



**2019**

**Annual Report**

**Patria**

# 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.patriagroup.com](http://www.patriagroup.com).**

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# Patria in brief

**Patria is an international provider of defence, security and aviation life cycle support services, pilot training 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, Belgium, Estonia and Spain. Patria employs more than 3,000 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.patriagroup.com](http://www.patriagroup.com)

## Business units and net sales as share of group net sales

### **15%** 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.

### **16%** 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.

### **9%** International Support Partnerships

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

### **13%** 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.

### **4%** 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.

### **43%** 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.

**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 constructing feedback. We enjoy succeeding together.

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

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

**Employer promise:**  
**YOU MAKE THE DIFFERENCE.**

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

## KEY FIGURES

# 507.5

EUR million

Net sales

# 7.8

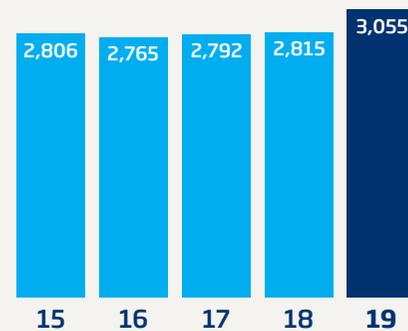
EUR million

Operating profit

# 3,055

Personnel

Personnel average

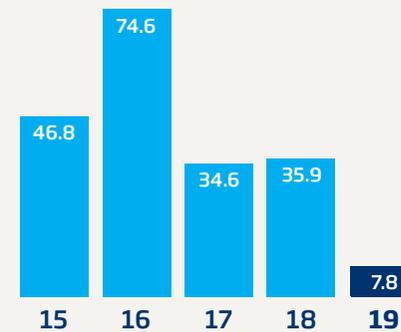


As of 2018 figure personnel, end of period

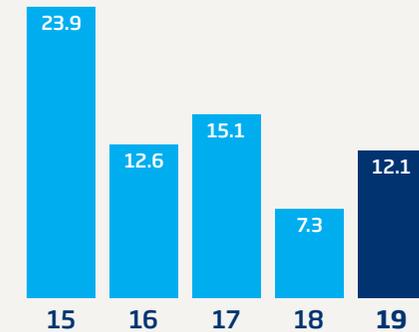
Net sales, EUR million



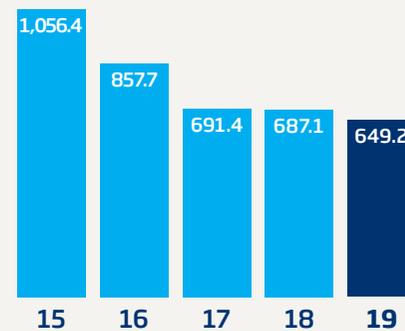
Operating profit, EUR million



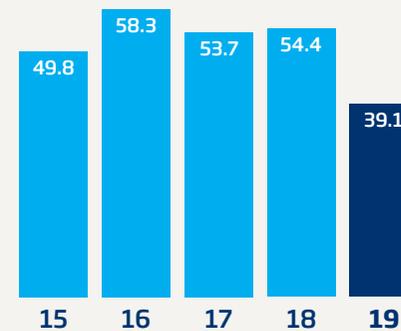
Gross investments in fixed assets, EUR million



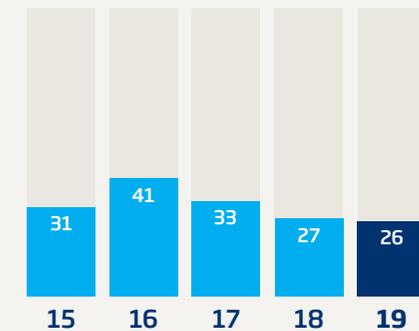
Order stock, EUR million



Equity ratio, %



Net sales outside Finland, %



## PRESIDENT AND CEO'S REVIEW

# International growth and strengthening partnerships

**Two highlights of 2019 were the completion of our acquisitions in Norway and Belgium, as they constitute significant steps in the internationalisation of our maintenance business. We made new international breakthroughs in pilot training as well. 2019 was also an important year for deepening our strategic partnership with the Finnish Defence Forces.**

2019 was a year of growth and change for Patria. CFO Ville Jaakonsalo was acting CEO for the Group during early 2019 before I took over the position in July.

Two of the most important events of the year were the completion of acquisitions that will provide a firm foundation for international growth over the coming years. In the first acquisition, Patria and Kongsberg Defence & Aerospace AS acquired AIM Norway, which is responsible for the maintenance, upkeep and modernisation of the Norwegian Air Force's helicopters and other aircraft.



## A programme to boost operational efficiency has been launched to improve profitability within the Group.

In a second acquisition in June, Patria acquired the entire share capital of Belgium Engine Center SPRL from AIM Norway. This company operates out of Belgium and specialises in the maintenance, repair and upkeep of military aircraft engines. Both acquisitions constitute key steps in line with our international growth strategy for Patria's maintenance and lifecycle business, which focuses on Europe in particular.

### International breakthroughs in pilot training

One of the most significant events for the Aviation business unit was the transfer of elementary pilot training from Pirkkala to Córdoba, Spain. This training uses single-engine DA40 aircraft. The change will support future growth in professional pilot training through an increased number of international airline customers.

During the year, Patria signed an agreement to train new pilots for the airline Air Astana until 2022.

In September, Aviation signed a three-year pilot training agreement with Turkish Airlines. This agreement with one of the world's fastest growing airlines will be highly significant for Patria's growth over the coming years.

In Finland, Patria and the Finnish Defence Forces are continuing their collaboration – the parties have signed an agreement for elementary and basic pilot training. In addition to training, this agreement also includes the required maintenance of the training fleet.

### Patria 6x6 personnel carriers spark interest

Patria has made a new addition to its high-performance product range: Patria 6x6 armoured vehicle. This next-generation armoured personnel carrier was demonstrated to a number of potential customers at several events during the year, attracting a great deal of interest.

The interest being shown in Patria vehicles is also reflected in the selection of the Patria AMV<sup>XP</sup> for an approximately one-year programme of field tests in Japan. The decision was made on the basis of a tender and Japan's Ministry of Defence will purchase two test vehicles from Patria.

Due to the postponement of major sales projects, the Land business unit fell short of its financial targets and was forced to launch cooperation negotiations covering all personnel at the end of the year. Over the long term, however, new opportunities are opening up for Patria vehicles.

Changes in the general security environment have led many countries to increase their level of preparedness. This includes, for example, boosting the efficiency of troop transportation with associated equipment purchases.

### Cooperation in the HX project intensifies

One of the major events in Finland was Patria's agreement with the Finnish Defence Forces for modernisations and lifecycle upgrades to Hamina-class missile boats. This project will run to the end of 2021 as planned.

Patria is also actively involved in the HX fighter project, which is one of the Finnish Defence Forces' largest upcoming projects. From 2025, its existing Hornet fleet will be replaced with a solution based on new multirole fighters. This process will intensify during 2020 with the final decision being made in 2021.

We play a major role in the Finnish Air Force's lifecycle support services and the HX project is extremely important for us. We are also seeking a considerable proportion of the project's future industrial participation, which will bring significant added value to the Finnish national economy.

### **Adding depth to our partnership with the Defence Forces**

The Millog business unit has been systematically deepening its strategic partnership with the Finnish Defence Forces in both fleet maintenance and lifecycle management and material services. Collaboration is based on long-term partnership agreements. The current agreement will conclude at the end of 2020 and negotiations to continue the partnership are underway.

### **Focus on improving profitability**

There have been no major changes in the Patria Group's net sales compared to the previous year. One exception was a fall in the Land business unit's net sales due to delays in export projects.

The Group's final result for the financial year was lower than expected. A programme to boost operational efficiency has been launched to improve profitability within the Group. In practice, this means more effective resourcing, prioritisation and planning. Over the coming year, we will continue this work to assure the quality of customer deliveries and ensure security of supply.

A change programme was also launched within the Group to develop Patria's operational activities, and also to potentially sharpen the company's strategic focus. The full implementation of this project will begin in 2020.

It will focus on Patria's personnel and further strengthening our good operating culture. The keyword here will be participation - in terms of both participating and encouraging participation. The goal is for personnel to be able to have an impact on Patria's strategic objectives and, above all, on how we achieve them. It is important for all employees to know where the Group is heading and how they can promote this via their own work.

We will also be increasing internal cooperation within the Group, between our various business units and personnel groups. In addition to developing internal

## **A new change programme will focus on Patria's personnel and further strengthening our good operating culture.**

activities, the change programme will be seeking to improve our understanding of customer requirements and find new business opportunities.

### **Transparency and responsibility are key issues**

Ethics, transparency and a strong focus on preventing corruption lie at the heart of business management. We want to communicate even more openly with our stakeholders about what we are doing, how we are an important employer and taxpayer, and how our company is significant in ensuring security of supply and safeguarding security-critical infrastructure.

Responsibility is an integral aspect of all of Patria's operations. Good corporate citizenship is a prerequisite for the operations of the company, which is majority-owned by the Finnish state. We seek to maintain the Group's reputation as a good corporate citizen.

We shoulder responsibility for our financial performance and the well-being not only of our own employees, but also of our stakeholders and the environment. We are continually developing sustainability-related activities, one example being our 2019 carbon footprint analysis.

## **Patria's products, services and technology - coupled with our team of more than 3,000 professionals - provide a firm foundation for partnership both in Finland and globally.**

### **Looking ahead**

Both world politics and the global security environment have changed dramatically in recent years. A variety of uncertainty factors have increased defence budgets. Many countries also need to modernise and renew defence equipment that is reaching the end of its lifecycle.

Fast-paced digitalisation is also providing Patria with new business opportunities, as we have been systematically acquiring expertise in software, sensors and artificial intelligence. Development work and innovative new products will have a long-term favourable impact on Patria's sales and profitability.

Patria's products, services and technology - coupled with our team of more than 3,000 professionals - provide a firm foundation for partnership both in Finland and globally. Our excellent reputation as a knowledgeable and reliable partner also provides

us with a competitive advantage. Our goal is to continue providing our customers with high-quality and cost-effective service.

On behalf of myself and all Patria employees, I would like to thank our customers, owners, partners and other stakeholders. I would also like to thank all Patria personnel for their efforts during 2019. Together we succeed, so let's celebrate our success!

**Esa Rautalinko**

President and CEO

## OPERATING ENVIRONMENT

# International networking will be highlighted in solutions in the 2020s

**Nationally important industrial participation will increase Patria's weight in the Finnish Defence Forces' HX fighter project. Decisions on the handling of new and existing export permits are important matters of principle. The European Defence Fund provides opportunities for gaining a stronger position in the European defence equipment industry.**

The recent twists and turns in world politics are not helping to increase citizens' sense of safety. Crisis hotspots, trade wars, impressive displays of new armament technology, and aggressive political opinions are increasing uncertainty.

The demands for change facing the defence alliance NATO have been noted all across Europe. The European Union is still seeking its role in defence policy and this is being reflected in Member States, including Finland. Cooperation is also being sought with Europe's neighbouring countries.

Patria wants to be even more closely involved in developing the European defence equipment industry. Patria also plays a significant role in Finland's national projects in all three domains of air, sea and land.

### Extra resources for fighter procurement

Finland has decided to replace its existing Hornet fighters with next-generation multirole fighters. Deliveries for this HX project are scheduled for 2025-30. Patria is currently discussing industrial participation with the five suppliers involved in the tender process.

The project's total value is about EUR 10 billion. Industrial participation will bring work worth an estimated 30 per cent of this amount to Finland. There are not many companies in Finland that can handle activities on this scale, which increases Patria's weight in the project.

As a result of revisions to the project's content, Patria will be allocating increased investments and resources to the HX project. Patria is the national integrator and coordinator, and will also liaise with other actors. Patria will also have to change and evolve, as the multirole fighters will require a completely different kind of technological competence to Hornet fighters.

## Patria wants to be even more closely involved in developing the European defence equipment industry.

The HX project is extremely important for Patria and will require networking with various branches within the defence sector. Defence policy decisions will bring new competence challenges that Patria must prepare for.

Squadron 2020 is another important national project for Patria. This project includes the acquisition of four new, modern corvettes for the Finnish naval forces. Patria will be supplying new state-of-the-art sonars to this program through the combat system contractor Saab.

### Sustainable decisions with regard to export permits

Export permits are required for all exports of armaments. In Finland, they are granted by the government and smaller deals are decided on by the Minister of Defence. There has been some public debate surrounding Patria's export permits, mainly in connection with the export of defence equipment to the Arab Emirates.

Patria's operations are founded on the sustainable and responsible export of arms. One general principle is that no exports are made to a country in which there is currently military action. The situation with regard to new export permits is clear: existing export permits and their extension must be carefully considered.

Patria wants export permits to be processed consistently, predictably and logically. Any permits that have already been approved should be issued as agreed. This policy must also be applied to the extension of permits relating to warranty and maintenance programmes for any consignments that have already been supplied.

### Active involvement in Defence Fund projects

The European Defence Fund is an instrument that has been proposed by the European Commission to strengthen the effectiveness of European defence and support research within the sector. Funding will be allocated to joint defence projects targeted at correcting deficiencies in Member States' capacity for defence.

In Patria's opinion, the European Defence Fund offers significant opportunities for networking within the European defence equipment industry. Patria has intensively prepared to be involved in research projects that will be open for applications in 2020.

Finland must also define national defence goals in addition to these joint European objectives. Companies have their own important roles to play in this as well, and Patria is actively involved.

# Business

- 13** Aviation
- 16** Systems
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- 27** Millog
- 30** Nammo

## AVIATION

# Investments and new openings for future growth

Highlights of the year include important new breakthroughs in international pilot training business. The shortage of skilled personnel that slowed down the Aviation business has now been solved.

AVIATION business unit offers life-cycle support services for aircraft and helicopters covering the airframe, engine and equipment repair, maintenance and modification for customer in defence forces, paramilitary, original equipment manufacturers (OEM's) and civil authorities globally. Pilot training services include pilot training for military and civil aviation. Aviation is a strategic partner of the Finnish Defence Forces.

**792**  
*Personnel*

**15%**  
*Net sales as a share of group net sales*

**27%**  
*Personnel as a share of group personnel*

## Basic flight training in Spain supports the future growth.

A project to renew Finnish Air Forces' basic flight training fleet progressed during the year, as Aviation continued with refits and cockpit modifications for Grob 115E basic training aircraft. Upgraded fleet of Grobs will replace the current L-70 Vinka training fleet.

Aviation will continue to provide basic flight training to the Finnish Defence Forces' pilots. This service covers both flight instructors and aircraft maintenance. Grob fleet will be taken into training use during early 2020.

In 2014 started Finnish and in 2017 started Swedish NH90 helicopter retrofit programs progressed. Modification of the Finnish 15 helicopters was completed, and the last helicopter has been handed over to the Finnish Defence Forces. Swedish program will continue for several years and it covers modification of 7 helicopters.

Other projects with significant workload included structural repairs of the Finnish Air Force Hornet fighters. These are now progressing as planned after initial difficulties.

### Cooperation in the HX project intensifies

During 2019, progress was made in a project to replace the existing Hornet fleet with new fighters over the coming decade (the HX project). Patria is a neutral strategic partner to the Finnish Defence Forces in this project.

All aircraft 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 participation, and to ensure domestic security of supply and fleet maintenance in line with the tender.

Cooperation in the HX project increased during 2019 and is set to intensify during 2020. The final decision on the fighters will be made in 2021.

### International breakthroughs in pilot training

In August, Aviation launched the basic flight training using single-engine DA40 aircraft in Córdoba, Spain. Patria will continue to provide theory and multi-engine instrument flight training in DA42 aircraft and simulators at its main base in Pirkkala.

Patria will be able to provide basic flight training all year round in Spain thanks to favourable weather conditions. This enables a significant increase in aircraft utilisation. Accordingly, Patria will be better equipped for future growth and execution of extensive training programs for international airlines.

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.

Patria has been successful with its Multi-Crew Pilot Licence training for Airbus A320 operators. Cadets will be trained directly to duties of A320 First Officer according to customer airline's operational procedures. MPL training is intensive: pilots graduate in 18 months.

Pilot training for the Kazakh airline Air Astana began in 2019. Another important development took place in September as Patria signed a three-year MPL training agreement with Turkish Airlines. This agreement with one of the world's fastest growing airline will be significant for Patria's training volumes over the coming years. Patria and the Finnish Defence Forces will continue their long-term collaboration in pilot training, as the parties have signed an agreement for core and basic pilot training. In addition to training, the agreement also includes maintenance of the training fleet.

### **New recruits end personnel shortages**

2019 was a challenging year for the Aviation business unit in terms of operations and financial profitability. However, the outlook for 2020 is much better. This is partly due to the many successful recruitments made during 2019. The personnel shortages that restricted operations and delayed deliveries in the previous year in particular have now largely been brought under control.

About 150 new employees have joined the business unit over the last few years. This has required a great deal of effort from supervisors and HR personnel. All employees who inducted the new recruits in their tasks have also played a major role in the success of these recruitments.

In order to obtain employees with the required specialist expertise, Patria has been engaging in closer cooperation with educational institutions including e.g. supplementary training for aerospace sheet metal workers. Patria also launched a two-year apprenticeship that seeks to provide broad-ranging training for aircraft maintenance technicians. This training leads to a professional qualification.

The Aviation business unit also deepened its business relations with municipalities and other stakeholders in the Pirkanmaa region. The goal is to create a strong cluster of competence in aviation and aviation technology, which will be driven by Patria.

One important step in the long-term development of this cluster was the creation of a professorship in aviation technology at the Tampere University of Technology. Patria has committed considerable funding to this professorship for a period of ten years. Training launched in 2019 will bring education and research in the sector to a new level in Finland. The University of Tampere is now the only educational institution in Finland that offers aviation technology as a major degree subject.

## **Patria has committed considerable funding to the aviation technology professorship at the Tampere University of Technology.**

### **Environmental risks under control**

The Aviation business unit updated the environmental system and environmental policy to comply with the ISO 14001:2015 standard version. A comprehensive assessment for environmental risks was completed in Jämsä, Halli site and improvement opportunities have been identified e.g. in groundwater protection, stormwater treatment and protection against fuel leaks from tanks. Aviation is aware of the environmental impacts of its operations and attention has been paid to managing their associated risks.

## SYSTEMS

# Improving growth and profitability

2019 was a year of strong growth in the Systems business unit. Its focus is now on improving profitability.

SYSTEMS business unit has special expertise in intelligence, surveillance and command and control systems as well as their integration, software and life cycle support. It delivers comprehensive systems and equipment to defence forces and security authorities. Systems is a strategic partner of the Finnish Defence Forces.

**348**  
*Personnel*

**16%**  
*Net sales as a share of group net sales*

**12%**  
*Personnel as a share of group personnel*

## The first vessel, Tornio, was handed over to the Defence Forces in January 2020.

The Systems business unit focuses on demanding system and equipment deliveries. In 2019, net sales growth was generated by previously won projects, the largest of which is Patria's agreement with the Finnish Defence Forces for modernisations and lifecycle upgrades to Hamina Class missile boats. Patria will hold overall responsibility for the project and be the main supplier, designer and main integrator.

The delivery includes a number of sensor, weapons and communication systems, system upgrades, as well as maritime technical modifications and refits. The first vessel, Tornio, was handed over to the Defence Forces in January 2020.

Systems is also involved in the Defence Forces' Squadron 2020 project. The business unit will be implementing a towable sonar system for the Saab combat system to be installed in the new Pohjanmaa Class multirole corvettes.

Maintenance, upkeep and improvements to the Air Force's avionics systems also continued as planned. Negotiations on replacements for the Defence Forces' Hornet fighters continued. The HX project is strategically important for several of Patria's business units, Systems included.

### New civilian customers

In the field of surveillance and control systems, the clients Systems has gained include not only the Defence Forces, but also other security-critical authorities. Although this growth is still heavily weighted towards Finland, international growth is also being sought.

Systems is preparing to offer solutions for Finland's remote air-traffic control system. In this system, the traditional control tower's view and functions will be transferred to a single location with the aid of cameras and communications technology. Air-traffic controllers can then centrally operate several airports flexibly and cost-effectively.

Patria has also been participating in a joint project with Sitra and the Hospital District of Helsinki and Uusimaa (HUS). A method is being sought to transfer information between patients and professionals, based on the patient's consent. Systems' role is to provide support in ensuring the cybersecurity of the project's information systems.

### Work to sharpen Systems' focus continues

Systems fell slightly short of its financial targets for 2019. This was mainly due to delays in subcontractors' material deliveries in major projects. The net sales for these projects will now be realised during 2020.

During the year, considerable investments were made in clarifying and communicating the business unit's strategy to personnel. Work to clarify Systems' operations and sharpen its focus will continue. The goal is to raise profitability to a good level over the next three years.

At the same time, Systems will continue to develop products and services, engage in more international collaboration, and increase its investments in international sales and marketing. Security-critical systems are now more dependent on software, electronics and other digital solutions, which opens up new opportunities for Systems. For example, machine learning and artificial intelligence are areas in which competence is being strongly developed. In addition to customer projects, Systems' expertise in this area is being increasingly harnessed within the Patria Group.

The average size of the projects being implemented by Systems is also growing. Broader and more complex projects provide great potential, but they also bring new kinds of business risks.

### Good employer image aids recruitment

According to the Patria People personnel survey conducted in December 2018, personnel satisfaction is at a good level in Systems. Areas for development have been discussed at both team and business unit level. The key issues are making strategy a

## At the same time, Systems will continue to develop products and services, engage in more international collaboration, and increase its investments in international sales and marketing.

part of employees' everyday work and improving internal communications. Other areas for development include career paths and developing degree-of-difficulty categories for different positions in the company.

Systems recruited about 40 new employees during the year, for tasks such as programming, testing, analytics, and project management. There is increased competition for digitalisation experts. This is why Patria has deliberately worked to create a positive employer image. Committed employees with meaningful and varied tasks are one of Systems' strengths.

## INTERNATIONAL SUPPORT PARTNERSHIPS

# Systematic moves in international markets

The International Support Partnerships (ISP) business unit has systematically structured itself as an international service provider.

INTERNATIONAL SUPPORT PARTNERSHIPS business unit is partnering with defence forces and government organisations for life cycle support. It offers international F100-PW engine and helicopter support as manufacturer-authorized service centers as well as maintenance, modifications, repairs, spare part supply and technical support. Milworks and Kongsberg Aviation Maintenance Services are part of International Support Partnerships business unit.

**233**  
*Personnel*

**9%**  
*Net sales as a share  
of group net sales*

**8%**  
*Personnel as a share  
of group personnel*

## Patria acquired the entire share capital of Belgium Engine Center SPRL from AIM Norway.

A significant milestone in ISP's business development came in 2019 with the completion of an acquisition in Norway. Ownership of Kongsberg Aviation Maintenance Services (KAMS formerly AIM Norway), a Kongsberg-Patria company that handles the maintenance, upkeep and modification of the Norwegian Air Force's aircraft and helicopters, was transferred to Patria (49.9 per cent) and Kongsberg Defence & Aerospace AS (50.1 per cent).

KAMS's core tasks include the maintenance of Norway's current F-16 and Sea King fleet, as well as the maintenance of new F-35 aircraft and new AW101 rescue helicopters. The integration of KAMS into ISP will mean a threefold increase in terms of both net sales and personnel when compared to the former 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.

In another acquisition in June, Patria acquired the entire share capital of Belgium Engine Center SPRL (BEC) from AIM Norway. This company operates out of Belgium and specialises in the maintenance, repair and upkeep of military aircraft engines globally. The company's key areas of expertise include the Pratt & Whitney F100 engines that are used in F-15 and F-16 aircraft.

Patria has extended its agreement on Black Hawk helicopters with the Swedish Defence Materiel Administration. The maintenance contract for NH90 helicopters in Norway will also continue.

In Estonia, Milworks (previously Milrem LCM), which is 60 per cent owned by Patria, will begin to service the Estonian Defence Forces' new automatic firearms. The maintenance of automatic firearms is a new business area for Milrem, which specialises in the lifecycle management of armoured and other vehicles.

### Belgian unit exceeds its targets

There were variations in how well ISP's various units achieved their 2019 business targets. The Belgian unit exceeded the targets set for it in 2019. The company's integration into the ISP business unit also went very smoothly.

