accumulated depreciation and impairment losses 31 Dec 2018	-3.3	0.0	-3.3
Net book value at 31 Dec 2018	1.3	0.0	1.3
Acquisition cost 1 Jan 2017	0.0	0.0	0.0
Merger	7.0	0.0	7.1
Acquisition cost 31 Dec 2017	7.0	0.0	7.1
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
Net book value at 31 Dec 2017	1.4	0.0	1.4

10. Investments

SHARES IN SUBSIDIARIES

EUR million	2018	2017
1.1.	123.3	222.0
Additions	0.0	4.5
Merger	0.0	-103.2
Total 31.12.	123.3	123.3

SHARES IN JOINT VENTURES

EUR million	2018	2017
1.1.	191.7	191.6
Reclassifications	0.0	0.0
Total 31.12.	191.7	191.7

11. Current receivables

CURRENT RECEIVABLES FROM GROUP COMPANIES

EUR million	2018	2017
Accounts receivable	8.5	11.6
Loan receivable	1.6	0.0
Other receivables	64.5	65.9
Derivative financial receivables	0.1	0.2
Accruals and deferred income	8.8	12.6
Total	83.3	90.3

CURRENT RECEIVABLES FROM ASSOCIATED COMPANIES

EUR million	2018	2017
Subordinated loan	0.4	0.4
Total	0.4	0.4

PREPAID EXPENSES AND ACCRUED INCOME

EUR million	2018	2017
Taxes	4.8	1.2
Derivative financial receivables	0.1	0.4
Other receivables	0.8	1.2
Total	5.8	2.8



12. Shareholders' equity

CHANGES IN SHAREHOLDERS' EQUITY

EUR million	2018	2017
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	80.9	94.2
Distribution of dividends	-16.7	-31.2
Retained earnings 31 Dec	64.2	63.0
Net income	14.4	18.0
Total shareholders' equity 31 Dec	280.7	283.0
Distributable funds		
Invested non-restricted equity fund 31 Dec	164.1	164.1
Retained earnings 31 Dec	64.2	63.0
Net income	14.4	18.0
Distributable funds	242.7	245.0

13. Current liabilities

MATURITY OF INTEREST-BEARING LIABILITIES

EUR million	2019	2020	2021	2022	2023-	Total
Loans from financial institutions	0.2	20.0	0.0	0.0	0.0	20.2
Liabilities, group account	73.2	0.0	0.0	0.0	0.0	73.2
Other interest-bearing liabilities	29.0	0.0	0.0	0.0	0.0	29.0
Total 2018	102.5	20.0	0.0	0.0	0.0	122.5

EUR million	2019	2020	2021	2022	2023-	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
Total 2017	121.5	0.2	0.0	0.0	0.0	121.7

CURRENT LIABILITIES TO GROUP COMPANIES

EUR million	2018	2017
Accounts payable	0.1	0.3
Other liabilities	73.2	79.0
Derivative financial liabilities	0.1	0.3
Accruals and deferred income	0.0	0.0
Total	73.4	79.6

ACCRUALS AND DEFERRED INCOME

EUR million	2018	2017
Accruals related to wages and salaries	2.5	2.7
Derivative financial liabilities	0.1	0.3
Other liabilities	0.6	1.2
Total	3.1	4.3

14. Financial instruments and derivative contracts

DERIVATIVE INSTRUMENTS

2018 EUR million	Nominal value	Positive fair values	Negative fair values	Net fair value
Non-hedge accounting derivative financial instruments				
Forward foreign exchange contracts	72.8	0.2	-0.2	0.0
Buy	23.4	0.1	-0.1	0.0
Sell	49.3	0.1	-0.1	0.1
Non-hedging	72.8	0.2	-0.2	0.0
Total	72.8	0.2	-0.2	0.0

EUR million	2019	2020	2021	2022
Derivative financial assets	0.2	0.0	0.0	0.0
Derivative financial liabilities	-0.2	0.0	0.0	0.0

2017 EUR million	Nominal value	Positive fair values	Negative fair values	Net fair value
Non-hedge accounting derivative financial instruments				
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
Total	96.8	0.6	-0.6	0.0

EUR million	2019	2020	2021	2022
Derivative financial assets	0.6	0.0	0.0	0.0
Derivative financial liabilities	-0.6	0.0	0.0	0.0