ISP's helicopter unit in Sweden and Milworks in Estonia both fell slightly short of their financial targets, yet achieved their operational targets quite well. Patria's Norwegian helicopter unit in Bardufoss faced the most challenges. Maintenance and repair work on NH90 helicopters could not be undertaken as planned due to delays in the delivery of spare parts. The Belgian unit also suffered from the same problem occasionally, as there were delays in spare part deliveries from the engine supplier.

The restructuring of KAMS began in 2019 and is still ongoing. The goal is to permanently raise the company's profitability level.

### New civilian customers

ISP offers comprehensive partnerships not only to the defence industry but also to civil authorities. A good example of this is an agreement signed in June between Patria and Leonardo Helicopters about handling the maintenance, repair and upkeep of the Norwegian police's new AW169 helicopters. The contract is for a period of 10 years and the work will be carried out at Gardermoen Airport in Oslo.

There is growing interest in the market for similar outsourced support services. This means both opportunities to increase ISP's current core operations and the potential to develop new services and expand operations to new countries. In addition to its profound technical expertise, Patria's competitive advantages include the ability to customise its services to suit its clients' local conditions.

Over the coming years, growth will be sought both organically and by seeking suitable acquisitions - and also by creating partnerships and joint ventures with others in the sector. ISP seeks to forge long-term partnerships in support services. ISP also aims to create a brand-new approach to Patria's international business and build up a network of units operating in various countries - and it has already made a good start down this road.

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**There is growing interest in the market for similar outsourced support services, which means opportunities to increase ISP's current core operations.**

However, due to political decision-making and competitive legislation, many countries sign outsourcing agreements for only relatively short contractual periods, which increases ISP's business risks.

### **Task rotation across international borders**

The Patria People personnel survey conducted in late 2018 was extremely useful. For example, it highlighted areas for development relating to work organisation and management. These issues were discussed during the year in a variety of different working groups and in ISP's management team.

In an international organisation, particular attention must be paid to enabling personal development through transfers from one location to another across international borders. This has already happened with personnel transfers at management team level.

Patria is committed to responsible operations and compliance with legislation and regulations in its operating countries. The export permit regulations that countries place on defence equipment play a central role in ISP's international business. These regulations may, for example, place restrictions on the transfer of information across international borders.

Environmental responsibility and sustainable operating methods are an integral aspect of ISP's daily work. In addition to energy efficiency, ISP is also paying more attention to material efficiency. ISP is promoting the circular economy by, for example, using repaired components rather than acquiring new ones whenever possible.

## LAND

# Product range additions generate growth

Although the Land business unit faced a financially challenging year, additions to its product range have provided a good foundation for future growth, particularly in armoured vehicles.

LAND business unit 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. Both AMV and Nemo are market leaders in their product segments.

**266**  
*Personnel*

**13%**  
*Net sales as a share of group net sales*

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

## **A new addition to the product range - the Patria 6x6 personnel carrier - was demonstrated to a number of potential customers during the year.**

The Land business unit's core competence areas include cutting-edge armoured wheeled vehicles, mortar systems, and their related lifecycle support services. The highest-profile products in this range include the Patria AMV, and the Patria Nemo and AMOS mortar systems.

A new addition to the product range - the Patria 6x6 personnel carrier - was demonstrated to a number of potential customers during the year. This armoured, multipurpose personnel carrier has attracted a great deal of interest and positive feedback. The first prototype of this new vehicle has been manufactured and was tested during the year in Finland's demanding conditions.

### **Japan to test Patria vehicles**

In September, Patria's AMV<sup>XP</sup> armoured personnel carrier was chosen for an approximately one-year programme of field tests in Japan on the basis of a tender.

Japan's Ministry of Defence will acquire two vehicles from Patria to test. Vehicles from two other companies have also been selected for testing. The final decision on the acquisition will be made after the tests.

Patria has also been invited to participate in a tender issued by the Bulgarian Defence Forces. Four armoured vehicle suppliers are involved in this tender. Both Japan and Bulgaria offer significant international export opportunities for Patria's armoured vehicles.

Good collaboration with the Finnish Defence Forces continued as planned and in line with objectives with the launch of the third phase in the modernisation of its XA-180 personnel carriers. This modernisation project will safeguard the vehicle's lifecycle and usability far into the future. The changes made to the vehicles include seats with enhanced road safety, electrical systems and their associated instrumentation, and new external surfaces.

### High-performance and cost-effective products an advantage

Land sells products to land and naval forces across the globe. It is strongly focused on developing its service business and sales. Growth is being sought through additions to its product range and its maintenance and upkeep services. The business unit is also seeking to develop collaboration on multiple levels, for example, through the Finnish Defence Forces' concept of Arctic mobility.

One of Patria's strengths are its products, which provide high performance and cost-effectiveness throughout their entire lifecycles. Another key competitive advantage lies in the company's ability to implement vehicle projects in collaboration with target countries and to harness local expertise in manufacture.

### Competitive conditions remain challenging

Although investments in defence equipment are increasing globally, international competitive conditions are challenging. Public procurement decisions in many countries also take a long time. Land therefore fell short of its financial targets due to delays in certain armoured vehicle export projects.

In December, the Land business unit launched employee cooperation negotiations that covered all personnel in Hämeenlinna and Tampere. This decision stemmed from financial and production-related factors, as order volumes had decreased due to both work restructuring and the end of certain delivery projects. The negotiations resulted in the need to make personnel reductions (27 employees) and to change the job descriptions of 12 employees. Nine employees were also laid off until further notice.

## Another key competitive advantage lies in the company's ability to implement vehicle projects in collaboration with target countries and to harness local expertise in manufacture.

### Occupational safety progressed as planned

The Patria People personnel survey conducted in December 2018 highlighted areas for development that were discussed at both team and business unit level. The number of accidents at work and the number of sickness absences remained at the same good level as in the previous year.

Land's direct impact on the environment is relatively minor. The business unit has its own environmental policy, which has identified and assessed the environmental impacts and associated risks caused by its own products and services throughout their entire lifecycles as well as the operations of subcontractors. The business unit achieved its environmental objectives for 2019.

## AEROSTRUCTURES

# Focus on improving profitability and future growth

The Aerostructures business unit continued to manufacture tail structures for Airbus A320s and radar structures for Saab surveillance aircraft. New business opportunities are being sought to replace the now-ended A380 contract.

AEROSTRUCTURES business unit designs and manufactures demanding composite structures and metallic structures for aircraft and spacecraft. The core competences are the design of composite structures and efficient manufacturing processes.

**152**  
*Personnel*

**4%**  
*Net sales as a share of group net sales*

**5%**  
*Personnel as a share of group personnel*

## Lengthy experience and profound expertise in demanding composite structures coupled with a stable operating environment lend Aerostructures a global competitive advantage.

The Aerostructures business unit designs and manufactures demanding composite structures for aircraft and defence industry applications. In 2019, it continued to manufacture carbon-fibre tail structures for Airbus A320 passenger aircraft as planned. A slight rise in deliveries was seen during the year.

However, the manufacture of Airbus A380 spoilers ended in November. The manufacture of these spoilers, which began in 2002, has been extremely important for Aerostructures and the end of the agreement will significantly reduce production volumes at Patria's Halli production facility in Jämsä.

Patria will continue to manufacture radar structures and antennas for the Airborne Early Warning system used in SAAB surveillance aircraft.

Ownership of Patricomp Oy, which manufactures lightweight plate structures for aircraft, was transferred to the business unit in autumn 2018. The acquisition was actioned on a practical level during 2019, with the acquired business operations being integrated into Aerostructures. The unit manufactures lightweight plate structures for aircraft, and also carries out associated surface treatment and assembly.

### Profound expertise a competitive advantage

Patria may be small in comparison with many of its competitors, but lengthy experience and profound expertise in demanding composite structures coupled with a stable

operating environment lend Aerostructures a global competitive advantage.

Changes in the security environment have led countries to increase their defence budgets. There is, therefore, some new potential for Aerostructures' expertise in defence equipment industry supply chains.

However, competition remains tough in global business markets, making it challenging to increase volumes. Structural components for commercial aircraft are usually acquired in the aircrafts' main market areas. This poses a challenge, as Finland is not part of these markets. Aerostructures has reacted to the market situation by further developing automation and switching to paperless production. In 2019, the business unit continued to focus on improving profitability and safeguarding and achieving future growth.

One of the most significant projects of the year was the Finnish HX fighter project. The head of the Aerostructures business unit, Petri Hepola, was appointed as Patria's Chief Program Officer for the HX project. This solution will enable Patria to make even greater investments in fully harnessing industrial participation in the HX project. The HX fighter project is extremely important for Patria.

### Occupational healthcare focuses on prevention

Cooperation negotiations were launched in Aerostructures in late 2019. Supply volumes in long-term projects had continued to fall and workloads in project deliveries were unevenly distributed. Negotiations resulted in shortening the working week to a four-day week during the first half of 2020 and the factory will be closed for two weeks during summertime. Additionally, there will be some variable full-time lay-offs.

In occupational healthcare, the focus has been on joint measures to prevent and reduce musculoskeletal disorders. One particular focal area has been promoting the working capacity of older employees.

Implementation, monitoring and reporting continued to comply with the ISO14001 environmental standard. Production paid particular attention to issues such as improving material efficiency, minimising waste and increasing recycling. No environmental damage occurred in production during the year.

MILLOG

# Strengthening the strategic partnership

Millog is systematically developing its operations on the basis of its new strategy and values. One particular focus is deepening its strategic partnership with the Finnish Defence Forces.

MILLOG OY offers maintenance of Army and Navy material to its strategic partner, the Finnish Defence Forces. The company specialises in life cycle support services, which it produces close to the customer by participating in life cycle cost planning and the management of materiel and equipment. Millog is an expert in the special requirements of systems, from product information management to practical repair and maintenance. Patria owns 61.8% of Millog.

**1,111**  
*Personnel*

**43%**  
*Net sales as a share  
of group net sales*

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

## New strategy's primary focus is to deepen its strategic partnership with the Defence Forces.

Millog supplies fleet maintenance and lifecycle management and material services. The company achieved its financial targets for the year and carried out the agreed work as planned.

During the year, Millog also mobilised a new strategy whose primary focus is to deepen its strategic partnership with the Finnish Defence Forces. 2020 will be the last year of the current pricing period and preparations and negotiations for the next period are underway. The goal is to sign a new agreement for a period of eight years.

The partnership is regularly assessed together with the Finnish Defence Forces. Millog also conducts customer satisfaction surveys. They indicate that cooperation, development of partnership and Millog operation have developed in a positive direction for several years.

Millog's largest ongoing project is an upgrade of the Finnish Defence Forces' Jurmo Class landing craft. The first instalment of three upgraded vessels was completed in autumn 2019.

Millog has joined the Government Secure Network (TUVE), which will forge an even closer strategic partnership with the Finnish Defence Forces and lead to greater efficiency in the use of shared information systems. The TUVE project was completed in 2019.

### Growth in security-critical infrastructure

The second main focus of Millog's strategy is to seek growth from new fields. The acquisition of new customers will focus on areas that are important for Finland's security-critical infrastructure and whose operation must be assured in exceptional circumstances. The goal is to provide services for new customers who value security of supply and operating methods and partnerships that meet high security standards. The VR Group is one of Millog's new partners, to whom Millog is maintaining gearboxes and equipment of locomotives.

In December, Millog signed an agreement to acquire the entire share capital of Virve Tuotteet ja Palvelut Oy from Erillisverkot Oy. Ownership was transferred to Millog on 2 January 2020, and Virve Tuotteet ja Palvelut Oy will continue to operate as an independent subsidiary under Millog's ownership.

Virve Tuotteet ja Palvelut Oy's business includes the sale and maintenance of terminal equipment for terrestrial trunked radio (TETRA) networks. It is the authorised distributor and service point for Airbus radio terminal equipment in Finland. The company's clients include the Finnish Defence Forces, Police and Rescue Department, the social and healthcare sector, the Emergency Response Centre Agency, the Finnish Border Guard, and other state and municipal organisations.

The third cornerstone in Millog's strategy is to enhance efficiency and use of resources. Efficiency will be raised to a new level by developing competence and resources, and also by internalising new operating models. These models include the everyday management model for supervisors and the introduction of LEAN 6S. Smart digital tools will also be harnessed to enhance efficiency.

### **New values steer business**

In connection with its strategy renewal, Millog defined new values that were developed in cooperation with all employees. A survey of all Millog personnel highlighted aspects such as partnership, a customer-oriented approach, shouldering responsibility, and fairness. The new values encapsulate these ideas: a competent innovator, courageously responsible and a fair partner.

Millog made further investments in developing leadership during the year. Almost all supervisors have completed the Fair Management training programme over the last few years, and this has resulted according to the evaluation in significant improvements in leadership quality. The Fair Management programme is supplemented by Fair Colleague training, which seeks to improve workplace community skills. This programme was also continued during 2019.

Due to the high average age of Millog's personnel, the company is also investing 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.

### **Certificates indicate responsibility**

Millog conducts annual quality audits, and all functions are audited on a three-year cycle. Certificates provide tools for continual improvement, and are also an indication of responsibility for stakeholders.

In 2019, Millog renewed its ISO9001 quality certificate and ISO14001 environmental certificate. A new certificate (ISO45001) was also received for occupational healthcare and safety. The latter standard is an internationally accepted framework for improving health and safety at work, reducing risks in the workplace, and creating healthier and safer working conditions.

During the year, a great deal of attention was paid to occupational safety and proactive measures in these areas. Personnel were encouraged to make safety

observations that would help develop operations, prevent accidents, and improve occupational safety culture. An increasingly positive attitude to safety at work is reflected in the approximately 2,000 safety observations that were made during 2019, compared to only 50 two years ago. Actual accidents have declined significantly.

### **An upswing for Senop**

Millog's wholly owned subsidiary Senop Oy develops and manufactures high-tech night vision systems, MIL-compliant platforms for technical and management systems, and demanding system integration solutions.

After experiencing some difficulties, Senop has now recovered and strengthened its order backlog. The company's organisation and operating model were restructured during the year. Its primary focus will now be on proactively developing sales work and cost efficient project management.

In May, Senop and the Defence Forces' Logistics Command signed a letter of intent to collaborate on the development of weapon-mounted laser sights and helmet-mounted image intensifiers for soldiers. The goal is to ensure that the Defence Forces can continue to acquire domestic night-combat equipment that combines high performance, security of supply, cost-efficiency, and compatibility with current and future soldier system.

Senop also supplies communications and management system containers and equipment to the Norwegian company Kongsberg Defence & Aerospace AS for use in the NASAMS anti-aircraft system.

A next-generation HSC-2 hyperspectral camera was also launched as planned during the year. Senop develops and manufactures hyperspectral cameras for industry, science and defence.

## NAMMO

# Nammo reaches new milestones

Norwegian aerospace and defense expert seeks to boost innovation as well as improve profit line.

NAMMO is an international aerospace and defense company headquartered in Norway. With 2,400 staff spread across more than 30 sites and offices in 12 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](http://www.nammo.com).

**2,400**  
*Personnel*

**515.1** EUR million  
*Net sales*

## Nammo continued its efforts at strengthening its long-term profitability.

An established international aerospace and defense company, Nammo is one of the world's leading providers of ammunition, rocket motors and demilitarization services for both military and civilian customers. Owned 50% by Patria, Nammo is driven by precision engineering and the development of innovative, global solutions. Since Nammo was founded in 1998 as a conglomeration of Nordic ammunition businesses, the company has quadrupled its revenues and presently has operations in 12 countries.

Nammo currently operates through four business units: Commercial Ammunition, Small and Medium Caliber Ammunition, Large Caliber Systems, and Aerospace Propulsion. In 2019, the formerly independent business unit Shoulder Fired Systems was merged into Large Caliber business unit.

### Eye on profitability

Nammo continued its efforts at strengthening its long-term profitability in 2019. Delivering products that combine advanced technology and top-level performance is a high-costs business where one has to ensure - at all times - that both R&D and production have the prerequisites for success. Nammo has a comprehensive profit improvement program which now concluded its second year. The objective of the program is to improve efficiency across the board rather than to simply cut costs.

In 2019, Nammo experienced several highlights. In April, Nammo signed its largest ever space development contract. This EUR 19 million development contract in the ESA VEGA-E from Italy based AVIO will eventually produce the next generation of Roll and Attitude Control System (RACS) for the European VEGA-E launcher. In May, Nammo signed a contract with the European Space Agency (ESA) to develop a rocket engine for a future mission to the moon.

### Dynamic defense development

In June, Nammo signed a four-year framework agreement with the Norwegian Defense Logistics Organization (NDLO) for ammunition deliveries to the Norwegian Armed Forces. Worth more than NOK 1.7 billion, the historic agreement will support Norway's efforts to improve its levels of training and operational readiness.

That same month Nammo teamed up with Boeing to jointly develop and produce the next generation of extended range artillery projectiles. This strategic agreement will leverage the companies' combined expertise in guided munitions, projectiles and ramjet propulsion.

### Perry joins Nammo family

Finally, in November, Nammo bolstered its US manufacturing capabilities, acquiring Chemring Ordnance Inc., located in Perry, Florida, from Chemring Group. The addition of Perry's 165 employees will bring Nammo's US workforce to around 800 people which is more than in any of the company's nine other manufacturing countries.

The introduction of the Perry facility is in line with the company's strategy to seek growth in its current markets (both organically and through acquisitions) and to strengthen its presence in its European and North American core markets.

# Responsibility

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# Corporate Responsibility at Patria

**Responsibility is a fundamental aspect of all business, but particularly in the defence industry. Good corporate citizenship is a prerequisite for the operations of the company, which is majority-owned by the Finnish state. As a strategic partner to the Finnish Defence Forces, Patria has an important role in Finnish society by ensuring security of supply. Globalisation and export control practices are playing an increasingly significant role.**

Patria seeks to maintain the Group's reputation as a good corporate citizen. Patria bears responsibility for the financial performance, the well-being of its employees and stakeholders, and the environment. Patria emphasises open interaction with its stakeholders. The main corporate responsibility themes are strongly linked to the business sector. Export control in particular - including the potential extension of responsibility to end users' activities - has sparked off debate.



## Patria's new CEO voiced a firm commitment to responsible operations both internally and externally.

As a strategic partner to the Finnish Defence Forces, Patria has an important role to play. Security of supply means ensuring a sufficient supply of products and services for the State under all circumstances, so that the State's commitments to defence and security can be met in accordance with foreign and security policy.

Patria wants to be even more closely involved in developing the European defence industry. From a responsibility perspective, this means that authorities are expected to provide more detailed definitions to the policies for export control practices and companies need to develop even more profound understanding and expertise of those issues.

Responsibility-related measures are being continuously developed, and investments are being made in relevant training. Patria's goal is to maintain personnel's knowledge and awareness, thereby ensuring their ability to promote responsible activities in the workplace, and also make sure there are safe ways to report any unethical behaviour.

### Major events in 2019

Patria's new CEO, who started in summer 2019, voiced a firm commitment to responsible operations both internally and externally.

Patria's business expanded internationally with the acquisition of the entire share capital of Belgium Engine Center SPRL (BEC) from AIM Norway. BEC specialises in the maintenance, repair and upkeep of military aircraft engines. The company employs about 90 people and its headquarters is located in Herstal, which is just outside

Liege in Belgium. This acquisition constitutes a key step in the implementation of the international growth strategy for Patria's maintenance and lifecycle support business, which focuses on Europe in particular. A responsibility analysis concerning all of Patria's international units was conducted.

Processes and guidelines for business partner selection were introduced, and the guidelines on gifts and hospitality were also updated.

Patria's corporate image among decision-makers was studied, and the results were used to draw up a lobbying plan. The possibility of serious unethical action was also analysed. This analysis was also carried out in 2014 and 2016.

Transparency International UK launched the Defence Companies Anti-Corruption Index, and Patria was also invited to take part in this survey. The results will be published in early 2020.

Patria and Kongsberg launched a joint Trade Compliance project, which seeks to develop operating models for the companies' export control by sharing best practices. The companies will establish a joint collaboration team consisting of export professionals to assess and develop existing operating methods in order to improve both companies' ability to conduct international business. Planning was launched in June 2019 and the project officially began in late October.

During 2019, Patria focused on providing advanced ethics training for key personnel. 244 people from different parts of the Group participated in the training. An Ethical Code of Conduct for Patria's suppliers was also drawn up and published on the company's website.

Patria has begun calculating its carbon footprint, which will now be reported for 2018 and 2019. Also, an internal environmental campaign was launched to raise awareness of climate change. Development of Group-wide Corporate Responsibility activities was stepped up by surveying key personnel and suggesting a roadmap based on their responses. This roadmap will now be elaborated on and revised, and measures will be agreed upon in early 2020.

Patria completed a new wellbeing at work model for the year. This model covers both occupational healthcare and a variety of additional insurances. The model was introduced at the beginning of 2020.

Patria's management regularly meets with Non-Governmental Organisations once a year.

### 2020 focus areas

- Patria's ethics training programme will continue in the autumn with online training for all personnel plus advanced training for specific groups on a variety of different topics. The Trade Compliance project is continuing in collaboration with Kongsberg.
- In the first half of the year, Patria will introduce a new reporting system for unethical conduct that enables not only anonymous reports but also dialogue with the notifier via the system.
- Both the essential themes and their targets will be updated on the basis of a stakeholder survey and internal discussion.
- During the year, a clear Due Diligence process will be created.
- Targets for Patria's carbon footprint will be defined.
- Patria's strategy definition process includes setting the Group's corporate social responsibility targets and including them in the business units' targets. At Group level, communicating Patria's new strategic direction and new leadership model to personnel forms a fundamental aspect of employee wellbeing.

### General principles

Patria is committed to compliance with legislation and regulations in its operating countries. Among others, Patria respects the following international commitments: The United Nations (UN) Declaration of Human Rights, the UN Global Compact initiative 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

## Patria complies with its national legislation and international commitments.

Aerospace and Defence Industries Association of Europe (ASD), as well as in the work of the UN Global Compact and its Nordic and Finnish network. Patria is also a member of national defence industry associations in its other operating countries.

### Export licence practices

Patria's operations are founded on the sustainable and responsible export of defence material. Patria complies with the national legislation based on international commitments. Authorities issue export licences on the basis of a thorough case-by-case assessment of both the end user's reliability and the risk of the equipment being used in contravention of the criteria. The assessment uses common EU criteria and consultations with other EU countries.

Export control is one of Patria's key areas for development, for example, in its joint Trade Compliance project with Kongsberg.

### Management and control

Patria's Corporate Responsibility Team consists of the Chief Communication Officer (who heads up both the team and corporate responsibility), the General Counsel (who also acts as the Chief Compliance Officer), and the Chief Human Resources Officer. The team also includes business unit representatives as well as financial, HR and environmental experts.

The General Counsel/Chief Compliance Officer is responsible for ethics and compliance (including anti-corruption efforts). Patria Group's Management Team

discusses issues relating to these areas, and the General Counsel/Chief Compliance Officer regularly reports to the company's Board of Directors and the Audit Committee.

Patria Oyj's Board of Directors approves the company's ethics and compliance programme. In accordance with its Charter, the Audit Committee (which is appointed by the Board of Directors) holds particular responsibility for monitoring issues relating to ethics and compliance.

Responsibility for financial management lies with the business units and the organisations appointed by them. The Chief Financial Officer, along with the relevant Group-level organisation, holds responsibility for groupwide operations and reporting.

Likewise, the Chief Human Resources Officer is in charge of social responsibility in cooperation with the Group-level HR team; and the Chief Communications Officer is responsible for coordinating stakeholder relations.

Environmental responsibility lies with the business units and the organisations appointed by them. These organisations report to each business unit's Management Team. The Environmental Team consists of all those who hold environmental responsibility for the Group's business units. This team is tasked with furthering collaboration, sharing information and experiences between various business units, and planning and reporting on the Patria Group's environmental responsibility. Corporate responsibility forms part of the work and duties of each Patria employee.

### Essential themes

Patria's essential themes were updated in 2017 on the basis of a stakeholder survey. The survey was sent to customers, suppliers, authorities, subcontractors and NGOs. The key themes of Patria's corporate responsibility have been divided into five areas: 1. security of supply and the company's role as a strategic partner of the Finnish Defence Forces, 2. responsible defence materiel export practices, 3. ethical operations and good governance, 4. financial performance, and 5. occupational wellbeing. These essential themes and their targets will be revised during 2020.