OFFSETTING OF FINANCIAL INSTRUMENTS

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**

2018 EUR million	At fair value through income statement Level 2	Measured at amortized cost	Book value
Non-current financial assets			
Long-term receivables from joint ventures		0.4	0.4
Current financial assets			
Accounts receivable		0.0	0.0
Receivables from group companies*	0.1	74.5	74.6
Derivative financial instruments*	0.1		0.1
Cash and bank balances		3.7	3.7
Carrying amount by category	0.2	78.6	78.8
Current financial liabilities			
Interest-bearing liabilities		49.2	49.2
Accounts payable		2.5	2.5
Liabilities to group companies*	0.1	73.3	73.4
Derivative financial instruments*	0.1		0.1
Carrying amount by category	0.2	125.0	125.2

2017 EUR million	At fair value through income statement Level 2	Loans and other receivables	Other financial liabilities	Book value
Non-current financial assets				
Long-term receivables from joint ventures		0.4		0.4
Current financial assets				
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
Carrying amount by category	0.6	79.7	0.0	80.3
Non-current financial liabilities				
Interest-bearing liabilities			0.2	0.2
Current financial liabilities				
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
Carrying amount by category	0.6	0.0	123.4	124.0

* 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 "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. Patria Oyj and the other group companies are responsible for determining and hedging their exposures. Patria Oyj makes all 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 income before taxes and shareholders' equity to foreign exchange rate fluctuations. Net exposures include foreign currency denominated financial assets and liabilities in the balance sheets of the company 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 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 2018 were in the Swedish krona (SEK).

**IFRS 7 SENSITIVITY ANALYSIS - SENSITIVITY TO
EXCHANGE RATE FLUCTUATIONS 2018**

1,000 EUR	SEK
Net exposure - Balance sheet items	298
Euro strengthens / weakens 5 % - Effect on income before taxes	-14 / 16
Net exposure - Derivatives under hedge accounting	0
Euro strengthens / weakens 5 % - Effect on equity	-0.0 / 0.0

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

1,000 EUR	SEK
Net exposure - Balance sheet items	28
Euro strengthens / weakens 5 % - Effect on income before taxes	-1 / 1

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 2018, the average interest fixing term of the liabilities was 0.09 (0.05) years and that of the receivables one day (one day).

On 31 December 2018, company's interest-bearing liabilities totalled EUR 122.5 million (121.7) out of which EUR 93.2 million (79.0) was floating rate and EUR 29.2 million (42.7) was fixed rate. EUR 73.2 million (79.0) of the floating rate liabilities were from group account. Interest-bearing receivables were EUR 68.2 million which all were floating rate. EUR 64.5 million of the interest-bearing receivables were receivables from group account.

15. Commitments and contingent liabilities

COMMITMENTS AND CONTINGENT LIABILITIES

EUR million	2018	2017
Guarantees given on behalf of group companies	89.6	111.3
Guarantees given on own behalf	0.0	3.5
Guarantees given on behalf of others	0.6	0.0
Other own contingent liabilities	3.5	0.0
Total	93.7	114.8

LEASING COMMITMENTS

EUR million	2018	2017
Payments due next year	3.1	3.1
1 - 5 years	11.2	11.3
Payments due in thereafter	11.7	13.9
Total	26.0	28.3



Board of Directors' proposal for profit distribution

The parent company's non-restricted equity on December 31, 2018 is EUR 242,666,546.63 of which the net profit for the financial period is EUR 14,356,598.82.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.50 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 13,920,944.50. The Board of Directors further proposes that the remaining non-restricted equity, EUR 228,745,602.13 be retained and carried forward.

Helsinki, 4 March 2019

Esa Rautalinko
Chairman

Harald Aarø

Eirik Lie

Päivi Marttila

Jarle Næss

Ari Puheloinen

Gyrid Skalleberg Ingerø

Petri Vihervuori

Ville Jaakonsalo
President and CEO

AUDITOR'S STATEMENT

A report has been given today on the audit performed.

Helsinki, 11 March 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants

Jouko Malinen
Authorised Public Accountant



GOVERNANCE

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Corporate Governance

APPLICABLE STATUTES, GUIDELINES AND RECOMMENDATIONS

Corporate Governance of Patria Oyj (a Finnish public limited liability company) is subject to the provisions of the Finnish Limited Liability Companies Act, the Auditing Act, and the Accounting Act and other legislation relevant to its operations. The Limited Liability Companies Act defines, for example, the company's governing bodies, their roles and responsibilities, as well as their relation to each other. The Limited Liability Companies Act is also essential from the point of view of the shareholders' rights by providing provisions on the rights associated with the shares and on the exercise of the rights, and it also contains the key principles of corporate law applied to corporate governance.