### Our long-term goal is to be recognised for our high ethical standards

The Patria Group's long-term goal is to be recognised as an ethical actor in the sector so that

- Patria's principles regarding ethical practices and the anti-corruption measures it takes

- are widely known among 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 defined short-term responsibility goals and indicators in 2017, and these remained unchanged in 2019.

### 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, by enhancing the ethical standards it is possible to stand out as an ethical actor and further increase Patria's appeal as a partner. Increased awareness surrounding defence materiel can also be seen as an opportunity for Patria.

### Reporting and accounting principles

The report covers the parent company, Patria Oyj and its majority-owned subsidiaries in 2019 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 HR figures largely cover all of Patria's operations. Reporting has also been extended to cover foreign units. The report data was gathered from Patria Group's internal data systems. With respect to measurement and calculation methods, recommendations in accordance with the GRI guidelines have been followed whenever possible and appropriate. Key indicators

always state the measurement and/or calculation method used. Personnel data is obtained from the Patria HR system. Accident statistics are obtained from the insurance company.

Financial statistics are mainly derived from Patria's financial statements, which are available in full at [www.patriagroup.com](http://www.patriagroup.com).

Patria reports environmental indicators for nine facilities (Tampere, Espoo, Helsinki, Hämeenlinna, Halli, Linnavuori, Pirkkala, Tikkakoski and Utti). In 2019, some pilot training was transferred to Córdoba, Spain. The 2019 reporting also includes the fuel consumption of pilot training in Córdoba. The report also presents environmental data for Patria's partially-owned subsidiary Millog, which operates in dozens of locations and garrisons around Finland.

### Guidance

Patria has a corporate responsibility policy that defines its CSR framework, policies and responsibilities. This policy is based on the basic ethical guidelines contained in Patria's Ethical Code of Conduct.

In addition to these, Patria also has several specific policies, such as:

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

## Essential areas 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
<b>LONG-TERM OBJECTIVE</b>	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
<b>INDICATORS</b>	A corporate image survey (2020) with a particular focus on customer-orientation and cooperation	The result (Rate B) of Transparency International Defence Companies Anti-Corruption Index and the continuous development of training provided to employees whose work is export-related	The annual training attendance rate of all Group personnel and the development of corporate image as part of the corporate image survey (2020). The result of Transparency International Anti-corruption Index.	Achieving the profit targets budgeted for each year	The rate of absence due to illness (3.5%) and the results of the employee satisfaction survey.
<b>REALISATION IN 2019</b>	Image survey to be conducted in 2020, otherwise objectives were met.	TI results were not released by 3/2020.	Annual online training was agreed to be made every other year, in 2019 no online training, but in-depth training for special groups.	Targets were not met mainly due to the certain large Land export project not realizing.	Target 3.5% was almost met.
	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. In the international market, Patria continued co-operation in the ongoing projects. Corporate image survey was conducted 4-5/19. An action and lobbying plan was made.	Transparency International UK's Defence Companies Anti-corruption Index 2019 related draft questionnaire was evaluated, and feedback was provided. A joint Trade Compliance project with KDA was started.	New compliance video statements by the CEO and President and Chairman of the Board. Supplier Code of Conduct was created. Survey on possibility of serious misconducts was done. In-depth training for special groups: 240 people attending. Carbon footprint was analysed from 2018 and 2019. Analysis on integration of the units outside Finland to Patria's CSR reporting. Internal environmental campaign was launched. Development of CSR reporting plans continued together with Ecobio.	Patria Group's sales and profitability for the financial year 2019 decreased from the previous year.	The rate of absence due to illness was 3.6% (2018 3.5%). A new well-being programme was launched and new partner in occupational health was incorporated and communicated in Finland.
<b>ACTIONS FOR 2020</b>	The definition and implementation of the strategy. Participation in the HX programme. Lobbying plan to be implemented.	Transparency International survey results to be reviewed and analysed and a development plan to be made. In-depth ethics and compliance training offered for specific groups of the personnel. Follow up internal audit on sales and marketing activities (incl. business partners). Trade Compliance Project to be continued.	Supplier due diligence process to be created. New whistle-blowing system to be incorporated and communicated. Carbon footprint targets to be defined. Integration of the units outside Finland to Patria's CSR reporting to be implemented step by step. Group wide CSR Day.	Strategy update and incorporating CSR into strategy and BU level targets	At the corporate level strategy communications and a new leadership model are special focus areas. Business units to define their own specific focus areas

# Patria and society

**Patria's position in society is influenced by its owners - its majority owner the Finnish State and its minority owner the Norwegian company Kongsberg Defence & Aerospace - and both owners expect profitable and ethically managed business.**

Patria's role as a strategic partner to the Finnish Defence Forces and its dealings with other customers all demand high ethical standards and equally high levels of both corporate security and data protection. Patria's growth strategy and internationalisation are also placing new demands on corporate responsibility. Patria seeks to operate openly and transparently, and to retain its stakeholders' confidence.

## Security of operations

In Patria's industry, corporate security plays a central role in ensuring uninterrupted operations. The purpose of Patria's Corporate Security is

- to enable Patria to conduct business in its sector with regard to its various areas of responsibility;
- to promote and ensure the attainment of Patria's business objectives by maintaining and developing security;



- to safeguard business continuity during various disturbances and exceptional circumstances by ensuring that Patria has prepared for them in advance;
- to ensure Patria's reliability as a partner to its customers, the authorities and other stakeholders;
- maintain a level of security that ensures the protection of customers', other stakeholders' and its own information and material.

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

Patria's corporate security division provides business units and support functions with services in the various fields of corporate security. It steers, develops and monitors the comprehensive management of corporate security, and also maintains and develops the related competencies within Patria.

Corporate security is divided into: production security, rescue safety, preparedness and crisis management, facility security, management of misuses and non-conformities, information security, and personnel security. Patria received national Facility Security Clearance in 2016. The designated national security authorities (DSA and NCSA) regularly audit Patria's level of corporate security.

### Subcontracting chain

Patria's Group-level procurement function, other Group functions that are responsible for their own procurements, and business units' procurement functions all steer and develop their strategic procurement, purchasing, logistics and subcontractor networks in a way that creates the most cost-effective value for both Patria and its customers. At the same time, they make sure to engage in ethical, transparent and compliant operations that maintain high standards.

At Patria, it is vital to ensure that the company only does business with reliable suppliers and subcontractors who adhere to the same kind of principles as those

laid down in Patria's own Ethical Code of Conduct. To ensure that its suppliers and subcontractors operate in a sustainable, transparent, ethical and compliant manner, Patria has drawn up a Supplier Code of Conduct that contains its requirements for suppliers.

Patria's supplier code of conduct has been published on our website:

<https://www.patriagroup.com/about-us/supplier-chain-management/supplier-code-of-conduct>

### 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 from profitable operations, and these dividends are determined by the Annual General Meeting. Funds paid to charitable activities are directed at organisations selected on a centralised and transparent basis. You can read more about financial productivity in the Financial Statements.

### Preventing bribery and money laundering

Patria's Ethical Code of Conduct clearly states zero tolerance for both bribery and money laundering. Patria works actively to combat such practices by training personnel to recognise and report unethical activities. See the 'Ethical Conduct' section to read more about developments in this area, including the prevention of bribery and money laundering.

Read more about Patria's anti-bribery activities at <https://www.patriagroup.com/responsibility/active-in-anti-corruption>

### Commitment to fair competition

Patria promotes fair competition in all markets in which it operates, and complies with all applicable competition law and anti-cartel legislation. Patria neither engages in nor accepts any agreements or other arrangements with competitors that would restrict competition. Patria will not exploit a dominant market position, and will always obtain the necessary permits for mergers or acquisitions.

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

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

### Tax footprint

In addition to Finland, the Group operates in Belgium, Sweden, Norway, Estonia, Spain, the United Arab Emirates and South Africa. Patria pays both direct and indirect taxes in accordance with each country's laws and regulations. Patria has no companies operating in low-tax countries. Patria's tax strategy involves supporting business solutions and ensuring their proper implementation, including from a taxation perspective. Patria's strategy is based on compliance with local legislation and reporting obligations.

2019	Finland	Sweden	Poland	Total
<b>Direct taxes payable for the financial year, EUR million (taxes and tax-like charges paid directly by the company)</b>				
Income taxes (business income taxes)	3.4			4.2
Employer contributions (employer's pension and social security contributions, etc.)	1.1	1.6		4.1
Property taxes	0.3	0.0		0.4
<b>Indirect taxes payable for the financial year, EUR million (taxes paid by the company as part of the price of the service/product and recognised as expenses.)</b>				
Other taxes	0.1			0.1
<b>Taxes to be remitted for the financial year, EUR million (taxes that the company collects from its customers or employees which it remits to the tax authorities)</b>				
Wage taxes (withholding, employee social security contributions, etc.)	35.7	1.7		38.9
VAT, sales	95.8	5.4	8.5	110.7
VAT, procurements	-63.8	-3.4	-4.8	-72.8

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 the universal human rights defined in the UN's Universal Declaration of Human Rights, and operates in accordance with the national legislation based upon this declaration. Patria views the freedom of thought, opinion, speech, religion and peaceful assembly as universal fundamental rights, along with freedom from discrimination by race, age, nationality, gender or sexual orientation. Neither does Patria approve the use of forced or child labour or human trafficking. The human rights of Patria's personnel are those of the International Labour Organisation (ILO) as specified in national legislation.

## Patria works in close, long-term cooperation with its stakeholders.

Patria does not consider its operations to have direct negative effects on human rights. As the defence industry's strategic mission is to promote national security, its products may in some circumstances also be used to defend human rights.

The sale of defence materiel is strictly regulated and Patria operates in compliance with both national legislation and international commitments in the way they are nationally applied in the Group's business countries. When Patria's operating countries are subject to international restrictions, Patria's units will engage in discussion with the relevant governing bodies. Patria is involved in various initiatives in the sector, including dialogue with EU actors such as the Council Working Party on Conventional Arms Exports (COARM).

### Stakeholder collaboration

Patria cooperates with national and international stakeholders (such as private companies, state-owned companies, governments, officials and agencies) at many levels and in many ways (for example, as a corporate citizen, taxpayer, supplier, business partner and employer). Business and cooperation with all of these stakeholders requires high ethical norms, honesty and transparency. This collaboration is also subject to strict anti-bribery and anti-corruption regulations, and strict requirements relating to procurement practices, lobbying, sponsorship, representation, conflicts of interest, gifts and benefits.

Patria's management, employees and partners must work and communicate with the abovementioned stakeholders in an honest, ethical and transparent manner. They

must also fully comply with all applicable legislation and regulations, and strictly adhere to Patria's Ethical Code of Conduct, including its related guidelines and practices.

Patria works in close, long-term cooperation with its stakeholders. Patria understands good partnership as professional, reliable, open and transparent collaboration that all parties can accept without reservation. Patria manages its stakeholder relations honestly, ethically, fairly and confidentially. Patria does not accept any kind of deviation from these high standards of honesty, transparency, ethics and compliance.

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

A key stakeholder can be defined as follows:

- A key stakeholder has a significant impact on the organisation's result.
- Patria's business units and/or support functions are aware of what they want or need from the stakeholder.
- Patria wants to maintain and enhance its relationship with this stakeholder.
- It is not easy to replace key stakeholders.

Every unit and project also defines which stakeholders will play a key role in the success of each project. This is necessary in order to analyse their influence and significance. It is therefore important to obtain a clear understanding of the nature and role of each stakeholder, and the impact and requirements of key stakeholders are analysed at the end of each project to develop the relationship.

### Stakeholder interaction

Patria communicates and interacts with key stakeholders in a variety of different ways. Patria's stakeholder interaction is based on regular, transparent and open dialogue. See the table on page 45 for more information.

Patria conducts a Group-level stakeholder survey at three-year intervals. Stakeholders evaluate areas such as Patria's working methods, competence, reliability and corporate image, as well as various aspects of its corporate social responsibility. The last survey was conducted in 2017, when 90% of stakeholders considered Patria's corporate image to be excellent or good. According to the results, Patria is a reliable partner with a wealth of specialist expertise. Patria's tasks were also considered to be demanding and challenging. The next survey will be conducted in 2020. In addition to this extensive survey, business units also conduct project-specific surveys throughout the year.

Patria's website has several feedback channels for stakeholders, one of which is anonymous. The feedback Patria receives is forwarded to a specialist unit that will respond to requests and handle other issues. This ensures that Patria takes all its stakeholders' interests into consideration.

### Key topics

In 2019, Patria commissioned a stakeholder analysis to study its corporate image among key decision-makers. Having a realistic picture of the current situation is essential for successful lobbying. Patria drew up a lobbying plan on the basis of the survey results.

Transparency International UK launched the Defence Companies Anti-corruption Index - a survey of more than a hundred companies in the international defence industry. Patria was also invited to take the survey, and the results will be published in 2020.

Patria and Kongsberg launched Trade Compliance - a joint project that seeks to promote business compliance. The project aims to develop operating models for the companies' export control by sharing best practices, and to improve both companies' ability to conduct international business.

Patria introduced processes and guidelines for choosing business partners, and its guidelines on gifts and hospitality were also updated.

Issues relating to export practices have been hot topics of public debate this year. In order to identify current topical issues and concerns, Patria uses a media tracking tool that analyses news topics, content and sources on a daily basis. Patria openly communicates about topical issues in order to further develop transparency.

### Responsible collaboration with stakeholders

Patria and Tampere University of Technology (TUT) have signed a cooperation agreement on aviation technology. Patria will provide TUT with considerable financial support for the next ten years. This agreement seeks to ensure the continued availability of top aviation technology expertise in Finland, and to support and bolster research in the field. TUT is the only Finnish university where students can major in aviation technology.

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 has involved combating the marginalisation of young people.

Read more about this project at <https://www.vlmyrsky.fi/>.

Patria also continued its long-term cooperation with the Finnish Military Sport Federation. This involves promoting a sports-oriented lifestyle among young people that will continue even after their military service. Patria has been supporting the Finnish national biathlon team since 2011. It continued to do so during the 2018-2019 season, and will do so again for another two years.

Patria organised a morning event for representatives of Finnish NGOs, continuing an established tradition of discussion.

Patria also made a Christmas donation to support the International Youth Foundation (IYF). In addition to this donation, Patria also supported youth work at two of the

company's locations. One donation was allocated to the City of Jämsä's youth activities at the Kuutti youth centre in Halli, and the other to the Viva for Life youth organisation in Belgium.

### Memberships

Patria Oyj is a member of several organisations and supports the United Nations Global Compact with annual voluntary donations. Patria is a member of the Global Compact Finland network and the Finnish corporate responsibility network FIBS.

Patria is also involved in the industry's interest groups. Patria is a member of the Association of Finnish Defence and Aerospace Industries (AFDA), and Patria's President and CEO Esa Rautalinko currently chairs this association. AFDA covers almost all defence-related industries, and has more than 120 member companies in Finland. AFDA

also maintains a close relationship with the Ministry of Defence and Finnish Defence Forces. As Finland's node for the defence industry, the AFDA is a member of the AeroSpace and Defence Industries Association of Europe (ASD). Patria is also a member of national defense industry associations in its other operating countries.

Patria is also a member of AmCham Finland and the Helsinki Region Chamber of Commerce.

### Key stakeholders

Patria's key stakeholders are its owners, personnel, customers and suppliers; authorities and agencies; a variety of trade and industry organisations; NGOs; various educational establishments and their students; and the media.

### Stakeholder-specific financial capital flows (financial cash flows for stakeholders)

			2019	2018	2017	2016
Consolidated net sales			507.5	476.1	467.2	489.9
Other operating income			18.0	17.7	21.2	23.4
Financial income			0.4	0.4	0.1	0.4
Customers	<b>Sales</b>	<b>Income, total</b>	<b>525.9</b>	<b>494.2</b>	<b>488.5</b>	<b>513.8</b>
Suppliers	Goods, materials and services	Operating costs excluding depreciation and personnel expenses	305.2	274.3	266.1	254.2
Personnel	Wages, salaries and fees	Personnel expenses	186.8	171.1	171.2	169.7
Public sector	Taxes	Payments to government (taxes)	0.2	7.3	9.5	4.3
Non-profit foundations	<b>Support and donations</b>	<b>Donations and other charitable payments</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Payments made to shareholders and loan providers						
Shareholders	Dividends	Dividends	13.9	16.7	31.2	13.9
Investors	Financial costs	Interest and other financial expenses	4.3	2.6	2.7	3.3
Expenses						
Distributed, total			510.5	472.0	480.7	445.4
Sales-expenses= added value			15.4	22.2	7.9	68.3
Investments	Investments in tangible and intangible assets as well as acquisitions		34.6	7.3	19.6	16.5

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

# Ethical conduct

**Patria's ethical conduct is based on a groupwide attitude of responsibility. It is described in Patria's Ethical Code of Conduct, which forms the basis for all of our operations. Patria operates responsibly and expects the same from both its existing and future partners. This is why we have a clear process for selecting business partners, and why suppliers are required to commit to our Supplier Code of Conduct.**

On the basis of our 2018 internal audit, we implemented a number of control measures during 2019. The audit was conducted by an external audit expert, and primarily focused on key sales and marketing processes and the selection of sales and marketing partners. We have revised our process for selecting partners, and training related to this continued during 2019. We also drew up a Supplier Code of Conduct, and updated our guidelines on gifts and hospitality. These guidelines now contain clear limits for gifts and hospitality.

We continued to develop our ethics training in 2019, and will continue to do so this year. In addition to the compulsory online training for all personnel that has been in place since 2013, we launched classroom-based training in several subjects. This training is targeted at a wide overall target group, but is compulsory for many



## Patria launched a joint Trade Compliance development project with its minority owner Kongsberg.

specific groups. Patria launched a joint development project (Trade Compliance) with its minority owner Kongsberg. We also provided internal classroom-based training on export control.

Patria carried out an internal survey to analyse the potential for serious unethical conduct. This survey was previously conducted in 2014 and 2016. The latest version also asked about the quality of training, and employees' confidence in the anonymous reporting channel and investigation process.

In accordance with the EU directive, Patria launched a new channel that enables unethical conduct to be reported anonymously. This channel was opened in early 2020.

### The elements of ethical conduct

**Prevention** - increasing awareness with clear instructions and training ensures ethical decision-making and ethical business practices.

**Observation** - personnel are encouraged to report any concerns or suspected unethical conduct, and are provided with the tools to report problems.

**Corrective measures** - personnel have access to an online anonymous reporting process as part of Patria's ERP. All reports are examined, and any unethical conduct that is suspected and/or revealed will be appropriately investigated and the required corrective measures will be implemented.

**Interaction** - collaboration with other actors in the industry to promote ethical conduct, such as within the Global Compact network.

### Ethical training

All Patria employees must complete annual online training in ethical business practices. This training is based on Patria's Ethical Code of Conduct and its associated guidelines and policies. The training material includes practical examples of ethical decision-making, ethical business, working with third parties, situations involving conflicts of interest, gifts and benefits, and other topics that focus on preventing bribery and corruption. The training seeks to ensure that all Patria employees have the skills to engage in ethical and compliant business, and are therefore able to support Patria's broader-ranging anti-corruption objectives. The training is available in the languages of all of Patria's operating countries, and points out the correct channels for reporting all kinds of problems. In addition to the online basic training, we will be holding an increasing number of classroom-based training sessions for specific groups. These sessions will focus on particular areas or introduce new topics, such as FAR and DFAR.

Compulsory classroom-based training will also be held for employees who work closely with stakeholders, such as those in sales and marketing, procurement, financing, and project management. The training material will cover topics such as anti-bribery and corruption, gifts and hospitality, conflicts of interest, sponsorship, lobbying, choosing business partners, working with third parties, and money laundering. During

2019, 244 Patria employees completed advanced ethical training and a further 90 people took a separate course on export control.

New employees receive induction in Patria's ethical business requirements and Patria's Ethical Code of Conduct, including its associated guidelines and policies. This training is part of Patria's general induction course, which is organised as soon as possible after a new employee joins the company.

We have also drawn up a Supplier Code of Conduct, which has been published on Patria's website at <https://www.patriagroup.com/about-us/supplier-chain-management/supplier-code-of-conduct>.

During 2019, we focused on the practical introduction of our business partner selection process, including related training.

### Reporting suspected abuse

Any actions that violate Patria's Ethical Code of Conduct - even those made in good faith - can cause significant long-term damage to Patria's reputation and may even lead to legal proceedings against the company and its personnel. Every employee who acts in contravention of the code will be subject to penalty measures that, when necessary, may mean termination of their employment contract.

It is impossible for our Ethical Code of Conduct and other guidelines to cover every single situation that personnel may encounter in our complex operating environment. If in doubt, Patria employees are encouraged to discuss the issue with their closest supervisor or HR, or contact the company's legal department for advice. All personnel are obliged to report any concerns or suspected violations of the code to their closest supervisor or the Legal Counsel. The following reporting channels can be used:

- a general email address that will send reports to the General Counsel and Chief Compliance Officer, or
- Patria's internal anonymous reporting channel, which can be found on the Intranet.
- External stakeholders can also make reports through the feedback channel.

## In addition to the basic online training Patria offers more in-depth training to special groups.

The rights and privacy of both the whistle-blower and the suspect will be protected under all circumstances. A person reporting suspected misconduct may not be subjected to any negative measures or penalties relating to their employment contract. If a person who has reported their bona fide concerns is penalised, this will have severe consequences. When necessary, a person who has penalised a whistle-blower may have their employment contract terminated.

During 2019, we launched the implementation of a new reporting channel to comply with the EU directive. It also enables anonymous discussion with whistle-blowers in their native language. This new reporting system was introduced in early 2020.

### Reports received through the channel

Reports of suspected misconduct are falling. This fall in the number of reports may indicate increased confidence in our operations. It may also be assumed that successful intervention has reduced the repetition of similar irregularities. The number of reports made annually varies significantly in relation to internal restructuring. No reports of serious misconduct were made in 2019. The reports mainly concerned issues relating to

HR and corporate management, such as supervisory tasks, recruitment and inappropriate behaviour. There were also reports of concerns relating to the supplier selection process (potential conflicts of interest).

### Measuring ethical conduct

Patria uses an anonymous survey to regularly measure personnel's "pulse" regarding the possibility of unethical conduct. This survey is sent to all senior and middle management, plus a randomly selected ten per cent of other personnel.

The last survey was conducted in 2019. It was sent to 400 Patria employees with a response rate of 67%. The previous surveys were in 2014 and 2016.

The survey analyses personnel's perception of whether there has been - or could be - any corruption or other serious unethical conduct at Patria. It also asks employees about the quality of ethical training, whether they know how to act if they detect any

unethical conduct, and how appropriate they consider misconduct investigations to have been.

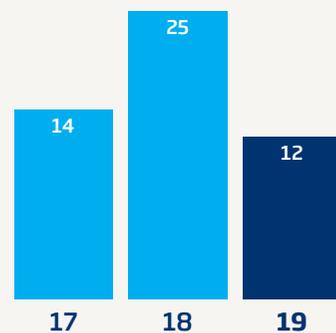
The results are presented to Patria's management, the Audit Committee, and the Board of Directors. The results also help to steer our development work.

The corrective measures implemented on the basis of the 2019 survey involved improving communications about the safety and security of the misconduct reporting and investigation process.

### Data protection

In 2019, we further developed processes and operating methods related to the General Data Protection Regulation (GDPR), and provided additional training in these areas.

#### Reports received through the channel



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# A responsible employer

**Patria is a significant specialist-industry employer with more than 3,000 professionals in Finland and abroad. Occupational wellbeing is one of Patria's top responsibility themes. The goal is to provide a safe and healthy workplace where everyone is able to work all the way up to retirement.**

During 2019, a new operating model was planned to support occupational wellbeing at Patria. It provides a one-stop system that covers an extensive range of occupational healthcare specialists, coverage for surgical costs, and treatment for leisure-time accidents. The new operating model focuses on preventive measures, digital services, easy access to treatment, and a smooth-running chain of care.

New ways of working are often more effective and more appealing. Remote work is becoming more popular at Patria, with employees working on business trips and from home. Patria is a growing business in an international market, and our work force is clearly more mobile than before. People need to be able to work effectively, anytime and anywhere. Remote work suits experts in particular, and they make up just over half of Patria's work force. Data security places its own restrictions on remote work. Data security is a priority in Patria's line of business, as the clients include defence forces and



## At Patria, ordinary people solve extraordinary challenges.

government agencies in a number of different countries. This is why some tasks can only be performed on Patria's own secure premises. Remote work is always agreed on within teams. These days, work demands a lot more of us all. It is therefore important to create a good balance between work and family life, as this helps to alleviate stress.

At Patria, ordinary people solve extraordinary challenges. People find working in the defence industry to be very meaningful - at Patria, each one of us gets to safeguard society. Our employer promise - "a workplace where you make a difference" - has been actively communicated throughout the year, and the company has invested in continual internal development. Patria has a constant need for new software and aviation experts, and offers extremely interesting tasks.

### Organisational changes and personnel turnover

The Patria Group held two sets of large-scale employee cooperation negotiations in 2019, in the Land and Aerostructures business units. Negotiations in Land covered all personnel in Hämeenlinna and Tampere. The focus of these negotiations was on operational restructuring and task reorganisation, and the allocation of new tasks. Negotiations in Aerostructures covered all of the composite unit's personnel in Jämsä (Halli) and Tampere. The negotiations were launched for financial and production-related reasons, as project delivery volumes had fallen, and due to the reorganisation of work. The negotiations were conducted in good spirit and, as they progressed, the impact on personnel was minimised through genuine dialogue with the personnel representatives. Average personnel turnover in Finland was 7.9 per cent, compared to 7.7 per cent in

the previous year. Outgoing turnover in Finland fell, standing at 6.4 per cent compared to 8.9 in the previous year. During the year, our Finland companies hired 244 new employees on permanent contracts.

### Benefiting from personnel's opinions

The results of the 2018 Patria People survey were harnessed in the operational development. The groupwide strengths revealed by the survey - such as commitment, motivation and pride in one's own work; interesting and challenging tasks; team spirit and occupational safety - create a firm foundation for success. Patria has also paid attention to the groupwide areas for development that were highlighted by the survey. These relate to the working and leadership culture, management's visibility, communicating targets, and recent trends in the business. Many respondents also felt that Patria should invest more in employee wellbeing. Patria has regularly monitored the development measures implemented in each business unit, both in the group's board of management and each business unit's own management team. At group level, Patria is continuing to pay particular attention to communicating the strategy and targets to all personnel.

### Supporting occupational wellbeing

In an important step to promote personnel's wellbeing and working capacity, Patria introduced a new support model at the beginning of 2020.

The model was presented to personnel representatives at the corporate meeting in May 2019, and has also been discussed during workshops arranged by business unit's industrial safety organisations and personnel representatives. This was to ensure that personnel's opinions were taken into consideration before any decisions were made. The new support model was introduced at the beginning of 2020.

Already established methods and models include the systematic application of the early intervention model, close cooperation with occupational healthcare services and the pension insurance company, and providing supervisors with training on themes related to occupational wellbeing. Patria aims to address and manage any risks to

working capacity at the earliest possible stage. The online health questionnaires are one example of this. The company also provided support during times of change, such as organisational restructuring, in cooperation with occupational healthcare. Enhancing safety and wellbeing at work is the joint goal of everyone at Patria. Proactive occupational safety promotes the health, safety and wellbeing of both individual employees and the entire workplace community. In addition to the feedback and dialogue channels, Patria has a channel to report unethical conduct. You can read more about this in the section "Ethical conduct" on page 49.

Patria renewed its accident frequency calculation during 2019. From the 2019 forward calculation includes accidents at work that caused at least four-day absence (LTI4). Previously the rate included all accidents at work that caused indemnities for the insurance company. Therefore there are no comparison figures available, but the number of accidents at work decreased compared to 2018. The level is good

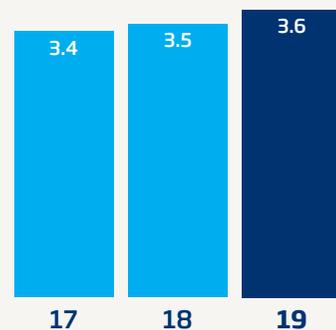
compared to the corresponding industry. Millog has achieved significant results from its occupational safety development work over the last year, and other business units have also continued their systematic efforts to improve safety at work. Patria's occupational healthcare was provided by Finla Työterveys Oy in 2019, and Mehiläinen will be the healthcare provider in 2020. The chosen partner centrally coordinates healthcare at all of Patria's locations. This model ensures that Patria's shared operating principles are observed at all sites, with reporting and cost management being handled in a centralised fashion regardless of the service provider. Measures to reduce sickness absences have also borne fruit. Sickness absences remained at almost the same level as the previous year, with an average of 3.7 per cent compared to 3.5 per cent in 2018. The figures correspond to the industry average.

### Renewal and lifelong learning

Renewal and lifelong learning are vital for both Patria and its businesses. In order to develop competence, it is essential that Patria and its business units identify the competencies required by our strategy, and that personnel attend performance and development discussions.

The attendance rate for performance and development discussions in 2019 was over 70 per cent. Two new elements were added to performance and development discussions: employees' own wishes regarding career opportunities and their desire for mobility within Patria. The majority of respondents saw career opportunities within Patria and more than a third were ready to accept new challenges within a short timetable. About 12 per cent were ready to move, either within Finland or even internationally.

Sick leave trend at Patria Group



The average absence rate increased to 3.6% from the previous year's 3.5%.

## Group-level programmes were considered very useful, relevant and effective.

Patria implemented three group-level programmes in 2019:

- **LEAP** - our development programme for future managers was revamped to better meet Patria's internationalising business and the requirements of change leadership. The programme was implemented internationally in collaboration with Aalto Executive Education, with 25 Patria participants from Finland, Sweden and Norway.
- The **STEP programme** provides new supervisors with the best possible skills for success, with a particular focus on supervisors' ability to lead with a coaching approach.
- The **Pro Point programme** seeks to increase experts' competence levels as a critical factor in business development, and also to clarify the role of experts in forging good customer relations. In addition, the programme aims to increase cooperation and networking among experts across organisational borders.

A total of about 70 Patria employees took part in group-level programmes during 2019.

The effectiveness of these coaching programmes was studied, and participants gave very encouraging feedback. All the programmes were considered to be very useful, relevant and effective, and a hundred per cent of participants would recommend them. During autumn 2019, Patria implemented its annual talent review as part of the talent

development. The conclusion was that internal job rotation is at a reasonably good level among this target group, but that influencing skills, people management skills, and employees' potential to work in an international business environment should be further developed.

### Compensation

The compensation paid to salaried and waged employees is determined by collective agreements. The compensation paid to senior salaried employees is agreed on individually, and job evaluation is performed using the international position evaluation (IPE) system. Success and good performance are also rewarded through the performance bonus and profit-sharing scheme, which covers all Patria personnel. The rewards paid via the performance bonus and profit-sharing scheme to most employees amount to 15 per cent of annual earnings. This system is described in more detail at <https://www.patriagroup.com/responsibility/social-responsibility/compensation-and-remuneration/bonus-and-profit-sharing-scheme>. 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. Patria has successfully been able to arrange part-time work, job rotation and study leave opportunities. Personnel's leisure activities were supported to the tune of eur 118 per person.

### Employee influence

Patria applies technology industries of Finland's collective agreements and the employment contracts of 96 per cent of our personnel fall within the scope of these agreements. Patria honours the negotiation arrangements currently in force. All employment matters are primarily dealt with between the employee and the manager.

## Bonus and profit-sharing scheme covers all Patria personnel.

This basic relationship is supported by the personnel representative and negotiation systems in accordance with the collective agreement. Local agreements are part of established cooperation, and are made at different levels of the organisation. At Patria, employees are involved in advisory councils, the corporate meeting, and business units' management teams. There are also business unit-specific general meetings and occupational safety committee meetings, where matters required by the act on co-operation within undertakings are handled on a regular basis. Traditional initiatives have been gradually replaced with the lean model, one business unit at a time.

### Equality and diversity

As a baseline, every Patria employee should promote equality in their behaviour and actions. Everyone has the right and responsibility to intervene if any grievances are observed. This is an important foundation for good management and, thereby, profitable operations. Patria has a both a groupwide equality policy and business unit-specific equality plans. Every two or three years, Patria studies the success of the equality policy using business unit-specific personnel surveys. The equality plans are then revised on the basis of the survey results.

### Personnel figures 2019

	2017	2018	2019
<b>Personnel</b>			
Personnel average	2,792	2,791	2,988
Finland	2,664	2,626	2,757
Blue collar %			43
Blue collar % in Finland	42	41	41
White collar %			57
Salaried % in Finland	20	19	18
Senior salaried % in Finland	38	40	41
Proportion of women %			16
Proportion of women % in Finland	15	15	16
Proportion of women in Board of Directors	2/8	2/8	2/7
Proportion of women in Board of Management	3/9	3/9	3/10
<b>Education in Finland *)</b>			
University %	16	17	18
University of applied sciences %	30	30	29
Vocational/upper secondary school %	51	51	51
Basic education %	2	2	2
<b>Employment</b>			
Average age			45.2
Average age in Finland	45.6	45.7	45.5
Average length of service, yrs			13
Average length of service in Finland, yrs	15	14.7	13.8
Personnel turnover in Finland, average turnover **)	5.9	7.7	7.9
Personnel turnover in Finland, leavers	6.2	8.9	6.4
Permanent employees %			95
Finland	96.5	95.3	94.8
Part-time employees %			2.5
Finland	2.5	2.2	3.4
<b>Occupational health and safety in Finland</b>			
Absenteeism attributable to sickness %	3.4	3.5	3.6
Frequency of accidents qty per million work hours ***)			4.1

Figures are on Group-level unless stated otherwise. In case the figures are missing they have not been calculated in previous years.

\*) Figures from other countries not available

\*\*) Calculation formula has been changed from the previous years:  $((\text{started} + \text{terminated permanent employments}) / 2) / \text{personnel in average}$ .

\*\*\*) Calculation formula has been changed from the previous years: now included all accidents causing absenteeism over three days (the day of accident not included).

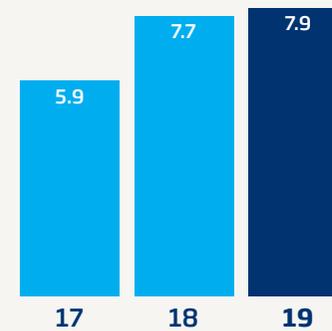
## Employer image

Patria seeks an appealing employer image that supports the strategy – an image that both guides the external employer image communications and supports internal development. During 2019, we actively highlighted our employer promise – “a workplace where you make a difference” – in the communications. Internally, this means developing working methods, processes and communications to support this promise. The goals include giving personnel more opportunities to have an influence, and encouraging them to take more responsibility for both their own personal development and achieving the company’s targets.

Patria actively engages in cooperation with educational establishments, and we was involved in many events all across Finland during 2019. Patria employees diligently communicated the new employer promise and its key elements. The aim is to diversify Patria’s employer image as an expert in security-critical products and services, and to highlight the various career paths that we can offer. Patria also presented itself as an employer at the Turku Air Show in June. Although aviation and aircraft technology interest people, they are not always aware of the jobs available in the industry. For example, Patria has a constant need for aircraft technicians, aircraft fitters and avionics installers. The same goes for flight instructors and, in particular, stress analysts.

Patria also offers excellent opportunities for software experts. At Patria, you will be able to develop your professional skills throughout the entire software development arc – from the specification of customer requirements all the way to testing and production. Ordinary people are solving unordinary challenges: at Patria, you get to do unique work, such as testing the software of an F/A 19 Hornet or developing software for Hawk training aircraft.

Personnel turnover at Patria Group, %

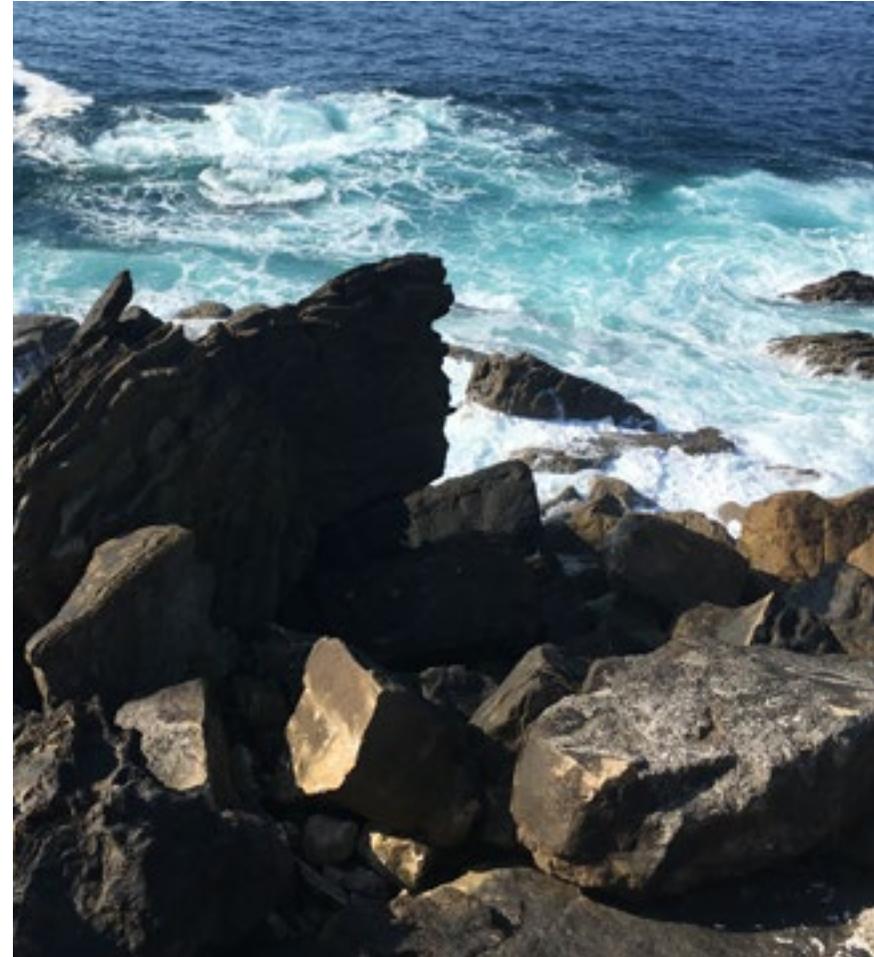


Calculation method has been changed from the previous years. Figures are updated accordingly.

# Developing environmental reporting is a priority

**Patria's environmental responsibility is guided by the Group's environmental policy, environmental legislation, and the international principles and customer requirements for environmental responsibility to which the company is committed. According to our latest 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. In



## The Environmental team is tasked with furthering collaboration, sharing information and experiences between business units.

2019, the Group invested heavily in enhancing our reporting process to ensure that the information is as accurate as possible and is not based on estimates. The sustainability reporting has also been developed to better meet Global Reporting Initiative Standards (GRI).

The Environmental team is in charge of Patria's environmental responsibility development. This team is tasked with furthering collaboration, sharing information and experiences 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, and is seeking to enhance its reporting practices.

Patria reports environmental indicators for nine facilities (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. In 2019, some of Aviation's operations were transferred

from Pirkkala to Córdoba, Spain. Our 2019 reporting takes into account the fuel consumption of pilot training in Córdoba. The report also presents environmental data for Patria's partially-owned subsidiary Millog, which operates in dozens of locations and garrisons around Finland.

Patria has also calculated its carbon footprint for 2018 and 2019. The calculation criteria and results are presented in the annual report. During 2020, Patria will define targets for reducing its carbon footprint, and also plan measures to reach these targets.

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 Patria Group also sets joint environmental objectives that are created together with the various business areas. The principles of environmental protection defined in Patria's environmental policy emphasise the identification and management of the environmental impact of products and services, and from a life-cycle perspective whenever possible.

### Environmental systems

Patria's most significant production facilities feature certified environmental systems that comply with the latest ISO 14 001:2015 standard. With the aid of our environmental management system, we are improving the management of our environmental impact and the level of environmental protection within the Patria Group. Patria's partly-owned subsidiary Millog has certified environmental systems for all of its operations at every one of its locations. Millog's operations were recertified in autumn 2019 and the renewed certificate will be valid for three years.

### 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.

### Thermal energy consumption

The weather-normalised thermal energy consumption of properties managed by Patria and Millog decreased by about one per cent on 2018. The thermal energy consumption of Patria's own operations rose on the previous year, as the 2019 figures for Patricomp cover the entire year, while the 2018 figures for Patricomp cover only three months. Specific heat consumption, which defines energy consumption in proportion to the number of heated building cubic metres, decreased by 6%.

Thermal energy consumption (TJ)

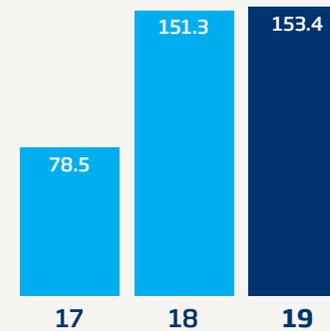


Patria's thermal energy consumption in terajoules, 2015-2019. The figure for 2017 is considerably lower than the others, as it does not include Millog's thermal energy consumption.

### Electricity consumption

In 2019, Patria's electricity consumption rose by about one per cent on 2018. Specific electric energy consumption, which defines energy consumption in proportion to the number of electrified building cubic metres, rose by 6.9%. This is largely due to a change of data collection system and the inclusion of Patricomp in the report.

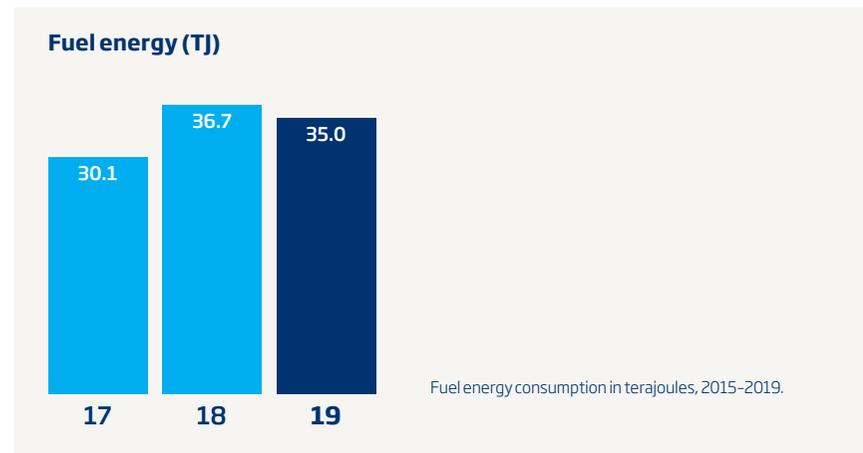
Electricity (TJ)



Patria's electricity consumption in terajoules, 2015-2019. The figure for 2017 is considerably lower than the others, as it does not include Millog's electricity consumption.

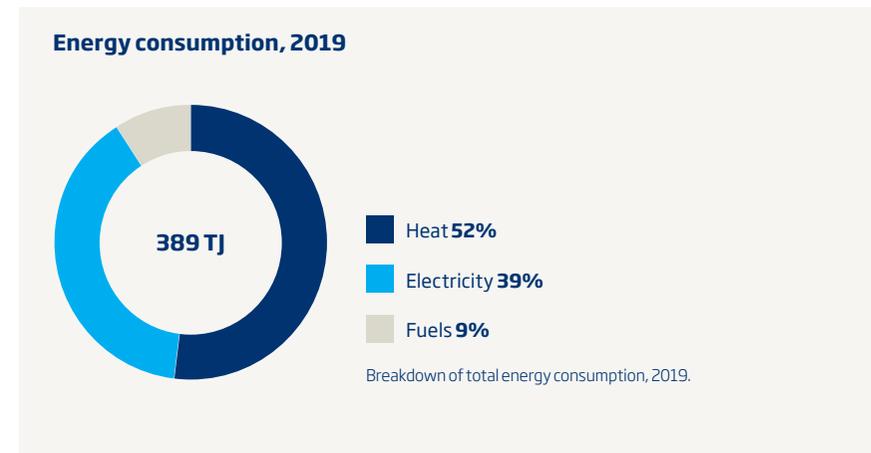
## Fuel consumption

Millog's fuel consumption has not previously been reported on, but is now included in the 2019 report. Millog's 2018 fuel consumption has also been included retrospectively for comparative purposes. In 2019, Patria and Millog's total fuel consumption decreased by 4.8% on the previous year. The consumption of light fuel oils fell by 39% and that of motor gasoline by 37%, while the consumption of diesel increased by 24%. Jet fuel consumption rose by 3.5%. Fuel energy consumption fell by about 1.7 terajoules on 2018.



The Finnish Defence Forces are responsible for monitoring the consumption of aviation gasoline and jet fuel used by their aircraft in military flight training and maintenance test flights. However, fuel consumption for Millog's maintenance runs is included in Patria's report.

As a whole, Patria's various operations consumed a total of about 389 terajoules of energy in 2019. Total energy consumption fell slightly on the previous year, mainly due to the reduction in fuel energy consumption.

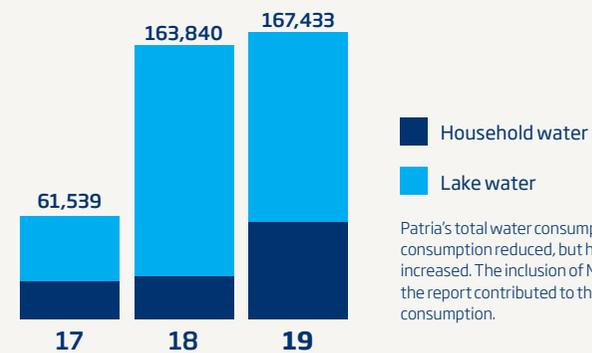


## Water consumption

Patria's total water consumption (household water and lake water) rose by 2.2% on 2018. This is due to the inclusion of Millog's water consumption (22,000 m<sup>3</sup>) in the report. Excluding Millog's consumption, Patria's water consumption fell by about 11%. The consumption of lake water in Linnavuori decreased by 18%. Consumption always varies, depending on the number and types of engines being overhauled in different years. At the Linnavuori site, lake water is used to cool engines during test runs and to dry ovens and vacuum furnaces. The used cooling water is fed back into Lake Jokinen. Lake water accounted for 68% of total water consumption.

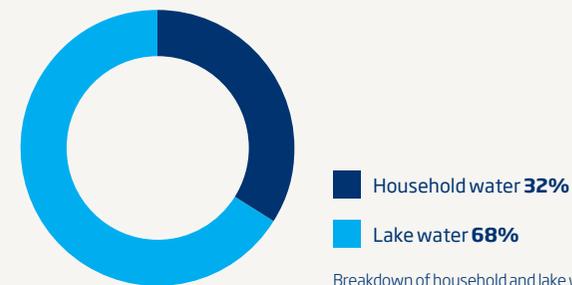
Excluding Millog's impact, the total consumption of household water increased by 24% on 2018. Production volumes also affect water consumption.

### Total water consumption (m<sup>3</sup>)



Patria's total water consumption, 2015-2019. Lake water consumption reduced, but household water consumption increased. The inclusion of Millog's water consumption in the report contributed to the increase in household water consumption.

### Water consumption, 2019



Breakdown of household and lake water consumption, 2019.

## Waste

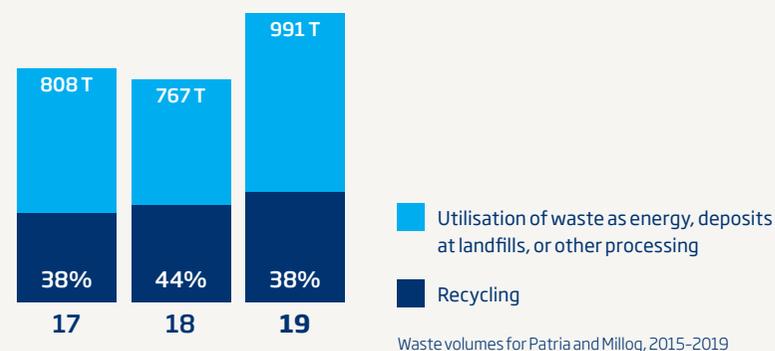
The Group's operations primarily generate common municipal waste, scrap metal, hazardous waste, and construction and industrial waste. The total volume of waste generated by Patria in 2019 was approximately 991 tonnes, which represents a rise of about 29% on 2018. Patria's 2019 recycling ratio was 38% of its total waste volume, compared to 44% in the previous year.