In addition, Patria follows other guidelines and recommendations concerning good corporate governance applicable to companies in which the Finnish state is the majority shareholder. While Patria is not a listed company it substantially follows the Finnish Corporate Governance Code, where applicable and to the extent the recommendations are suitable taking into account the company's ownership structure and/or the special features of the company or its industry while maintaining a good corporate governance model.

GROUP LEGAL STRUCTURE

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 (a Norwegian company) and 60% of Milrem LCM OÜ (an Estonian company). 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.

GOVERNING BODIES

The highest governing body is the General Meeting, in which the shareholders exercise their decision-making powers. The board of directors shall see to the administration

of the company and the appropriate organisation of its operations, consisting of directors appointed by the General Meeting.

The Group's operating activities are managed by the President and CEO, appointed by the Board of Directors and who shall see to the daily administration of the company in accordance with the instructions and orders given by the Board of Directors. The President and CEO is supported 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.

CONSULTATIVE COMMITTEE

According to the Articles of Association, Patria Oyj shall have a Consultative Committee appointed by the General Meeting. The Board of Directors shall consult the Consultative Committee on matters that concern any major changes or expansion of operations or any other material changes to the company's organisation or business operations, 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 2018, the Consultative Committee convened five times.

COMPOSITION OF THE BOARD OF DIRECTORS AND THE ELECTION PROCEDURE

According to the Articles of Association as currently in force, the Board of Directors of Patria Oyj consists of a chairman and a minimum of three and a maximum of seven other members. During the current financial period, the Board had eight (8) members. The General Meeting of Shareholders elects the chairman, and the other



Board members and decides on their remuneration. The Board members are elected for one year at a time, their terms of office ending at the close of the first Annual General Meeting held subsequent to their election. In 2018 the Board held twelve 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 and objectives as well as principles of risk management, to monitor and steer the Group's business operations, to ensure that the Group complies with legal provisions applicable to its operations and conducts business in a commercially sustainable manner, providing added value to its shareholders. The Board also makes decisions on the Group's key operating principles, approves annually the Group's financial targets and operational objectives, as well as its financial statement and any interim reports, and decides on material investments of the Group.

The Board of Directors ensures that the company has established the ethical and corporate values applied to its operation as well as the operational principles and monitors compliance with these values and principles. The Board also approves the general setup of the Group's organizational and operational structure. The duty of the Board of Directors is to promote the best interest of the company and all its shareholders. A director does not represent the interests of the parties who have proposed his or her election as a director.

The Board of Directors has set up a Nomination and Compensation Committee as well as an Audit Committee to take charge of certain specific tasks of the Board of Directors.

THE NOMINATION AND COMPENSATION COMMITTEE

The Nomination and Compensation Committee consists of three (3) members, all of whom are non-company and non-executive directors. The members have experience and skills in the areas of knowledge that fall within the scope of the Nomination and Compensation Committee duties as the Charter of the Committee. It prepares the Group's and the management's payroll structures as well as any bonus and incentive systems. It also approves key appointments and nominations.

THE AUDIT COMMITTEE

The Audit Committee consists of three (3) members, all of whom are non-company and non-executive directors. The members have experience and skills in the areas of knowledge that fall within the scope of the Audit Committee duties as per the Charter of the Audit Committee. Its responsibility is to monitor e.g. implementation of the Group's internal controls, risk management, financial reporting and it is responsible for supervising the Group's ethics and compliance (including specifically anti-corruption and anti-bribery related actions) program and activities.

THE PRESIDENT AND CEO AND THE GROUP MANAGEMENT

Patria Oyj's President and CEO is responsible for managing the company's and the Patria Group's business activities and administration, in accordance with the provisions of the Finnish Limited Liability Companies Act, other applicable legislation and any instructions and guidelines issued by the Board of Directors. The President and CEO is assisted in Group management by the Board of Management, which convenes monthly and which consists of Presidents of each Business Unit, Chief Financial Officer, General Counsel & Chief Compliance Officer, Chief Business Development Officer, Chief Communications Officer and Chief Human Resources Officer. In addition, the Group management meets in other combinations as and when necessary for management purposes.



In Patria corporate responsibility related activities and reporting are steered by Patria's Corporate Responsibility Steering Group. The Steering Group is coordinated by Patria's Chief Communications Officer. Patria's Ethics Officer participates in the steering groups meetings and supports the work of the Steering Group. The General Counsel and Chief Compliance Officer is responsible for the ethics and compliance program and related issues and activities and reports regularly to the Audit Committee on these matters.