Most (72%) of Patria's waste consisted of common waste, that is, municipal waste, construction waste and scrap metal (total 718 tonnes). One quarter (28%) of the waste was hazardous (273 t). Common waste includes energy waste, unsorted waste, paper, cardboard, sludge, waste wood, organic waste, common electrical and electronics scrap, construction waste, glass, plastic, brick and concrete waste, steel and aluminium scrap, and packaging metal. Hazardous waste principally consists of oily waste, wash water, sediment and other waste classified as hazardous.

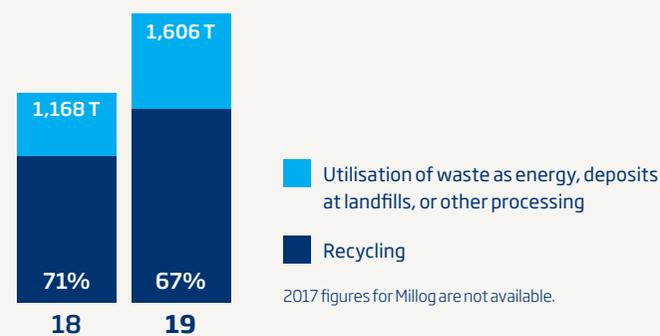
The total volume of waste generated by Millog in 2019 was approximately 1,606 tonnes, which represents a rise of about 38% on 2018. This figure was impacted by changes in the reporting process and the inclusion of all types of waste in the report. In 2018, Millog only reported on mixed waste, metal and hazardous waste. Millog also launched the 6S project in 2019, which has included the removal of a lot of surplus material from production premises and may have contributed to the increase in waste.

Millog's 2019 recycling ratio was 67% of its total waste volume, compared to 71% in the previous year. The majority of the reported waste (746 tonnes) was scrap metal that is generated when Millog decommissions Finnish Defence Force equipment. The impacts of this large volume of recyclable scrap metal are reflected in the recycling rates of both Millog and the entire Group, and this should be noted when examining the figures.

**The total volume of waste and recycling ratio between 2017 and 2019, Patria**



**The total volume of waste and recycling ratio between 2017 and 2019, Millog**



Millog operates at several Finnish garrisons, and some of the waste generated during Millog's operations ends up in containers belonging to the Finnish Defence Forces. The Finnish Defence Forces report on this waste in their own report. The volume of waste generated by Millog is therefore slightly larger than reported here.

The Patria Group's waste volume totalled about 2,597 tonnes, including waste figures for Patria and Millog.

#### Volume of waste produced in 2019, Patria



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. Data collection methods were also revised during 2019. Waste data from Espoo (1–2 tonnes per annum) was retroactively added to reporting for the years 2016–2018.

The waste usage rate (treatment methods other than landfill) was about 86% and the recycling rate about 56% (if Millog's waste is also included). Approximately 48% of Patria's own municipal waste was recycled, constituting a decrease of about three percentage points on 2018. The recycling rate for Millog's municipal waste also fell by five percentage points on 2018. Municipal waste volumes rose significantly in both Patria and Millog's operations.

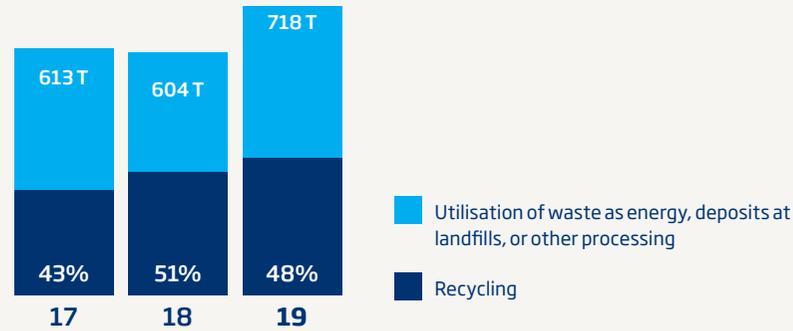
Approximately 23% of hazardous waste was recycled, constituting a decrease of 11 percentage points on 2018. Patria's hazardous waste volumes rose noticeably on the previous year (+ 100 tonnes) and the recycling rate fell by 12 per cent, that is, five percentage points (Figure 10). Although the volume of hazardous waste generated by Millog decreased by several tonnes on the previous year, the recycling rate fell by eight percentage points.

#### Carbon footprint

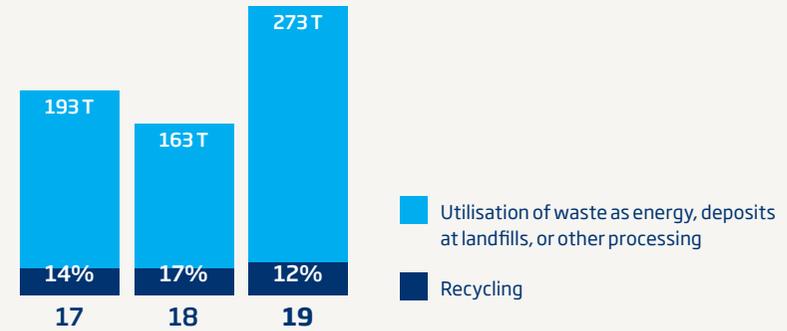
Patria calculated the carbon footprint of its operations in 2019. The calculation uses the Greenhouse Gas Protocol (GHG), which is the most commonly used international standard for calculating carbon footprints. The calculation includes only emissions from Patria's own operations (scope 1) and emissions from Patria's electricity and thermal energy consumption (scope 2). Indirect emissions, such as emissions from business trips or the use of Patria's products, are not included (scope 3). Indirect emissions may be included in future years.

The Patria Group's carbon footprint for 2019 was 21,271.12 tCO<sub>2e</sub> tonnes of carbon dioxide equivalent (tCO<sub>2e</sub>). Patria's carbon footprint for 2018 was 20,812.2 tCO<sub>2e</sub>, which means that Patria generated 2,21 tonnes more greenhouse gas emissions than in the previous year. Patria aims to reduce the carbon footprint of its own operations and will be setting targets to reduce greenhouse gas emissions during 2020.

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



**Hazardous waste, Patria**



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



**Hazardous waste, Millog**



Municipal waste, construction waste and scrap metal recycling percentages for Patria and Millog, 2015-2019.

Hazardous waste recycling percentages for Patria and Millog, 2015-2019.

# GRI Index

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102-11	Precautionary Principle or approach	<a href="#">69</a>	
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102-15	Key impacts, risks, and opportunities	<a href="#">10-11, 37, 112-114</a>	
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GRI STANDARD NUMBERS*	GRI DISCLOSURE (BASED ON NEW GRI STANDARDS)	PAGE NUMBER	ADDITIONAL INFORMATION
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303-3	Water withdrawal by source	<a href="#">60</a>	
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305-3	Other indirect (Scope 3) GHG emissions		not reported
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415-1	Political contributions		See Code of Conduct.

\*) Disclosure 403-2 follow the old GRI 403: Occupational Health and Safety 2016 and is marked with (2016)

# Financial Statements

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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 432.4 million (EUR 474.1 million in 2018). Defence material and life cycle support accounted for 89% (95%) and civilian products for 11% (5%) of the new orders. At the end of December, the Group's order stock was EUR 649.2 million (EUR 687.1 million).

## NET SALES AND PROFITABILITY

The Group's net sales for the financial period totalled EUR 507.5 million (EUR 476.1 million in 2018 and EUR 467.2 million in 2017). Defence material and maintenance accounted for 92% (92%) and civilian products for 8% (8%) of the net sales. Sales outside Finland for the financial period accounted for 26% (27%) of the net sales.

The Group's operating profit for the financial period was EUR 7.8 million, representing 1.5% of net sales (2018: EUR 35.9 million, 7.5%; 2017: EUR 34.6 million, 7.4%). The consolidated income before taxes for the financial period amounted to EUR 3.9 million (2018: EUR 33.7 million; 2017: EUR 32.1 million). The Group's return on equity for the financial period was 1.8% (2018: 11.8%; 2017: 10.7%).

Patria Group's net sales for the financial period increased and profitability decreased from the previous year due to i.a. annual fluctuation of certain large projects. Profitability was burdened especially by the postponement of certain international sales projects of the Land business unit. During the financial period the Squadron 2000 project continued. Patria had also an active role as strategic partner of the Finnish Defence Forces in assisting in the HX Fighter Program.

## FINANCING AND OWNERSHIP

The Group's equity ratio at the end of December was 39.1% (2018: 54.4%; 2017: 53.7%) and net gearing 70.8% (2018: 26.8%; 2017: 27.7%). The Group adopted the IFRS16 Leases standard as of 1 January 2019, which had an impact on key financial ratios and the comparative figures have not been restated.

Consolidated liquid funds at the end of December amounted to EUR 35.9 million (EUR 8.1 million). The Group's interest-bearing liabilities totalled EUR 204.6 million (EUR 75.5 million) at the end of December. The interest-bearing liabilities included finance lease liabilities of EUR 88.0 million (EUR 19.2 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 including leases for the financial period totalled EUR 14.8 million (EUR 7.3 million). Capital expenditure was mainly related to facilities and equipment, IT and production. In addition, a total of EUR 19.8 million (EUR 0.0 million) was spent on acquisitions.

Patria Engines Holding Oy was established on 4 February 2019.

Patria Land Services Oy and real estate company Hämeenlinnan Vanajanportti were merged into Patria Land Systems Oy on 31 May 2019 and the company name was changed to Patria Land Oy.

AIM Norway (Aerospace Industrial Maintenance Norway AS) acquisition was completed on 29 May 2019. The company is owned by Kongsberg Defence & Aerospace AS (KDA) (50.1%) and Patria (49.9%). The company is the Norwegian Air

Forces' business for maintenance, repair and overhaul of aircraft and helicopters. The company has 440 employees. The company has its main operating base at Kjeller and an operative unit at Rygge air station.

In June Patria acquired 100% of the shares of Belgium Engine Center SPRL (BEC) from AIM Norway. BEC is a military jet engine maintenance, repair and overhaul (MRO) center that services the Pratt & Whitney F100 engine which powers F-15 and F-16 aircraft globally. The company also provides material management services for these engines. BEC has its operating base in Herstal in Belgium and has about 90 employees.

In December Millog Oy signed a contract for the purchase of the entire share capital of Virve Tuotteet ja Palvelut Oy from Erillisverkot Group. Ownership was transferred to Millog on 2 January 2020 and Virve Tuotteet ja Palvelut Oy will continue to operate as an independent subsidiary under Millog's ownership. The business activities of Virve Tuotteet ja Palvelut Oy include the sale and maintenance of terminal equipment for terrestrial trunked radio (TETRA) networks. The company was founded in 2007. Its net sales for the previous financial period totalled EUR 5.5 million. The company has 8 employees.

## RESEARCH AND DEVELOPMENT

The Group's expenditure on research and development for the financial period amounted to EUR 8.7 million (EUR 9.1 million), representing 1.7% (1.9%) 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 2,988 (2018: 2,791; 2017: 2,792) persons. At the end of December, the personnel totalled 3,055 (2018: 2,816; 2017: 2,762).

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 2019, the total amount of salaries and wages paid was EUR 154.1 million (2018: EUR 140.1 million; 2017: EUR 138.9 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 three group-level development programmes. The long-term development programme for future management resources was renewed to better meet Patria's internationalising business and the requirements of change leadership. In 2019 the programme meant for new supervisors was focused on the supervisors' ability to lead with a coaching approach. The programme especially meant for experts focused to increase the experts' competence level as a critical factor in business development, and also to create a more customer-focused way of working.

During December, employee cooperation negotiations in Patria's Land business unit were finalized. The negotiations concerned 270 persons in Finland, in Hämeenlinna and in Tampere and were started due to production and financial

reasons as certain significant export projects had been postponed. The goal was to find measures such as reorganising work and adjusting duties. The need for reduction was determined as 27 persons and 12 persons had their duties adjusted. In addition to this, less than ten persons were temporarily laid-off.

Employee cooperation negotiations in Aerostructures business unit's composite operations started in December were finalized in January 2020. The negotiations concerned the Business unit's all personnel in composite operations in Finland, in Halli, Jämsä and in Tampere. The negotiations were started due to productional and financial reasons as well as reorganisation of work as the delivery rates were further reduced in certain long-term projects. The negotiations resulted in shortening the working week to a four-day week during the first half of the year and the factory will be closed for two weeks during summertime. Additionally, there will be some variable full-time lay-offs.

### KEY EVENTS DURING YEAR 2019

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 both pilot training as well as 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.

Patria is participating in a joint project with Sitra and HUS Helsinki University Hospital, in which a method is being sought to transfer information between the patient and a professional, based on the patient's consent. The goal of the project is to facilitate the treatment of children suffering from diabetes and the everyday life of their families, as well as to develop the transfer of data-protected information from the patient to the administering physician. Patria's role is to provide support in ensuring the cybersecurity of the project's data and information systems.

In April Patria decided to relocate the initial civil pilot training operations from Tampere-Pirkkala, Finland to city of Córdoba in Spain. Patria's single-engine DA40 fleet will be based in Córdoba while theoretical training, simulator training and multi-engine training with DA42 fleet will remain in Finland. Patria's aircraft maintenance operations at its current Tampere-Pirkkala base are expected to increase after the move. The purpose of the move was to secure Patria's planned growth in commercial pilot training business. First staff members were stationed in Córdoba in May 2019 to prepare for the start of the operations and Patria's operation in Córdoba started in summer 2019.

Patria's subsidiary Milrem LCM signed a framework agreement for the maintenance and repair of BV206 tracked vehicles with the Logistics Command of the Latvian National Armed Forces. The agreement is valid for eight years. There are around a hundred BV206 vehicles with different configurations in Latvia. Most of the repairs are extensive, and Milrem will work in close cooperation with Patria's Finnish subsidiary Millog.

Estonian Center of Defence Investments (ECDI) signed an agreement with Milrem LCM OÜ for maintenance work on power line components of the Estonian Defence Forces (EDF) vehicles. The content of the contract is the repair of engines, gearboxes, intermediate boxes and axles for Mercedes-Benz and DAF vehicles of EDF. The duration of the contract is seven years and the estimated volume of the framework contract is EUR 2.1 million.

In May Milrem LCM opened its third workshop located in the immediate vicinity of the 1st Infantry Brigade of the Estonian Defense Forces in Tapa, Estonia. The workshop allows repair and maintenance work on the entire Defense Forces' vehicle fleet, both wheeled and tracked. The workshop was built to meet the requirements of the infantry combat vehicle CV-9035.

The Finnish Defence Forces Logistics Command and Patria's Finnish subsidiary Senop Oy signed a letter of intent on the development of weapon-mounted laser sights and helmet-mounted image intensifiers for soldiers. The letter of intent is associated with the enhancement of the Finnish Army's ability to fight in the dark. The goal of the development

cooperation is to create a procurement capacity in the Defence Forces for domestic night-fighting equipment that combine high performance, security of supply, cost-efficiency and compatibility with the current and future soldier's kits.

In June Patria signed an agreement with Leonardo Helicopters for the maintenance, repair and overhaul of the Norwegian Police's new AW169 helicopters. The work will take place in Gardermoen, Oslo Airport, and the agreement covers 10 years.

Estonian defence company Milrem LCM will maintain the new automatic firearms for the Estonian Defence Forces (EDF) under the contract signed on 1 July 2019 by the Estonian Centre for Defence Investments and the US arms manufacturer LMT Defense (Lewis Machine and Tool Company). The volume of the contract is EUR 75 million. The size of the first purchase is 16,000 firearms. Milrem LCM is the official partner of LMT to manage the life cycle of rifles in Estonia.

In September Patria made a three-year agreement with Turkish Airlines to train their new pilots. The training will take 14 months at Patria's bases in Córdoba, Spain and Tampere-Pirkkala in Finland. The first group of students started before the end of 2019.

Patria's armoured modular vehicle AMVXP was chosen to a one-year field testing in Japan after a competitive bidding. The Japanese Ministry of Defence will buy two vehicles from Patria for the tests. Two other companies were also selected to deliver their vehicles to the tests. The final selection is to be expected after the trials.

### ADMINISTRATION

Patria Oyj's Annual General Meeting held in Helsinki on 27 March 2019 adopted the Consolidated Financial Statements for the financial period that ended on 31st December 2018. 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 2018. Furthermore, the Annual General Meeting decided, according to the Board of Directors' proposal, to distribute a dividend of EUR 0.50 per share, totally EUR 13,920,944.50.

Esa Rautalinko continued as the Chairman of the Board of Directors of Patria Oyj. Harald Aarø, Executive Vice President, Business Development, Kongsberg; Eirik Lie, Executive Vice President, Kongsberg and President, Kongsberg Defence & Aerospace; Päivi Marttila, CEO, Sievi Capital plc; Jarle Næss, Senior Vice President, Business Development, Kongsberg Defence & Aerospace; Ari Puheloinen, General (ret.); Gyrid Skalleberg Ingerø, Executive Vice President and Chief Financial Officer, Kongsberg and Petri Vihervuori, Senior Financial Adviser, the Ownership Steering Department in the Prime Minister's Office continued as members of the Board of Directors.

Petri Vihervuori, member of Patria's Board of Directors, was appointed as the acting Chairman of the Board of Directors as Patria's Board of Directors appointed Esa Rautalinko as President and Chief Executive Officer of Patria Group as of 1 July 2019.

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

The Nomination and Compensation Committee consisted, during the financial period, of Esa Rautalinko, chairman (until 29 May 2019), Petri Vihervuori, chairman (as of 29 May 2019), Harald Aarø, Jarle Næss 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 Petri Vihervuori, chairman (until 29 May 2019), Päivi Marttila, chairman (as of 29 May 2019), Eirik Lie and Gyrid Skalleberg Ingerø. 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 continued 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 the Ministry of Economic Affairs and Employment; Raimo Vistbacka, Master of Laws; Jussi Karimäki, Equipment Assembler, Patria; Ilkka Kokko, Systems Engineer, Patria; Juha Kuusi, System Specialist, Patria and Jari Metsälä, Manager, Product Design, Patria were appointed as members of the Consultative Committee.

The Extraordinary General Meeting of Shareholders held in October 2019 appointed Jussi Saramo, Member of Parliament (Left Alliance) as the Chairman of Patria Oyj's Consultative Committee and Janne Sankelo, Member of Parliament (National Coalition Party) as Vice Chairman as well as Riitta Mäkinen, Member of Parliament (Social Democratic Party), Petri Huru, Member of Parliament (Finns Party) and Hannu Hoskonen, Member of Parliament (Center Party) as new members of Patria Oyj's Consultative Committee.

Lieutenant General Eero Pyötsiä, Chief of Defence Command, replacing General Timo Kivinen as of 26 August 2019 and Under-Secretary of State at the Ministry of Economic Affairs and Employment Petri Peltonen as well as Jussi Karimäki, Patria; Juha Kuusi, Patria; Jari Metsälä, Patria and Ilkka Kokko, Patria continued as members of the Consultative Committee.

PricewaterhouseCoopers Oy, Authorised Public Accountants continued as Auditor. Jukka Karinen, APA, is the partner in charge of the audit.

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

Esa Rautalinko, 57, Master of Science (Economics) was appointed as President and CEO of Patria Group and he started in this position on 1 July 2019. In January 2019 the President and CEO Olli Isotalo left Patria and the Chief Financial Officer, CFO Ville Jaakonsalo was named interim CEO for the transition period.

## RISKS AND UNCERTAINTIES

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 primary responsibility for risk management and internal control lies with the business units and Patria's Group functions in their area of responsibility. The President and 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. Patria's Internal Audit function as well as internal and external auditors evaluate the effectiveness of Patria's risk management and internal control. In addition, Patria's customers perform various audits and control activities to ensure compliance by Patria with the customer requirements.

Risk management activities cover strategic, operational, and compliance risks as well as financial risks and safety, security and hazard risks.

The international defence industry is subject to continuous 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.

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.

## 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 2019.

In Patria, Group Management Team 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 2019 the Board of Directors, the Audit Committee and the Group Management Team 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 the company's 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 2019 Patria arranged extensive ethics and compliance in class training for selected groups of personnel such as management, finance, sales and marketing and procurement. In addition, Patria arranged online training on Global Data Protection Regulation (GDPR) and training on the export license practices.

Patria uses an anonymous survey to analyse personnel's perception of whether there has been or could be any corruption or other serious unethical conduct. The improvement measures based on the 2019 survey related to improving communications on the whistle-blowing process.

In 2019 further developed group level Business Partner Selection process was implemented, and related training was arranged.

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 2019. Patria complies with the national legislation based on 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.

Patria continued to provide Tampere University of Technology with financial support for the aviation technology education. Patria continued to support third-sector work to prevent social exclusion of young by supporting International Youth Foundation and also youth work at two Patria locations. 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 2020 Patria delivered the first modernized Hamina class missile boat Tornio to the Finnish Defence Forces. In the Mid-Life Upgrade (MLU) project four vessels will be overhauled and modernized, and all the new capabilities will be in use in the Finnish Navy during 2021. Patria acts as the prime contractor, designer and the prime system integrator.

Patria was awarded a contract for the design and delivery of new Anti-Submarine Warfare (ASW) Sonars by Saab, the Squadron 2020 Combat System Contractor. The employment effect of the contract in Finland is approximately 50 man-years.

Finland and Latvia agreed on a joint development programme for sustained army mobility enhancement to which Patria is to deliver a 6x6 vehicle chassis platform. This joint programme aims at development of a common armoured wheeled vehicle system. The programme is also open for other countries by mutual consent of Finland and Latvia. In case the development will lead to actual vehicle system procurements in the future, the common system will enhance mobility, cost-efficiency, interoperability and security of supply of the armies in both countries.

Mr Panu Routila (MSc, Economics), 55, was appointed as Chairman of the Board of Directors as of 4 February 2020. Mr Petri Vihervuori, Senior Financial Adviser at the Prime Minister's Ownership Steering Department, acted as an interim Chairman of the Board. He will continue as a member of the Board of Directors.

### OUTLOOK

Patria continues to strengthen its operational effectiveness and strengthen further its focus on its service business strategy.

The significant domestic HX Program for replacing the current Hornet fleet with new fighters continues, and Patria negotiates with the respective manufacturers about industrial participation, providing an extremely important and long-standing opportunity to Patria.

Patria 6x6 vehicle platform was chosen in January 2020 as part of a joint Finnish-Latvian vehicle development programme for sustained army mobility enhancement. Patria expects the programme to lead to actual vehicle system procurements.

### BOARD OF DIRECTORS' PROPOSAL FOR PROFIT DISTRIBUTION

The parent company's non-restricted equity on December 31, 2019 is EUR 233,499,250.69 of which the net profit for the financial period is EUR 4,753,648.56.

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 219,578,306.19 be retained and carried forward.

### ANNUAL GENERAL MEETING 2020

The Annual General Meeting of Patria Oyj will be held on 3 April 2020 in Helsinki, Finland.

## Consolidated Financial Statements (IFRS)

### Consolidated Statement of Financial position

MEUR	Note	31/12/2019	31/12/2018
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	11		
Intangible rights		3.2	1.6
Goodwill	8, 11	26.2	28.0
Advance payments		0.1	0.2
Tangible assets	11		
Land and water		3.2	2.2
Buildings and constructions		117.8	50.7
Machinery and equipment		25.9	20.5
Other tangible assets		0.3	0.3
Advance payments and construction in progress		2.1	0.8
Investments in joint ventures	12	174.1	164.5
Other shares	13, 16	0.2	0.2
Deferred tax assets	10	8.2	2.9
Other receivables		6.0	6.0
Long-term receivables from joint ventures	12	0.4	0.4
<b>Total Non-current assets</b>		<b>367.5</b>	<b>278.2</b>
<b>Current assets</b>			
Inventories	14		
Raw materials and supplies		41.8	38.0
Work in progress		43.1	23.3
Finished goods		2.8	1.9
Advance payments		2.6	3.2
Receivables			
Accounts receivable	2	101.9	106.0
Receivables from joint ventures	12	0.0	0.0
Other receivables		1.8	1.5
Prepaid expenses and accrued income	14	52.1	36.4
Derivative financial instruments	22	0.2	0.1
Current tax asset		1.6	4.9
Cash and cash equivalents		35.9	8.1
<b>Total Current assets</b>		<b>283.9</b>	<b>223.4</b>
<b>Total Assets</b>		<b>651.4</b>	<b>501.7</b>

MEUR	Note	31/12/2019	31/12/2018
<b>Shareholders' equity and liabilities</b>			
<b>Shareholders' equity</b>	18		
Share capital		38.0	38.0
Fair value reserve	17	-0.0	0.1
Invested non-restricted equity fund		164.1	164.1
Translation differences		-2.8	-2.2
Retained earnings		11.4	1.1
Net income for the period		4.5	29.3
<b>Equity attributable to shareholders of parent company</b>		<b>215.2</b>	<b>230.4</b>
<b>Non-controlling interests</b>		<b>23.2</b>	<b>21.0</b>
<b>Total Shareholders' equity</b>		<b>238.4</b>	<b>251.4</b>
<b>Non-current liabilities</b>			
Deferred tax liability	10	1.3	1.4
Pension provisions	7	8.2	4.1
Provisions	20	17.7	18.0
Interest bearing liabilities	2, 19	76.5	24.5
<b>Total Non-current liabilities</b>		<b>103.7</b>	<b>48.0</b>
<b>Current liabilities</b>			
Interest bearing liabilities	2, 19	128.1	51.0
Advance payments		60.1	53.8
Accounts payable		53.9	39.2
Liabilities to joint ventures	12	0.0	0.0
Other current liabilities		17.4	16.5
Accruals and deferred income	15	49.2	41.7
Derivative financial instruments	22	0.4	0.1
<b>Total Current liabilities</b>		<b>309.2</b>	<b>202.3</b>
<b>Total Shareholders' equity and liabilities</b>		<b>651.4</b>	<b>501.7</b>

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

## Consolidated income statement

MEUR	Note	1-12/2019	%	1-12/2018	%
<b>Net sales</b>	4	<b>507.5</b>		<b>476.1</b>	
Other operating income	5	3.6		4.8	
Share of joint ventures result		14.4		12.9	
Change in inventories of finished goods and work in progress		7.3		-0.2	
Production for own use		3.2		0.2	
Raw materials and supplies		-133.2		-127.1	
Change in inventories of raw materials		-10.1		-2.4	
Services purchased		-99.5		-71.0	
Employee benefit expenses	7	-186.8		-171.1	
Depreciation, amortization and impairments	8	-25.7		-12.5	
Other operating expenses	5	-72.8		-73.8	
<b>Operating profit</b>		<b>7.8</b>	<b>1.5%</b>	<b>35.9</b>	<b>7.5%</b>
Financial income and expenses	9				
Interest and other financial income		0.2		0.2	
Interest and other financial expenses		-4.3		-2.6	
Exchange gains and losses		0.2		0.1	
<b>Income before taxes</b>		<b>3.9</b>	<b>0.8%</b>	<b>33.7</b>	<b>7.1%</b>
Income taxes	10	0.6		-4.3	
<b>Profit for the period</b>		<b>4.5</b>	<b>0.9%</b>	<b>29.3</b>	<b>6.2%</b>
Net income attributable to non-controlling interests		4.9		4.1	
Net income attributable to equity shareholders		-0.4		25.2	
<b>Profit for the period</b>		<b>4.5</b>	<b>0.9%</b>	<b>29.3</b>	<b>6.2%</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MEUR	1-12/2019	%	1-12/2018	%
Profit for the period	4.5		29.3	
Other comprehensive income				
Items that may be reclassified to profit or loss in subsequent periods				
Cash flow hedges	-0.1		-0.4	
Change of translation difference	-0.6		-0.8	
Items that will not be reclassified to profit or loss in subsequent periods				
Actuarial gains/losses on defined benefit plans	-1.0		0.6	
Share of comprehensive income in joint ventures	-0.5		-1.6	
<b>Total comprehensive income</b>	<b>2.2</b>	<b>0.4%</b>	<b>27.1</b>	<b>5.7%</b>
Total comprehensive income attributable to non-controlling interests	4.5		4.4	
Total comprehensive income attributable to equity shareholders	-2.3		22.7	
<b>Total comprehensive income</b>	<b>2.2</b>	<b>0.4%</b>	<b>27.1</b>	<b>5.7%</b>

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

## Consolidated cash flow statement

MEUR	Note	1-12/2019	1-12/2018
Net income for the period		4.5	29.3
Depreciation, amortization and impairments	8	25.7	12.5
Capital gains/losses		-0.1	-1.2
Other adjustments			
Share of result in joint ventures		-14.4	-12.9
Dividends received from joint ventures		6.2	4.7
Other adjustments		0.1	0.1
Financing items		4.1	2.4
Taxes	10	-0.6	4.3
Change in receivables		-0.8	-7.7
Change in payables		8.5	5.3
Change in inventories		-5.3	-0.3
<b>Cash flow from operations</b>		<b>28.0</b>	<b>36.7</b>
Interest received		0.2	0.3
Interest paid		-3.8	-1.7
Dividends received		0.0	0.0
Other financial items		-0.4	-0.8
Income taxes paid		-0.2	-7.3
<b>Cash flow from operating activities</b>		<b>23.8</b>	<b>27.1</b>
Acquisitions, net of cash		-15.8	0.2
Other capital expenditures		-14.8	-7.3
Sale of other fixed assets and other changes		0.1	2.2
<b>Cash flow from investing activities</b>		<b>-30.5</b>	<b>-5.0</b>
Repayments of long-term loans		-9.4	-1.5
Borrowings of long-term loans		9.9	20.0
Change in short-term financing		50.9	-16.9
Dividends paid to equity shareholders		-13.9	-16.7
Dividends paid to non-controlling interests		-2.6	-4.3
Other changes		-0.4	-0.6
<b>Cash flow from financing activities</b>		<b>34.5</b>	<b>-20.0</b>
<b>Change in liquid funds</b>	2	<b>27.8</b>	<b>2.2</b>
Change		27.8	2.2
Liquid funds at the beginning of the period		8.1	5.9
<b>Liquid funds at the end of the period</b>		<b>35.9</b>	<b>8.1</b>
Exchange rate difference		-0.0	0.0

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

## Consolidated Statement of Changes in Equity

MEUR	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	0.1	-2.2	30.4	230.4	21.0	251.4
Dividends paid						-13.9	-13.9		-13.9
Other comprehensive income	10								
Cash flow hedges				-0.1			-0.1		-0.1
Change of translation difference					-0.6		-0.6		-0.6
Actuarial gains/losses on defined benefit plans						-1.0	-1.0		-1.0
Share of comprehensive income in joint ventures						-0.5	-0.5		-0.5
Non-controlling interests						-4.9	-4.9	2.3	-2.6
Exchange rate difference						1.3	1.3		1.3
Corrections to previous year's bookings*						0.0	0.0		0.0
Net income for the period						4.5	4.5		4.5
<b>31 Dec 2019</b>		<b>38.0</b>	<b>164.1</b>	<b>-0.0</b>	<b>-2.8</b>	<b>15.9</b>	<b>215.2</b>	<b>23.2</b>	<b>238.4</b>
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
<b>31 Dec 2018</b>		<b>38.0</b>	<b>164.1</b>	<b>0.1</b>	<b>-2.2</b>	<b>30.4</b>	<b>230.4</b>	<b>21.0</b>	<b>251.4</b>

\*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.patriagroup.com](http://www.patriagroup.com).

### 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.

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 (spot-spot) 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.

Trade receivables and non-current 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. 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.

### 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 2019, 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

The group as lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Impact to profit and loss statement arises from depreciation of right-of-use assets and interest on lease liability.

Patria applies optional exemptions for short-term and low-value leases. Expenses related to these contracts will be recognized on a straight-line basis over the 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 8 standard and will not disclose financial information by segment in the financial statements.

## APPLICATION OF NEW AND AMENDED IFRS STANDARDS AND IFRIC INTERPRETATIONS

Patria has adopted new accounting standards and interpretations issued by the International Accounting Standards Board, IFRS 16, Leases and IFRIC 23, Uncertainty over Income Tax Treatments, effective on January 1, 2019. The adoption of IFRS 16, Leases had the most significant effect on the Group consolidated financial statements.

### IFRS 16 Leases

Patria has adopted IFRS 16 on 1 January 2019 using the modified retrospective approach by recognizing the cumulative effect of initially applying the standard in the opening balance sheet as at 1 January 2019, thus information for the comparative period has not been restated.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. These right-of-use assets are depreciated over the contract period or over the useful life of the asset, which is the shorter. Interest cost of leases are presented in financing expenses. There are optional exemptions for short-term leases and leases of low value items which Patria has selected to utilize and the lease expense on these is recognized on a straight-line basis over the contract period as permitted by IFRS 16.

Lessor accounting remains similar to IAS 17 standard i.e. lessors continue to classify leases as finance or operating leases. Patria has identified contracts where it acts as a lessor. These contracts do not have a material impact on group's financial statements.

The group did not have sale and leaseback transactions during the financial year 2019. The lease liabilities recognized on the opening balance sheet in the adoption of IFRS 16 as at 1 January 2019, can be reconciled to the operating lease commitments reported under IAS 17 as at 31 December 2018, as follows:

### MEUR

IAS 17 operating lease commitments December 31, 2018	37.9
Net increase in lease liability resulting from different treatment of extension and termination options, leases of low-value assets, short-term leases and the discount impact of future lease payments.	39.6
Finance lease liabilities December 31, 2018	19.2
IFRS 16 lease liability in the opening balance sheet as at January 1, 2019	96.7

Disclosures on right-of-use assets are presented in note 11, on lease liabilities in note 2, and interest costs relating to leases in note 9. Discount rate applied is approximately 2 percent.

Expenses relating to short term and low value leases amounted EUR 0.1 million in 2019. Variable rents excluded from IFRS 16 lease liability amounted to EUR 0.3 million.

### IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatment. Patria has reviewed its income tax treatment and the adoption of IFRIC 23 did not have impact to the Group.

## 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 2019 were in the Swedish krona (SEK), and United States dollar (USD).

#### IFRS 7 SENSITIVITY ANALYSIS - SENSITIVITY TO EXCHANGE RATE FLUCTUATIONS 2019

1 000 EUR	SEK	USD
Net exposure - Balance sheet items	1 579	8
Euro strengthens / weakens 5 % - Effect on income before taxes	-75 / 83	0 / 0
Net exposure - Derivatives under hedge accounting	5,672	-5,313
Euro strengthens / weakens 5 % - Effect on equity	-268 / 297	406 / -441

#### 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

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 2019

Forward foreign exchange contracts - EURUSD	MEUR 31/12/2019
Fair Value	0.0
Nominal Value	15.9
Expected time for the impact on P&L	January 2020 - February 2023
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)	1,1324

Forward foreign exchange contracts - EURSEK	31/12/2019
Fair Value	0.1
Nominal Value	5.7
Expected time for the impact on P&L	January 2020 - October 2022
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)	10,7192

Forward foreign exchange contracts designated as cash flow hedges	MEUR 31/12/2019
Derivative financial assets	0.2
Derivative financial liabilities	-0.1

## EFFECTS OF HEDGE ACCOUNTING ON THE FINANCIAL POSITION 2018

	MEUR 31/12/2018
<b>Forward foreign exchange contracts - EURUSD</b>	
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
<b>Forward foreign exchange contracts - EURSEK</b>	
	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
<b>Forward foreign exchange contracts designated as cash flow hedges</b>	
	31/12/2018
Derivative financial assets	0.1
Derivative financial liabilities	-0.0

## 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 2019, the average interest fixing term of the liabilities was 3.1 years (1.9) and that of the receivables one day.

## INTEREST FIXING PERIODS

MEUR	0-6 mths	6-12 mths	12-24 mths	24-36 mths	Later	Total
Lease liabilities	1.2	0.1	0.6	0.6	85.4	88.0
Loans from financial institutions	30.2					30.2
Other interest-bearing liabilities	86.4					86.4
Interest-bearing receivables	-35.9					-35.9
<b>Total 2019</b>	<b>81.9</b>	<b>0.1</b>	<b>0.6</b>	<b>0.6</b>	<b>85.4</b>	<b>168.7</b>
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
<b>Total 2018</b>	<b>43.2</b>	<b>7.1</b>	<b>0.0</b>	<b>0.8</b>	<b>16.3</b>	<b>67.5</b>

On 31 December 2019, Group's interest-bearing liabilities totalled EUR 204.6 million (75.5) out of which EUR 173.0 million (52.9) was fixed rate and EUR 31.6 million (22.4) was floating rate. Interest-bearing receivables were EUR 35.9 million (8.1) out of which EUR 35.9 million (8.1) 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 2019, would lead to an increase in annual net interest expenses of EUR 43 thousand (143). A corresponding decrease in interest rates would result in an equal effect of opposite sign. The Group didn't have any open interest derivatives (0.0) on 31 December 2019.

## 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 2019 the average maturity of the Group's interest-bearing liabilities was 3.2 years (1.7). The values on the following maturity distribution table are undiscounted.

## MATURITY DISTRIBUTION OF FINANCIAL INSTRUMENTS

MEUR	2020	2021	2022	2023	2024	2025 -	Total
Lease liabilities	11.5	11.0	10.7	10.7	10.6	33.5	88.0
Loans from financial institutions	30.2	0.0	0.0	0.0	0.0	0.0	30.2
Other interest-bearing liabilities	86.4	0.0	0.0	0.0	0.0	0.0	86.4
Derivative financial liabilities	0.4	0.0	0.0	0.0	0.0	0.0	0.4
Derivative financial assets	-0.1	-0.0	-0.0	0.0	0.0	0.0	-0.2
Interest payments	0.1	0.0	0.0	0.0	0.0	0.0	0.1
<b>Total 2019</b>	<b>128.5</b>	<b>11.0</b>	<b>10.7</b>	<b>10.7</b>	<b>10.6</b>	<b>33.5</b>	<b>205.0</b>

MEUR	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
<b>Total 2018</b>	<b>58.1</b>	<b>1.9</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>12.0</b>	<b>76.4</b>

As a part of its liquidity reserves on 31 December 2019, Patria had the following unused financial reserves: committed credit and overdraft facilities totalling EUR 45,5 million (50.5) and commercial paper program totalling EUR 20.0 million (71.0).

## NET DEBT

MEUR	2019	2018
Loans from financial institutions	0.0	0.1
Other interest bearing loans	0.0	6.6
Lease liabilities	76.5	17.8
Non-current interest-bearing liabilities	76.5	24.5
Loans from financial institutions	30.2	20.5
Issued commercial papers	79.9	29.0
Other interest bearing loans	6.5	0.1
Lease liabilities	11.5	1.4
Current interest-bearing liabilities	128.1	51.0
Interest-bearing liabilities total	204.6	75.5
Cash and cash equivalents	35.9	8.1
Net debt	168.7	67.5

## CHANGE IN NET DEBT

MEUR	Loans from financial institutions	Commercial papers	Other interest bearing loans	Lease liabilities	Cash and cash equivalents	Total
Carrying value, at 1 January 2019	-20.6	-29.0	-6.7	-96.8	8.1	-145.0
Change in net debt, cash:						
Repayments of non-current loans	0.3		0.2			0.5
Change in current liabilities	-9.9	-50.9				-60.8
Change in cash and cash equivalents					27.8	27.8
Cash flows total	-9.6	-50.9	0.2	0.0	27.8	-32.5
Change in net debt, non-cash:						
Increases of lease liabilities				-2.7		-2.7
Repayments of lease liabilities				11.6		11.6
Business combinations				-0.1		-0.1
Foreign exchange adjustments					0.0	0.0
Non-cash movements, total	0.0	0.0	0.0	8.7	0.0	8.8
Carrying value, at 31 December 2019	-30.2	-79.9	-6.5	-88.0	35.9	-168.7
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 finance lease 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. 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.

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.

**ACCOUNTS RECEIVABLE BY AGE**

MEUR	2019	2018
Undue accounts receivables	62.9	73.0
Accounts receivables 1-30 days overdue	4.0	7.5
Accounts receivables 31-60 days overdue	4.7	1.9
Accounts receivables more than 60 days overdue	30.4	23.6
<b>Total</b>	<b>101.9</b>	<b>106.0</b>

**OPERATIONAL RISKS OF THE TREASURY FUNCTIONS**

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

**OTHER MARKET RISKS**

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

**CAPITAL MANAGEMENT**

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

**INSURANCES**

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

**3. Acquisitions and divestments**

AIM Norway (Aerospace Industrial Maintenance Norway AS) acquisition was completed in May 2019. The company is owned by Kongsberg Defence & Aerospace AS (KDA) (50.1%) and Patria (49.9%). The company is the Norwegian Air Forces' business for maintenance, repair and overhaul of aircraft and helicopters. The company has 440 employees. The company has its main operating base at Kjeller and an operative unit at Rygge air station.

In June Patria acquired 100% of the shares of Belgium Engine Center SPRL (BEC) from AIM Norway. BEC is a military jet engine maintenance, repair and overhaul (MRO) center that services the Pratt & Whitney F100 engine which powers F-15 and F-16 aircraft around the globe. The company also provides material management services for those engines. BEC has its operating base in Herstal in Belgium and has about 90 employees.

In October 2018 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.

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**

MEUR	2019	2018
Acquisition cost transferred	22.7	0.0
Acquisition cost paid in cash	22.7	0.0
Cash flow from the acquisitions		
Acquisition cost paid in cash	19.8	0.0
Cash and cash equivalents of the acquired companies	-4.0	-0.2
Cash flow from the acquisitions	15.8	-0.2
Assets and liabilities of the acquired businesses		
Intangible assets	1.4	0.0
Tangible assets	6.9	0.2
Inventories	18.8	1.0
Accounts receivables and other assets	11.3	0.8
Cash and cash equivalents	4.2	0.2
Total assets	42.7	2.2
Interest-bearing loans	0.6	1.6
Other liabilities	19.4	1.2
Total liabilities	20.1	2.8
Net assets	22.7	-0.5
Patria's share of net assets	22.7	-0.5
Goodwill	0.0	0.5

## 4. Disaggregation of revenue

MEUR	2019	2018
Products	128.7	171.7
Services	378.8	304.5
Total	507.5	476.1
Performance obligation satisfied at a point in time	383.4	383.2
Performance obligation satisfied over time	124.1	92.9
<b>Total</b>	<b>507.5</b>	<b>476.1</b>

## 5. Other operating income and expenses

### OTHER OPERATING INCOME

MEUR	2019	2018
Rental income	1.4	1.7
Capital gain on sale of fixed assets	0.1	1.2
Other operating income	1.9	1.8
Grants received	0.1	0.2
<b>Total</b>	<b>3.6</b>	<b>4.8</b>

### OTHER OPERATING EXPENSES

MEUR	2019	2018
Research and development	-0.1	-0.1
Rents	-11.7	-11.8
Losses on sale of fixed assets	0.0	-0.0
Travel expenses	-9.2	-8.0
Real estate expenses	-18.7	-16.7
Other operating expenses*	-33.1	-37.2
<b>Total</b>	<b>-72.8</b>	<b>-73.8</b>

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

### PRINCIPAL INDEPENDENT AUDITOR'S FEES AND SERVICES

MEUR	2019	2018
Audit fees	-0.3	-0.2
Other audit related fees	-0.0	-0.0
Other services	-0.1	-0.2
<b>Total</b>	<b>-0.4</b>	<b>-0.4</b>

## 6. Research and development expenses

MEUR	2019	2018
Research and development expenses, total	-8.7	-9.1
Research and development costs expensed during financial period	-7.6	-6.6

## 7. Employee benefits

MEUR	2019	2018
Salaries and fees paid to Members of Board, Consultative Committee and President and CEO	-0.4	-0.7
Other wages and salaries	-153.7	-139.4
Pension and pension insurance expenses	-24.8	-23.9
Other employer costs	-7.9	-7.1
<b>Total</b>	<b>-186.8</b>	<b>-171.1</b>

### COMPENSATION TO BOARD OF DIRECTORS AND ATTENDANCE AT MEETINGS

1000 EUR	2019	Attendance at meetings		
		Board	Audit Committee	Nomination and Compensation Committee
<b>Board members 31 December 2019</b>				
Petri Vihervuori, Chairman <sup>1</sup>	47	11/11	4/4	3/3
Esa Rautalinko, Chairman <sup>2</sup>	17	4/4		1/1
Harald Aarø	0	11/11		3/4
Eirik Lie	0	11/11	3/4	
Päivi Marttila	27	11/11	4/4	
Jarle Næss	27	11/11		4/4
Ari Puheloinen	36	11/11		4/4
Gyrid Skalleberg Ingerø	0	9/11	3/4	
<b>Total</b>	<b>153</b>			

<sup>1</sup> Starting 29 May 2019

<sup>2</sup> Until 29 May 2019

## COMPENSATION TO BOARD OF DIRECTORS AND ATTENDANCE AT MEETINGS

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

<sup>1</sup> Starting 30 November 2018

<sup>2</sup> Until 30 November 2018

<sup>3</sup> Starting 23 March 2018

<sup>4</sup> Until 23 March 2018

<sup>5</sup> Starting 23 March 2018 until 30 November 2018

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	2019	Läsnäolo kokouksissa
<b>Consultative Committee members 1 January - 31 December 2019</b>		
Jussi Saramo, Chairman <sup>1</sup>	1	1/1
Sinuhe Wallinheimo, Chairman <sup>2</sup>	3	4/4
Janne Sankelo, Vice Chairman <sup>1</sup>	1	1/1
Markus Mustajärvi, Vice Chairman <sup>2</sup>	2	3/4
Hannu Hoskonen <sup>1</sup>	1	1/1
Petri Huru <sup>1</sup>	1	1/1
Riitta Mäkinen <sup>1</sup>	1	1/1
Mika Kari <sup>2</sup>	2	4/4
Timo Kivinen <sup>4</sup>	2	3/3
Petri Peltonen	2	4/5
Eero Pyötsiä <sup>3</sup>	1	1/2
Mikko Savola <sup>2</sup>	2	4/4
Raimo Vistbacka <sup>2</sup>	2	4/4
<b>Total</b>	<b>18</b>	

<sup>1</sup> Starting 2 October 2019

<sup>2</sup> Until 2 October 2019

<sup>3</sup> Starting 26 August 2019

<sup>4</sup> Until 26 August 2019

Personnel representatives attendance at meetings: Jussi Karimäki (4/5), Juha Kuusi (5/5), Ilkka Kokko (4/4), Jari Metsälä (3/4), Petri Pitkänen (1/1) and Tomi Virtanen (0/1). Separate meeting fees were not paid for their participation.

Starting 27 March 2019 Ilkka Kokko and Jari Metsälä replaced Petri Pitkänen and Tomi Virtanen as members of the Consultative Committee

**COMPENSATION TO CONSULTATIVE COMMITTEE AND ATTENDANCE AT MEETINGS**

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

<sup>1</sup> Starting 23 March 2018

<sup>2</sup> 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.

Starting 23 March 2018 Tomi Virtanen replaced Ossi Ritala 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 PRESIDENT AND CEO AND MANAGEMENT**

Esa Rautalinko was appointed as President and CEO of Patria Group and he started in this position on 1 July 2019. Salaries, fees and benefits paid to the President and CEO Esa Rautalinko during 2019 totalled EUR 222,000.00 including salary of EUR 221,880.00 and benefits of EUR 120.00.

The yearly bonus to be paid to the President and CEO Esa Rautalinko in 2020 for the earning period 2019 is EUR 54,489.46 (23.4% of pro rata base salary of year 2019 and 39.0% of the maximum bonus payout, which is 60% of pro rata base salary of year 2019).

The retirement age for the President and CEO of the parent company follows the statutory pension rules. The President and CEO has no additional retirement arrangement. The President and CEO's contract of employment may be terminated with 6 months' notice by either the President and CEO or the Company. In case the Company gives notice to the President and 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 Group management team, which included as of 1 January and until 30 June 2019 9 members and as of 1 July 2019 10 (as of 17 September 2018 10) members. The salaries, fees and benefits paid to the members of the Group management team totalled EUR 2,023,746.48 (EUR 2,212,656.02).