COMPENSATION AND BENEFITS

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

MONITORING AND CONTROLS

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

The Group's division into business units increases efficiency and focus of management thereof and facilitates organization of efficient monitoring and control thereof. An operational reporting system has been set up for the Group's financial monitoring and control. It produces versatile information on the Group's financial standing and development on a monthly basis. The Group also has clearly defined decision-making authorizations related to investments.

Patria has an independent, outsourced Internal Audit function, which evaluates and contributes to ensuring the efficiency and feasibility of risk management and internal controls, the reliability of financial reporting, accounting and administration and the compliance of the operations. 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 external Auditor (elected by the general meeting) reports their observations at least once a year to the Board of Directors, the Audit Committee and the Group's management. The auditors also submit a statutory auditors' report to the company's shareholders. Patria Oyj's auditor is an approved auditor within the meaning of the Auditing Act.



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 seller company shall accept compensation obligations arising from the purchase agreement. The purpose of such obligations is to ensure industrial participation in the country in question to create value add in that country. The requirements of and processes related to Industrial Participation are determined by national rules of the target country as well as contract specific requirements.

Patria operates in the field of defense procurement where industrial participation is a common requirement and prerequisite in contracts.

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

Furthermore, Patria also participates in industrial participation arrangements where participation is in the business interest of Patria Group as a whole, where the value of industrial participation engagements is proportionate to the value of the main agreements or transaction, and provided that such activities are steered and monitored by executive management with clear accountability. Participation in industrial participation arrangements and activities are carried out according to the rules and policies of concerned countries. These industrial participation arrangements may also include externally created industrial participation activities as well as actions on behalf of other entities having industrial participation liabilities when this is possible under applicable rules and policies.

Mutual abatements or swaps of industrial participations are also possible, where performed under applicable regulations and with consent of relevant authorities and agreements.

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

The absolute requirements for all industrial participation arrangements and activities are the following:

- Applicable laws, regulations and international treaties allow industrial participation arrangements and the arrangement is in compliance with the laws and regulations
- The arrangements are in compliance with Patria Group's ethical and compliance policies and guidelines related to industrial participation and Patria Ethical Code of Conduct and related policies and guidelines
- The arrangement is acceptable and subject to applicable integrity due diligence on any and all business partners and vendors related to such industrial participation arrangements and transactions, with special focus on ensuring anti-corruption and anti-bribery.
- Patria conducts a thorough legal analysis of the applicable industrial participation regulations in the specific country in question to mitigate legal risks and to ensure compliance of Patria's industrial participation activities
- All the relevant financial and non-financial risks are assessed and mitigated
- The industrial participation engagements are proportionate to the value of the main agreement or transaction

Performance of industrial participation obligations of Patria:

- Patria Group's industrial participation obligations are conducted materially within Patria's Land business unit (estimated presently at 95% of Patria Group's industrial participation related obligations). The industrial participation obligations of the other business units are minor, if any
- Land business unit has specific processes and defined roles and responsibilities concerning industrial participation activities during marketing and as well as sales activities and concerning implementation of industrial participation contracts



Risk Management

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

Risk management and internal control do regular assessments to ensure appropriate reporting, risk management, integrity, ethical business conduct and compliance with laws and regulations as well as Patria guidelines and processes. Through integrity, compliance and high ethical standards of business conduct Patria reputation and value of its assets are also ensured.

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 Board provides the ultimate oversight and direction for risk management and internal control and has allocated main responsibility for these actions to the Audit Committee appointed by the Board. The Audit Committee consists of board members that have specific understanding of the various topics that are in the scope of the Audit Committee responsibilities as per the Audit Committee Charter. Specific focus is on ensuring ethical and compliant business practices and conduct.

The primary responsibility for risk management and internal control lies with the business units and Patria Group functions in their area of responsibility. The President & CEO of Patria is responsible for the proper functioning and monitoring of risk management and internal control.

Patria's Group functions provide guidelines for risk management and internal control and perform monitoring on different levels. An internal audit function and the internal and external auditors, security and quality auditors, evaluate the effectiveness of risk management and internal control. In addition, Patria customers executive different audits and perform different control activities to ensure compliance by Patria with the customer requirements.

Risk is understood as the effect of uncertainty, negative or positive, on objectives of Patria's operations, profitability and other areas. Risk management is a process which ensures that the risks and opportunities are identified, assessed and treated in an appropriate way and extensively enough. Risk management helps to ensure achievement of the objectives and avoidance of losses to the resources. Risk management in Patria is based on the COSO ERM framework, ISO 31000:2009 standard and industry specific standards and requirements.