Chief Financial Officer, CFO Ville Jaakonsalo acted as interim CEO for the transition period as of 1 January and until 30 June 2019.

The remuneration of the President and CEO and the other members of the Board of Management for 2019 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 2017-2019, 2018-2020 and 2019-2021. In addition, bonuses were paid based on the 2014-2016, 2015-2017 and 2016-2018 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 2016-2018 plan was 25.0% of the highest potential remuneration and will be paid to the participants in three instalments during the years 2019, 2020 and 2021 subject to the terms of the plan. The Group has made a relating cost provision in the balance sheet totalling EUR 544,460 (EUR 581,071).

All Patria employees are part of a yearly bonus plan. The plan can provide a bonus corresponding to a maximum of 15% to 25% annual 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 and Belgium Engine Center SPRL's pension obligations have 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

MEUR	2019	2018
Pension expenses - Defined contribution plans	-24.6	-23.8
Pension expenses - Defined benefit plans	-0.2	-0.2
<b>Total</b>	<b>-24.8</b>	<b>-23.9</b>

## EXPENSE RECOGNISED IN PROFIT OR LOSS

MEUR	2019	2018
Service cost	-0.2	-0.1
Net interest	-0.1	-0.1
Expense recognised in profit or loss	-0.3	-0.2

## STATEMENT OF FINANCIAL POSITION

MEUR	2019	2018
Defined benefit obligation	22.1	13.2
Fair value of plan assets	-13.9	-9.1
Funded status	8.2	4.1
Liability in the balance sheet	8.2	4.1

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

MEUR	2019	2018
Opening defined benefit obligation	13.2	13.0
Addition of defined benefit obligation	7.0	0.0
Current service cost	0.2	0.1
Interest cost	0.3	0.2
Benefits paid	-1.2	-0.3
Actuarial gain(-) / loss (+)	2.5	0.2
Closing defined benefit obligation	22.1	13.2

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

MEUR	2019	2018
Opening fair value of plan assets	9.1	8.8
Addition of fair value of plan assets	4.1	0.0
Interest income	0.2	0.2
Contribution paid	0.1	-0.3
Benefits paid	-1.2	-0.3
Actuarial gain(+)/ loss (-)	1.4	0.8
Closing fair value of plan assets	13.9	9.1

## EXPECTED CONTRIBUTION PAID IN THE NEXT FISCAL PERIOD: EXPECTED CONTRIBUTION

MEUR	Estimate 2020	2019	2018
Expected contribution	0.0	0.1	0.1

## CHANGES IN OTHER COMPREHENSIVE INCOME

MEUR	2019	2018
Recognised remeasurements in other comprehensive income 1.1.	1.5	0.9
Actuarial gain(+) or loss(-) on obligation	-2.5	-0.2
Actuarial gain(+) or loss(-) on plan assets	1.4	0.8
Recognised remeasurements in other comprehensive income 31.12.	0.4	1.5

## PLAN ASSETS

	2019	2018
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 the key assumptions are. 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 31.12.2019

Millog Oy

MEUR	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	-0.8	-0.4	-5 %	-4 %
Change in salary increase, +0.5 percent point	0.4	0.0	3 %	0 %
Change in mortality, + 1 year in life expectancy	0.5	0.3	4 %	3 %
Change in benefit increase, +0.5 percent point	1.1	0.0	7 %	0 %
Change in Insurance Company's bonus index, +0.5 percent point	0.0	0.5	0 %	5 %

## Census data used in this valuation is as follows

	2019	2018
Number of actives	83	93
Number of pensioners	259	212
Number of deferred	721	811
Average age actives (years)	51	51
Average remaining service time	9	8
Average serving time	7	8

## Patria Belgium Engine Center SRL

MEUR	Change in defined benefit obligation	Variation
Discount Rate + 0.5%	-0.4	-6 %
Salary Increase + 0.5%	0.7	11 %
Inflation + 0.5%	0.4	6 %

## Census data used in this valuation is as follows

	2019	2018
Number of actives	87	-
Number of pensioners	23	-
Number of deferred	62	-
Average age actives (years)	45	-
Average remaining service time	14	-
Average serving time	17	-

## 8. Depreciation, amortization and impairments

## DEPRECIATION ACCORDING TO PLAN AND IMPAIRMENTS

MEUR	2019	2018
Intangible rights	-0.9	-0.7
Buildings and constructions	-5.4	-5.1
Buildings and constructions, IFRS 16	-9.9	0.0
Land and water, IFRS 16	-0.1	0.0
Machinery and equipment	-6.9	-6.7
Machinery and equipment, IFRS 16	-0.8	0.0
Other tangible assets	-0.0	-0.0
Impairment losses, non current assets	-1.6	0.0
<b>Total</b>	<b>-25.7</b>	<b>-12.5</b>

## 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 unit's 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 2019 (10.8%).

In 2019, the impairment testing result showed that the "value in use" in ISP Norway, ISP Baltics and Aerostructures cash generating units were less than the book value of the tested assets, and thus an impairment of goodwill (valued at fair value) EUR 1.6 million (EUR 0.0 million) was recognized in 2019.

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.

## GOODWILL BY BUSINESS UNIT

MEUR	2019	2018
Land	8.9	8.9
Aviation	4.8	4.8
ISP, Baltics	3.5	4.0
ISP, Norway	0.0	0.8
Aerostructures	0.0	0.5
Systems	1.7	1.7
Millog	7.2	7.2
<b>Total</b>	<b>26.2</b>	<b>28.0</b>
1 Jan	28.0	27.5
Additions	0.0	0.5
Impairment	-1.6	0.0
Translation differences	-0.2	0.0
31 Dec	26.2	28.0

## 9. Financial income and expenses

## FINANCIAL INCOME AND EXPENSES

MEUR	2019	2018
Interest income		
Deposits and investments	0.0	0.1
Other	0.1	0.1
Other financial income	0.0	0.0
Interest expenses		
Interest bearing liabilities	-1.2	-0.5
Leases	-2.6	-1.2
Other financial expense	-0.5	-0.9
Exchange rate difference		
Foreign exchange derivatives, non-hedge accounted	0.1	-0.4
Other	0.1	0.6
<b>Total</b>	<b>-3.9</b>	<b>-2.2</b>

## AGGREGATE FOREIGN EXCHANGE GAINS AND LOSSES INCLUDED IN CONSOLIDATED INCOME STATEMENT

MEUR	2019	2018
Net sales	-0.0	-0.0
Expenses	-0.1	0.2
Financial income and expenses	0.2	0.1
<b>Total</b>	<b>0.1</b>	<b>0.3</b>

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

## NET GAINS/LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS INCLUDED IN OPERATING PROFIT

MEUR	2019	2018
Foreign exchange rate derivative contracts under hedge accounting	0.0	-0.0
<b>Total</b>	<b>0.0</b>	<b>-0.0</b>

## 10. Income taxes

MEUR	2019	2018
Income taxes	-4.1	-3.4
Income taxes previous period	0.1	-0.0
Change in deferred tax receivable	4.5	-0.7
Change in deferred tax liability	0.1	-0.2
<b>Total</b>	<b>0.6</b>	<b>-4.3</b>

## TAXES RELATED TO OTHER COMPREHENSIVE INCOME

2019 MEUR	Before-tax amount	Tax	Net-of-tax amount
Cash flow hedges	-0.1	0.0	-0.1
Change of translation difference	-0.6	-	-0.6
Actuarial gains/losses on defined benefit plans	-1.1	0.1	-1.0
Share of comprehensive income in joint ventures	-0.7	0.1	-0.5
<b>Total</b>	<b>-2.5</b>	<b>0.2</b>	<b>-2.3</b>

2018 MEUR	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
<b>Total</b>	<b>-2.8</b>	<b>0.6</b>	<b>-2.3</b>

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

MEUR	2019	2018
Income tax expense at statutory rate	-1.1	-6.5
Effect of statutory tax rates of foreign companies	-0.1	0.1
Untaxed income	0.1	0.3
Non-deductible expenses	-0.0	-0.3
Utilization of confirmed losses	-0.1	0.0
Fiscal losses of the period	-1.1	-0.6
Effect of associated company result	2.9	2.6
Effect of statutory tax rate change on deferred taxes	-0.0	0.0
Returns from previous tax years	0.1	-0.0
Other items	0.1	0.1
Income taxes	0.6	-4.3

**RECONCILIATION OF DEFERRED TAX RECEIVABLES**

MEUR	2019	2018
Fixed assets depreciation differences	0.5	0.7
Untaxed reserves	2.7	2.0
Fair value of derivative financial instruments	0.0	0.0
Tax losses carried forward	4.9	0.2
Other temporary differences	0.2	0.0
	<b>8.2</b>	<b>2.9</b>
1 Jan	2.9	3.8
Translation difference	0.0	-0.0
Income statement	4.5	-0.7
Fair value of derivative financial instruments	0.0	0.0
Acquired companies	0.7	0.0
Equity	0.0	-0.2
31 Dec	8.2	2.9

**RECONCILIATION OF DEFERRED TAX LIABILITIES**

MEUR	2019	2018
Fixed assets depreciation differences	1.3	1.4
Fair value of derivative financial instruments	0.0	0.0
	<b>1.3</b>	<b>1.4</b>
1 Jan	1.4	1.2
Income statement	-0.1	0.2
Fair value of derivative financial instruments	-0.0	-0.1
31 Dec	1.3	1.4

The tax losses, for which no deferred tax assets are recognized due to the uncertainty of the utilization of the losses, amounted to EUR 29.5 million in the year of 2019 (EUR 27.6 million). These losses do not expire.

## 11. Intangible and tangible assets

### INTANGIBLE ASSETS

MEUR	Goodwill	Development expenses	Intangible rights	Advance payments	Total
Acquisition cost 1 Jan 2019	33.9	12.3	19.4	0.2	65.8
Translation differences	-0.0	0.0	0.0	0.0	-0.0
Reclassifications	0.0	0.0	0.5	-0.3	0.2
Companies acquired	0.0	0.0	2.5	0.0	2.5
Scrapping	0.0	0.0	-1.8	0.0	-1.8
Additions	0.0	0.0	0.5	0.2	0.8
Acquisition cost 31 Dec 2019	33.9	12.3	21.2	0.1	67.4
Accumulated amortization and impairment losses 1 Jan 2019	-5.9	-12.3	-17.8	0.0	-35.9
Translation differences	0.0	0.0	0.0	0.0	0.0
Reclassifications	0.0	0.0	0.0	0.0	0.0
Companies acquired	0.0	0.0	-1.1	0.0	-1.1
Scrapping	0.0	0.0	1.8	0.0	1.8
Amortization for the period incl. exchange rate diff, in P&L	-0.2	0.0	-0.9	0.0	-1.1
Impairment	-1.6	0.0	0.0	0.0	-1.6
Accumulated amortization and impairment losses 31 Dec 2019	-7.6	-12.3	-18.0	0.0	-37.9
<b>Net book value at 31 Dec 2019</b>	<b>26.2</b>	<b>0.0</b>	<b>3.2</b>	<b>0.1</b>	<b>29.5</b>
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
<b>Net book value at 31 Dec 2018</b>	<b>28.0</b>	<b>0.0</b>	<b>1.6</b>	<b>0.2</b>	<b>29.8</b>

### TANGIBLE ASSETS

MEUR	Land and water	Buildings and constructions	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost 1 Jan 2019	2.2	125.9	96.1	1.8	2.0	228.0
Adoption of IFRS 16 -standard	0.7	75.5	1.3	0.0	0.0	77.5
Translation differences	0.0	-0.2	-0.1	0.0	0.0	-0.2
Reclassifications	0.1	1.9	6.4	0.0	-6.4	2.0
Companies acquired	0.3	7.8	12.2	0.0	1.8	22.1
Scrapping	0.0	-0.6	-1.4	-0.0	0.0	-2.0
Additions	0.0	3.2	5.3	0.0	6.7	15.1
Disposals	0.0	-0.3	-0.1	0.0	-0.8	-1.3
Acquisition cost 31 Dec 2019	3.2	213.2	119.7	1.8	3.3	341.2
Accumulated depreciation and impairment losses 1 Jan 2019	0.0	-75.2	-75.7	-1.5	-1.2	-153.6
Translation differences	0.0	0.1	0.1	0.0	0.0	0.2
Reclassifications	0.0	-1.5	0.1	-0.0	-0.0	-1.4
Companies acquired	0.0	-4.1	-11.3	0.0	0.0	-15.4
Scrapping	0.0	0.6	1.4	0.0	0.0	2.0
Disposals	0.0	0.0	-0.7	0.0	0.0	-0.7
Depreciation for the period incl. exchange rate diff, in P&L	-0.1	-15.4	-7.7	-0.0	0.0	-23.2
Accumulated depreciation and impairment losses 31 Dec 2019	-0.1	-95.5	-93.8	-1.5	-1.2	-192.0
<b>Net book value at 31 Dec 2019</b>	<b>3.2</b>	<b>117.8</b>	<b>25.9</b>	<b>0.3</b>	<b>2.1</b>	<b>149.2</b>
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
Accumulated depreciation and impairment losses 31 Dec 2018	0.0	-75.2	-75.7	-1.5	-1.2	-153.6
<b>Net book value at 31 Dec 2018</b>	<b>2.2</b>	<b>50.7</b>	<b>20.5</b>	<b>0.3</b>	<b>0.8</b>	<b>74.4</b>

## TANGIBLE ASSETS INCLUDE CAPITALIZED LEASES AS FOLLOWS

MEUR	Buildings and constructions	Machinery and equipment	Land and water	Total
Acquisition cost 1 Jan 2019	36.6	6.8	0.0	43.4
Adoption of IFRS 16 -standard	75.5	1.3	0.7	77.5
Reclassifications	-2.5	0.0	0.0	-2.5
Disposals	-0.3	-7.0	0.0	-7.2
Additions	2.5	0.6	0.0	3.1
<b>Acquisition cost 31 Dec 2019</b>	<b>111.7</b>	<b>1.8</b>	<b>0.7</b>	<b>114.2</b>
Accumulated depreciation and impairment losses 1 Jan 2019	-18.4	-6.8	-0.1	-25.3
Reclassifications	2.5	-0.8	0.0	1.7
Disposals	0.0	6.8	0.0	6.8
Depreciation for the period	-11.4	0.0	0.0	-11.4
Accumulated depreciation and impairment losses 31 Dec 2019	-27.3	-0.8	-0.1	-28.2
<b>Net book value at 31 Dec 2019</b>	<b>84.4</b>	<b>0.9</b>	<b>0.7</b>	<b>86.0</b>
Acquisition cost 31 Dec 2018	36.6	6.8	0.0	43.2
Additions	-18.4	-6.8	0.0	-25.1
<b>Net book value at 31 Dec 2018</b>	<b>18.2</b>	<b>0.0</b>	<b>0.0</b>	<b>18.2</b>

## 12. Investments in joint ventures

	Domicile	Ownership %
Nammo AS	Raufoss, Norway	50.0
Svensk Försvarslogistik AB	Stockholm, Sweden	50.0
Kongsberg Aviation Maintenance Services AS	Kjeller, Norway	49.9
Silverskin Information Security Oy	Helsinki, Finland	25.0

## 2018

MEUR	Domicile	Ownership %	Assets	Liabilities	Net sales	Profit/Loss
Nammo AS	Raufoss, Norway	50.0	611.5	341.3	512.4	25.0

## SHARES IN JOINT VENTURES

MEUR	2019	2018
1 Jan	164.5	158.6
Share of results in joint ventures	14.4	12.9
Share of comprehensive income in joint ventures	-0.5	-1.6
Acquisitions	0.1	0.0
Dividend income	-6.2	-4.7
Exchange rate differences and other changes	1.7	-0.6
31 Dec	174.1	164.5

## BUSINESS OPERATIONS WITH JOINT VENTURES

MEUR	2019	2018
Sales to joint ventures	0.0	0.0

## RECEIVABLES AND LIABILITIES, JOINT VENTURES

MEUR	2019	2018
Subordinated loan receivable	0.4	0.4
Accounts receivables	0.0	0.0
Accounts payable	0.0	0.0

## 13. Other shares

MEUR	2019	2018
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

MEUR	2019	2018
Contract assets	48.8	17.2
Other items	3.3	19.2
<b>Total</b>	<b>52.1</b>	<b>36.4</b>

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

### CONTRACT BALANCES

MEUR	2019	2018
Trade receivables	101.9	106.0
Contract assets	48.8	17.2
Contract liabilities		
Advances received, other	31.5	16.2
Advances received, over time	28.6	37.6
Revenue recognised in the financial period that was included in the contract liability on 1 January	2.7	4.9
Remaining performance obligations from projects and contracts under execution	269.4	318.2

## 15. Accruals and deferred income

MEUR	2019	2018
Accrued wages, salaries and social security costs	28.4	23.1
Other items	20.8	18.6
<b>Total</b>	<b>49.2</b>	<b>41.7</b>

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

## 16. Financial assets valued as fair value

MEUR	Shares	Total
1 Jan 2019	0.2	0.2
Exchange rate differences and other changes	0.0	0.0
31 Dec 2019	0.2	0.2
1 Jan 2018	0.2	0.2
Deductions and other changes	0.0	0.0
31 Dec 2018	0.2	0.2

## 17. Financial instruments

### FAIR VALUE RESERVE INCLUDING FORWARD CONTRACTS

MEUR	2019	2018
Fair value	-0.0	0.1
Deferred taxes	0.0	-0.0
Fair value reserve 31 Dec	-0.0	0.1
Fair value changes recognized in equity	-0.1	-0.5
Fair value changes recognized in income statement	-0.0	-0.0
Deferred taxes	0.0	0.1
Change	-0.1	-0.4
Fair value	0.1	0.6
Deferred taxes	-0.0	-0.1
Fair value reserve 1 Jan	0.1	0.5

### CARRYING AMOUNTS OF FINANCIAL ASSETS AND LIABILITIES BY MEASUREMENT CATEGORIES AND

## FAIR VALUE HIERARCHY

2019 MEUR	At fair value through other comprehensive income Level 2	At fair value through income statement Level 2	Measured at amortised cost	Book value	Note
<b>Non-current financial assets</b>					
Receivables from joint ventures			0.4	0.4	12
Other shares		0.2	0.0	0.2	13
<b>Current financial assets</b>					
Accounts receivable			101.9	101.9	2
Receivables from joint ventures			0.0	0.0	12
Derivative financial instruments	0.2	0.0		0.2	22
Cash and bank balances			35.9	35.9	
<b>Carrying amount by category</b>	<b>0.2</b>	<b>0.2</b>	<b>138.2</b>	<b>138.5</b>	
<b>Non-current financial liabilities</b>					
Interest-bearing liabilities			76.5	76.5	19
<b>Current financial liabilities</b>					
Interest-bearing liabilities			128.1	128.1	19
Accounts payable			53.9	53.9	
Derivative financial instruments	0.1	0.4		0.4	22
<b>Carrying amount by category</b>	<b>0.1</b>	<b>0.4</b>	<b>258.6</b>	<b>259.0</b>	

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

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

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

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

## 18. Shareholders' equity

**Share Capital:** Patria Oyj share capital on 31 December 2019 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 2019, and the fund stood at EUR 164,1 million on 31 December 2019.

**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.

**Shares:** 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, 2019 is EUR 233,499,250.69 of which the net profit for the financial period is EUR 4,753,648.56.

### DIVIDEND PER SHARE

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.50 (2018: 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 (2018: EUR 13,920,944.50). The Board of Directors further proposes that the remaining non-restricted equity, EUR 219,578,306.19 (2018: EUR 228,745,602.13) be retained and carried forward.

The dividends paid for 2019 will be decided at the Annual General Meeting on 3 April 2020. This dividend payable is not reflected in these financial statements.

## 19. Liabilities

Due to the adoption of IFRS 16 Leases -standard on 1 January 2019 Patria is disclosing information on leases in note 2 regarding the lease liabilities and in note 11 regarding the right-of-use assets. This note is providing the disclosure requirements in accordance to IAS 17 -standard for the comparative year 2018.

### FINANCE LEASE LIABILITIES

Patria adopted IFRS 16 Leases -standard 1 January 2019, and consequently no finance lease liabilities are reported as of 31 December 2019 in accordance with IAS 17. Patria has finance leasing agreements relating mainly to buildings. Agreements mature between 2019 and 2037 and capital costs of EUR 18.2 million are included in Buildings and constructions; the depreciation thereon was EUR 1.5 million. The aggregate leasing payments amounted to EUR 2.6 million, the interest element being EUR 1.2 million.

### FINANCE LEASE LIABILITIES MINIMUM LEASE PAYMENTS

MEUR	2019	2018
Not later than 1 year	-	2.6
1-5 years	-	10.2
Later than 5 years	-	19.7
<b>Total</b>	<b>-</b>	<b>32.5</b>
Future finance charges	-	-13.2
Present value of minimum lease payments	-	19.2

### PRESENT VALUE OF MINIMUM LEASE PAYMENTS

MEUR	2019	2018
Not later than 1 year	-	1.4
1-5 years	-	5.8
Later than 5 years	-	12.0
Present value of minimum lease payments	-	19.2

## 20. Provisions

MEUR	2019	2018
Warranty provision	9.6	9.5
Other provision	8.1	8.5
<b>Total</b>	<b>17.7</b>	<b>18.0</b>

During the warranty period the claimed faults will be corrected at Patria's expense. The warranty provisions amounted to EUR 9.6 million (EUR 9.5 million) at the end of 2019. 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

MEUR	2019	2018
Guarantees given on behalf of others	4.2	3.1
Other own contingent liabilities	8.1	7.1
<b>Total</b>	<b>12.3</b>	<b>10.2</b>

### OPERATING LEASE COMMITMENTS

Due to the adoption of IFRS 16 -standard, below table is providing the disclosure requirements in accordance to IAS 17 -standard for the comparative year 2018.

MEUR	2019	2018
Payments due next year	-	11.1
1 - 5 years	-	16.6
Payments due in thereafter	-	10.2
<b>Total</b>	<b>-</b>	<b>37.9</b>

Operating lease commitments of joint ventures are not included.

## 22. Derivative contracts

### DERIVATIVE INSTRUMENTS

2019 MEUR	Nominal value	Positive fair values	Negative fair values	Net fair value
<b>Derivative financial instruments designated as cash flow hedges</b>				
Forward foreign exchange contracts	23.2	0.2	-0.1	0.1
Buy	9.1	0.0	-0.1	-0.1
Sell	14.0	0.2	-0.0	0.2
Interest rate swap	0.0	0.0	0.0	0.0
Cash flow hedge	23.2	0.2	-0.1	0.1
<b>Non-hedge accounting derivative financial instruments</b>				
Forward foreign exchange contracts	30.4	0.0	-0.4	-0.4
Buy	3.5	0.0	-0.0	-0.0
Sell	26.9	0.0	-0.4	-0.4
Non-hedging	30.4	0.0	-0.4	-0.4
<b>Total</b>	<b>53.5</b>	<b>0.2</b>	<b>-0.4</b>	<b>-0.2</b>

MEUR	2020	2021	2022	2023
Derivative financial assets	0.1	0.0	0.0	0.0
Derivative financial liabilities	-0.4	-0.0	-0.0	0.0

2018 MEUR	Nominal value	Positive fair values	Negative fair values	Net fair value
<b>Derivative financial instruments designated as cash flow hedges</b>				
Forward foreign exchange contracts	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

<b>Non-hedge accounting derivative financial instruments</b>				
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
<b>Total</b>	<b>49.3</b>	<b>0.1</b>	<b>-0.1</b>	<b>0.1</b>

MEUR	2019	2020	2021	2022
Derivative financial assets	0.1	0.0	0.0	0.0
Derivative financial liabilities	-0.1	0.0	0.0	0.0

### OFFSETTING OF FINANCIAL INSTRUMENTS

2019 MEUR	Gross amounts in balance sheet	Financial instruments - Related amounts not set off in the balance sheet	Net amount
Derivative financial assets	0.2	-0.2	0.0
Derivative financial liabilities	0.4	-0.2	0.2

2018 MEUR	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

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 ISP Oy	Helsinki, Finland	100.0
Patria Engines Holding Oy	Helsinki, Finland	100.0
Patria Belgium Engine Center SRL	Herstal, Belgium	100.0
Patria Land 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
Patria Polska Sp. z o.o.	Warsaw, Poland	100.0
Millog Oy	Tampere, Finland	61.8
Oricopa Kiinteistö Oy	Orivesi, Finland	100.0
Senop Oy	Kangasala, Finland	100.0
Milrem LCM OÜ	Tallinn, Estonia	60.0
Milrem Latvia SIA	Riga, Latvia	100.0
Milrem Lithuania UAB	Vilnius, Lithuania	100.0

### NET SALES AND PURCHASES BETWEEN THE GROUP COMPANIES

MEUR	2019	2018
<b>Total</b>	<b>42.3</b>	<b>48.2</b>

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 Group management team. There was no outstanding loans receivable from key management on 31 December 2019. Members of the Group management and their immediate circle have not had any essential business relations with the Group companies.