INTERNAL AUDIT AND EXTERNAL AUDIT

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, ethical and compliance business conduct, and compliance with the applicable legislation, regulations and guidelines. The audit function report regularly reports to the Audit Committee nominated by the Board of Directors. The Audit Committee and Board issue, from time to time, instructions for the Internal Audit to perform specific audits or other control actions and the findings of the Internal Audit are regularly reported to the Audit Committee as well as Patria Board of Management. Patria



management is responsible for implementing the corrective actions and development items instructed by the Audit Committee.

Due to the risks involved in the defence industry sector, specifically, special focus is on ethical business conduct, anti-corruption and anti-bribery.

Both the internal auditors as well as the external auditors comply with the International Standards for the Professional Practices regarding 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 and the external audit plans annually.

The company's external auditors report their observations and findings 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 external auditors also submit a statutory auditors' report to the company's shareholders

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 utilization 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 material is subject to an export or transfer license, 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 license, or the conditions in a country to which an export license has been granted may change in such a way that the license 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 and directors. Adherence to ethical guidelines is monitored internally and non-conformities are investigated and dealt with.

Patria's business 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

Management and handling of secret and confidential information of Patria and third parties is a significant part of Patria's operations, and may make 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.



Board of Directors

31.12.2018



Esa Rautalinko
Chairman
Master of Economic Sciences
Since November 2018



Päivi Marttila
CEO
Sievi Capital plc
Since 2016



Gyrid Skalleberg Ingerø
Executive Vice President
and Chief Financial Officer
KONGSBERG
Since March 2018



Harald Aarø
Executive Vice President
Business Development
KONGSBERG
Since 2016



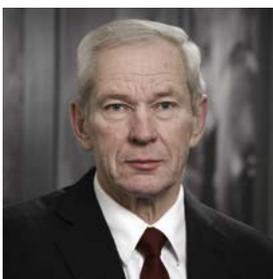
Jarle Næss
Senior Vice President Business
Development
Kongsberg Defence & Aerospace
Since March 2018



Petri Vihervuori
Senior Financial Adviser
the Ownership Steering
Department in the Prime
Minister's Office
Since November 2018



Eirik Lie
Executive Vice President
KONGSBERG and
President
Kongsberg Defence & Aerospace
Since 2017



Ari Puheloinen
General, ret.
Since 2016



Consultative Committee

31.12.2018

According to the Articles of Association, Patria Oyj must have a Consultative Committee appointed by the General Meeting of Shareholders. The Articles of Association further state that the Board of Directors shall consult the Consultative Committee on matters that concern major decrease or increase of operational activities, material changes in the company's organization, and on issues which are otherwise of material importance to the industry that the company is engaged in, either in Finland or internationally.

Sinuhe Wallinheimo

Chairman
Member of Parliament
Since 2015

Markus Mustajärvi

Vice Chairman
Member of Parliament
Since March 2018

Mika Kari

Member
Member of Parliament
Since 2015

Jussi Karimäki

Member
Equipment Assembler, Patria
Since 2009

Timo Kivinen

Member
Lieutenant General, Chief of Defence
Command, Finland
Since 2017

Juha Kuusi

Member
System Specialist, Patria
Since 2011

Petri Peltonen

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

Petri Pitkänen

Member
Logistics Manager, Patria
Since 2013

Mikko Savola

Member
Member of Parliament
Since 2015

Tomi Virtanen

Member
Production Planner, Patria
Since March 2018

Raimo Vistbacka

Member
Master of Laws
Since 2012



Board of Management

5.1.2019



Ville Jaakonsalo
 b. 1971
 President and CEO, act. Chief
 Financial Officer
 LL.M./MBA
 Since 2010



Hanna Kyrki
 b. 1962
 General Counsel, Chief
 Compliance Officer
 Master of Laws, EMBA
 Since 2014



Teemu Raitis
 b. 1977
 President, Land
 Master of Science (Economics
 and Electrical Engineering)
 Since December 2018



Jonas Geust
 b. 1970
 President, Systems
 B.Sc. Eng. Institute of
 Technology
 Since September 2018



Pasi Niinikoski
 b. 1961
 Chief Business Development
 Officer
 Doctor of Science (Techn.)
 Since 2006



Birgitta Selonen
 b. 1964
 Chief Communications Officer
 Master of Science, Sociology,
 Sports
 Since 2010



Jukka Holkeri
 b. 1962
 President, International
 Support Partnerships
 Master of Science (Eng.)
 Since 1988



Leena Olkkonen
 b. 1962
 Chief Human Resources
 Officer
 Master of Science (Economics)
 Since 2017



Martti Wallin
 b. 1963
 President, Aviation
 Master of Science (Eng.)
 Since 1989

Patria

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Patria



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