## 24. Disputes and litigations

Patria management does not have knowledge of any significant disputes and litigations, which would have had an impact on the financial statements.

## 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

MEUR	Note	31/12/2019	31/12/2018
<b>Non-current assets</b>			
Intangible assets	9		
Intangible rights		0.6	0.6
Other long-term expenditures		0.1	0.1
Tangible assets	9		
Machinery and equipment		0.9	1.3
Other tangible assets		0.0	0.0
Investments			
Shares in group companies	10	123.3	123.3
Receivables from group companies	11	0.7	0.0
Shares in associated and joint venture companies	10	191.7	191.7
Receivables from associated and joint venture companies	11	0.4	0.4
<b>Total Non-current assets</b>		<b>317.6</b>	<b>317.4</b>
<b>Current assets</b>			
Inventories			
Raw materials and supplies		0.1	0.1
Receivables			
Accounts receivable		0.0	0.0
Receivables from group companies	11	114.0	83.3
Prepaid expenses and accrued income	11	2.3	5.8
Cash and bank balances		25.5	3.7
<b>Total Current Assets</b>		<b>141.9</b>	<b>93.0</b>
<b>Total Assets</b>		<b>459.5</b>	<b>410.3</b>

#### SHAREHOLDERS' EQUITY AND LIABILITIES

MEUR	Note	31/12/2019	31/12/2018
<b>Shareholders' equity</b>			
	12		
<b>Share capital</b>			
Other funds		38.0	38.0
Reserve for invested unrestricted equity		164.1	164.1
Retained earnings		64.7	64.2
Net income for the period		4.8	14.4
<b>Total Shareholders' equity</b>		<b>271.5</b>	<b>280.7</b>
<b>Current liabilities</b>			
Other loans		79.9	29.0
Loans from financial institutions	13	30.0	20.2
Accounts payable	13	1.9	2.5
Liabilities to group companies		71.3	73.4
Other current liabilities	13	1.7	1.3
Accruals and deferred income		3.2	3.1
<b>Total Current liabilities</b>	13	<b>188.0</b>	<b>129.7</b>
<b>Total Shareholders' equity and liabilities</b>		<b>459.5</b>	<b>410.3</b>

## Income Statement, Parent company

MEUR	Note	1-12/2019	1-12/2018
<b>Net sales</b>	2	<b>23.4</b>	<b>21.0</b>
Other operating income	3	1.7	1.6
Materials and services			
Raw materials and supplies			
Purchases during the financial period		-1.4	-0.9
Change in inventories		-0.0	-0.2
Personnel expenses	4	-8.0	-7.4
Depreciation and value adjustments	5	-1.0	-1.1
Other operating expenses	3	-20.8	-19.0
<b>Operating profit</b>		<b>-6.2</b>	<b>-6.0</b>
Financial income and expenses	6		
Dividend income from group companies		10.5	11.7
Dividend income from associated and joint venture companies		0.0	0.0
Interest and other financial income		2.5	2.6
Interest and other financial expenses		-2.1	-2.1
Exchange gains and losses		0.1	0.0
<b>Income before appropriations and taxes</b>		<b>4.8</b>	<b>6.2</b>
Appropriations	7	0.0	8.7
Income taxes	8	0.0	-0.6
<b>Net income</b>		<b>4.8</b>	<b>14.4</b>

## Cash flow statement, Parent company

MEUR	1-12/2019	1-12/2018
Income before appropriations and taxes	4.8	6.2
Depreciation	1.0	1.1
Financing items	-10.9	-12.2
Other changes	0.1	0.0
Change in receivables	-6.4	2.3
Change in inventories	0.0	0.2
Change in liabilities	2.5	-1.0
<b>Cash flow from operations before financial items and taxes</b>	<b>-9.0</b>	<b>-3.3</b>
Interests paid	-1.9	-1.6
Other financial items	-0.1	-0.6
Dividends received	10.5	11.7
Interests received	2.5	2.6
Paid taxes	3.5	-4.1
<b>Cash flow from operating activities</b>	<b>5.4</b>	<b>4.7</b>
Purchase of tangible and intangible assets	-0.5	-0.9
Proceeds from sale of tangible and intangible assets	0.0	0.1
Granted loans	-1.2	0.0
Purchase of group companies	0.0	-0.0
Repayments from loans	1.3	0.0
Proceeds from sale of investments	0.0	0.0
<b>Cash flow from investing activities</b>	<b>-0.4</b>	<b>-0.8</b>
Change in short-term loans	60.9	7.0
Repayment of long-term loans	-0.2	-0.5
Change in short-term receivables and liabilities	-38.8	-4.3
Dividends paid	-13.9	-16.7
Paid and received group contributions	8.7	12.6
<b>Cash flow from financing activities</b>	<b>16.7</b>	<b>-1.9</b>
<b>Change in liquid funds</b>	<b>21.8</b>	<b>2.0</b>
Liquid funds 1 Jan	3.7	1.8
Liquid funds 31 Dec	25.5	3.7
<b>Change in liquid funds</b>	<b>21.8</b>	<b>2.0</b>

# Notes to the Financial Statements, Parent company

## 1. Accounting principles, Parent company

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

### 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

The company apply the accounting treatment made applicable by the Accounting Act 5:2a §, according to which all derivative agreements, including embedded derivatives, are recognised at fair value. Determination of fair values is based on quoted market prices and rates, discounting of cash flows and option valuation models.

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

MEUR	2019	2018
Finland	23.3	20.4
Other Europe	0.0	0.6
<b>Total</b>	<b>23.4</b>	<b>21.0</b>

### NET SALES BY PRODUCT SEGMENT

MEUR	2019	2018
Civilian products	23.4	21.0
<b>Total</b>	<b>23.4</b>	<b>21.0</b>

### REVENUE RECOGNITION

MEUR	2019	2018
Delivery based net sales	23.4	21.0
<b>Total net sales</b>	<b>23.4</b>	<b>21.0</b>

## 3. Other operating income and expenses

### OTHER OPERATING INCOME

MEUR	2019	2018
Rental Income	1.7	1.6
Other operating income	0.0	0.0
<b>Total</b>	<b>1.7</b>	<b>1.6</b>

### OTHER OPERATING EXPENSES

MEUR	2019	2018
Research and development	-0.0	-0.0
Rents	-2.6	-3.4
Real estate expenses	-2.2	-1.6
Losses on sales of non-current assets	0.0	-0.0
Travel expenses	-0.5	-0.4
Sales and marketing expenses	-1.4	-1.1
Other operating expenses	-14.2	-12.5
<b>Total</b>	<b>-20.8</b>	<b>-19.0</b>

### PRINCIPAL INDEPENDENT AUDITOR'S FEES AND SERVICES

MEUR	2019	2018
Audit fees	-0.1	-0.1
Other audit related fees	-0.0	-0.0
Other services	-0.0	-0.1
<b>Total</b>	<b>-0.1</b>	<b>-0.2</b>

## 4. Employee benefits and average number of personnel

MEUR	2019	2018
Salaries and fees paid to members of Board of Directors, Consultative Committee and President and CEO	-0.4	-0.7
Other wages and salaries	-6.3	-5.5
Pension and pension insurance costs	-1.1	-1.0
Other indirect personnel expenses	-0.2	-0.2
<b>Total</b>	<b>-8.0</b>	<b>-7.4</b>
Number of personnel, average		
Salaried staff	86	79
<b>Total</b>	<b>86</b>	<b>79</b>

## 5. Depreciation

MEUR	2019	2018
Depreciation on Intangible rights	-0.4	-0.5
Depreciation on other Intangible rights	-0.0	-0.0
Depreciation on machinery and equipment	-0.6	-0.5
<b>Total</b>	<b>-1.0</b>	<b>-1.1</b>

## 6. Financial income and expenses

MEUR	2019	2018
Dividend income, group	10.5	11.7
Dividend income, other	0.0	0.0
Interest income, group	2.4	2.5
Interest income, other	0.1	0.1
<b>Total</b>	<b>13.0</b>	<b>14.3</b>

MEUR	2019	2018
Interest expenses, group	-1.2	-1.4
Interest expenses, other	-0.8	-0.1
Other financial expenses, other	-0.1	-0.6
<b>Total</b>	<b>-2.1</b>	<b>-2.1</b>

MEUR	2019	2018
Exchange gains and losses	0.1	0.0
<b>Total</b>	<b>0.1</b>	<b>0.0</b>

## 7. Appropriations

MEUR	2019	2018
Group contributions	0.0	8.7
<b>Total</b>	<b>0.0</b>	<b>8.7</b>

## 8. Income taxes

MEUR	2019	2018
Income tax from continuing operations	0.0	1.2
Income tax from appropriations	0.0	-1.7
<b>Total</b>	<b>0.0</b>	<b>-0.6</b>

MEUR	2019	2018
Income taxes	0.0	-0.6
Income taxes previous period	0.0	-0.0
<b>Total</b>	<b>0.0</b>	<b>-0.6</b>

## 9. Intangible and tangible assets

### INTANGIBLE ASSETS

MEUR	Intangible rights	Other long-term expenditures	Total
Acquisition cost 1 Jan 2019	6.5	0.2	6.6
Additions	0.4	0.0	0.4
Acquisition cost 31 Dec 2019	6.9	0.2	7.0
Accumulated amortization and impairment losses 1 Jan 2019	-5.8	-0.1	-5.9
Amortization for the period incl. exchange rate diff. in P&L	-0.4	-0.0	-0.5
Accumulated amortization and impairment losses 31 Dec 2019	-6.3	-0.1	-6.4
<b>Net book value at 31 Dec 2019</b>	<b>0.6</b>	<b>0.1</b>	<b>0.6</b>

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
<b>Net book value at 31 Dec 2018</b>	<b>0.6</b>	<b>0.1</b>	<b>0.7</b>

## TANGIBLE ASSETS

MEUR	Machinery and equipment	Other tangible assets	Total
Acquisition cost 1 Jan 2019	4.6	0.0	4.6
Additions	0.1	0.0	0.1
Disposals	-0.0	0.0	-0.0
Acquisition cost 31 Dec 2019	4.7	0.0	4.7
Accumulated depreciation and impairment losses 1 Jan 2019	-3.3	0.0	-3.3
Disposals	0.0	0.0	0.0
Depreciation for the period incl. exchange rate diff. in P&L	-0.6	0.0	-0.6
Accumulated depreciation and impairment losses 31 Dec 2019	-3.8	0.0	-3.8
<b>Net book value at 31 Dec 2019</b>	<b>0.9</b>	<b>0.0</b>	<b>0.9</b>
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
<b>Net book value at 31 Dec 2018</b>	<b>1.3</b>	<b>0.0</b>	<b>1.3</b>

## 10. Investments

## SHARES IN SUBSIDIARIES

MEUR	2019	2018
1.1.	123.3	123.3
Additions	0.0	0.0
Disposals	-0.0	0.0
<b>Total 31.12.</b>	<b>123.3</b>	<b>123.3</b>

## SHARES IN JOINT VENTURES

MEUR	2019	2018
1.1.	191.7	191.7
<b>Total 31.12.</b>	<b>191.7</b>	<b>191.7</b>

## 11. Non-current and current receivables

## NON-CURRENT RECEIVABLES FROM GROUP COMPANIES

MEUR	2019	2018
Loan receivable	0.7	0.0
<b>Total</b>	<b>0.7</b>	<b>0.0</b>

## CURRENT RECEIVABLES FROM GROUP COMPANIES

MEUR	2019	2018
Accounts receivable	14.8	8.5
Loan receivable	0.7	1.6
Other receivables	98.4	64.5
Derivative financial receivables	0.1	0.1
Accruals and deferred income	0.0	8.8
<b>Total</b>	<b>114.0</b>	<b>83.3</b>

## CURRENT RECEIVABLES FROM ASSOCIATED COMPANIES

MEUR	2019	2018
Subordinated loan	0.4	0.4
<b>Total</b>	<b>0.4</b>	<b>0.4</b>

## PREPAID EXPENSES AND ACCRUED INCOME

MEUR	2019	2018
Taxes	1.3	4.8
Derivative financial receivables	0.2	0.1
Other receivables	0.9	0.8
<b>Total</b>	<b>2.3</b>	<b>5.8</b>

## 12. Shareholders' equity

### CHANGES IN SHAREHOLDERS' EQUITY

MEUR	2019	2018
Share capital 1 Jan and 31 Dec	38.0	38.0
Invested non-restricted equity fund 1 Jan and 31 Dec	164.1	164.1
Retained earnings 1 Jan	78.6	80.9
Distribution of dividends	-13.9	-16.7
Retained earnings 31 Dec	64.7	64.2
Net income	4.8	14.4
<b>Total shareholders' equity 31 Dec</b>	<b>271.5</b>	<b>280.7</b>
<b>Distributable funds</b>		
Invested non-restricted equity fund 31 Dec	164.1	164.1
Retained earnings 31 Dec	64.7	64.2
Net income	4.8	14.4
Distributable funds	233.5	242.7

## 13. Current liabilities

### MATURITY OF INTEREST BEARING LIABILITIES

MEUR	2020	2021	2022	2023	2024-	Total
Loans from financial institutions	30.0	0.0	0.0	0.0	0.0	30.0
Liabilities, group account	68.4	0.0	0.0	0.0	0.0	68.4
Other interest-bearing liabilities	79.9	0.0	0.0	0.0	0.0	79.9
<b>Total 2019</b>	<b>178.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>178.3</b>

MEUR	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
<b>Total 2018</b>	<b>102.5</b>	<b>20.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>122.5</b>

### CURRENT LIABILITIES TO GROUP COMPANIES

MEUR	2019	2018
Accounts payable	0.3	0.1
Other liabilities	70.9	73.2
Derivative financial liabilities	0.2	0.1
Accruals and deferred income	0.0	0.0
<b>Total</b>	<b>71.3</b>	<b>73.4</b>

### ACCRUALS AND DEFERRED INCOME

MEUR	2018	2017
Accruals related to wages and salaries	2.2	2.5
Derivative financial liabilities	0.4	0.1
Other liabilities	0.6	0.6
<b>Total</b>	<b>3.2</b>	<b>3.1</b>

## 14. Financial instruments and derivative contracts

### DERIVATIVE INSTRUMENTS

2019 MEUR	Nominal value	Positive fair values	Negative fair values	Net fair value
<b>Non-hedge accounting derivative financial instruments</b>				
Forward foreign exchange contracts	81.3	0.3	-0.6	-0.4
Buy	29.2	0.1	-0.1	-0.0
Sell	52.1	0.1	-0.5	-0.4
Non-hedging	81.3	0.3	-0.6	-0.4
<b>Total</b>	<b>81.3</b>	<b>0.3</b>	<b>-0.6</b>	<b>-0.4</b>
<b>MEUR</b>				
	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Derivative financial assets	0.2	0.0	0.0	0.0
Derivative financial liabilities	-0.6	-0.0	-0.0	0.0

2018 MEUR	Nominal value	Positive fair values	Negative fair values	Net fair value
<b>Non-hedge accounting derivative financial instruments</b>				
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
<b>Total</b>	<b>72.8</b>	<b>0.2</b>	<b>-0.2</b>	<b>0.0</b>
<b>MEUR</b>				
	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
Derivative financial assets	0.2	0.0	0.0	0.0
Derivative financial liabilities	-0.2	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

2019 MEUR	At fair value through income statement Level 2	Measured at amortized cost	Book value
<b>Non-current financial assets</b>			
Long-term receivables from group companies		0.7	0.7
Long-term receivables from joint ventures		0.4	0.4
<b>Current financial assets</b>			
Receivables from group companies*	0.1	113.9	114.0
Derivative financial instruments*	0.2		0.2
Cash and bank balances		25.5	25.5
<b>Carrying amount by category</b>	<b>0.3</b>	<b>140.5</b>	<b>140.7</b>
<b>Current financial liabilities</b>			
Interest-bearing liabilities		109.9	109.9
Accounts payable		1.9	1.9
Liabilities to group companies*	0.2	68.6	68.8
Derivative financial instruments*	0.4		0.4
<b>Carrying amount by category</b>	<b>0.6</b>	<b>180.4</b>	<b>181.1</b>

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

2018  
MEUR

<b>Non-current financial assets</b>			
Long-term receivables from joint ventures		0.4	0.4
<b>Current financial assets</b>			
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
<b>Carrying amount by category</b>	<b>0.2</b>	<b>78.6</b>	<b>78.8</b>
<b>Current financial liabilities</b>			
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
<b>Carrying amount by category</b>	<b>0.2</b>	<b>125.0</b>	<b>125.2</b>

\* According to the Patria's Group Policy Patria Oyj does derivative contracts with the banks according to requests made by group companies. The derivative financial instruments presented on the table are external derivative assets and liabilities. Internal derivative instruments are presented with the receivables from group companies and liabilities to group companies on the column "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 2019 were in the Swedish krona (SEK).

### IFRS 7 SENSITIVITY ANALYSIS - SENSITIVITY TO EXCHANGE RATE FLUCTUATIONS 2019

1 000 EUR	SEK
Net exposure - Balance sheet items	-34
Euro strengthens / weakens 5 % - Effect on income before taxes	2 / -2
Net exposure - Derivatives under hedge accounting	0
Euro strengthens / weakens 5 % - Effect on equity	0 / 0

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

1000 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

### 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 2019, the average interest fixing term of the liabilities was 0.12 (0.09) years and that of the receivables one day (one day).

On 31 December 2019, company's interest-bearing liabilities totalled EUR 178.3 million (122.5) out of which EUR 98.4 million (93.2) was floating rate and EUR 79.9 million (29.2) was fixed rate. EUR 68.4 million (73.2) of the floating rate liabilities were from group account. Interest-bearing receivables were EUR 124.6 million (68.2) out of which EUR 123.9 million (68.2) were floating rate and EUR 0.7 million (0.0) was fixed rate. EUR 98.4 million (65.5) of the interest-bearing receivables were receivables from group account.

## 15. Commitments and contingent liabilities

### COMMITMENTS AND CONTINGENT LIABILITIES

MEUR	2019	2018
Guarantees given on behalf of group companies	70.3	89.6
Guarantees given on behalf of others	0.4	0.6
Other own contingent liabilities	3.6	3.5
<b>Total</b>	<b>74.3</b>	<b>93.7</b>

### LEASING COMMITMENTS

MEUR	2019	2018
Payments due next year	3.1	3.1
1 - 5 years	10.9	11.2
Payments due in thereafter	9.0	11.7
<b>Total</b>	<b>23.0</b>	<b>26.0</b>

## Board of Directors' proposal for profit distribution

The parent company's non-restricted equity on December 31, 2019 is EUR 233,499,250.69 of which the net profit for the financial period is EUR 4,753,648.56.

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 219,578,306.19 be retained and carried forward.

Helsinki, 11 March 2020

Panu Routila  
Chairman

Harald Aarø

Eirik Lie

Päivi Marttila

Jarle Næss

Ari Puheloinen

Gyrid Skalleberg Ingerø

Petri Vihervuori

Esa Rautalinko  
President and CEO

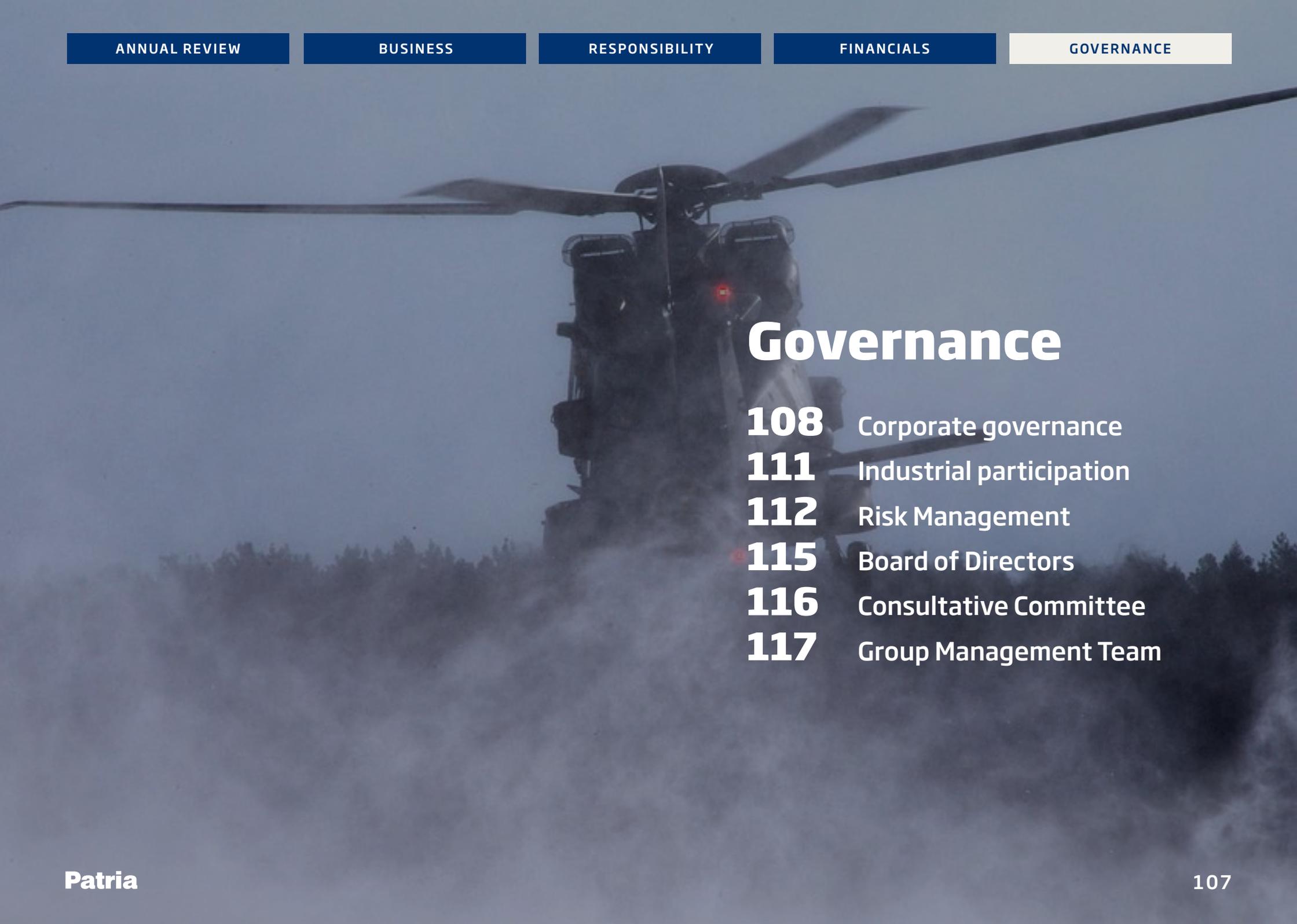
### AUDITOR'S STATEMENT

A report has been given today on the audit performed.

Helsinki, 11 March 2020

PricewaterhouseCoopers Oy  
Authorised Public Accountants

Jukka Karinen  
Authorised Public Accountant



# Governance

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## CORPORATE GOVERNANCE

# Applicable regulations, guidelines and recommendations

Patria Oyj's ("Patria") corporate governance complies with the Limited Liability Companies Act, Auditing Act, Accounting Act and any other binding legislation. For example, the Limited Liability Companies Act specifies the company's governing bodies, their roles and responsibilities, and the relationships between governing bodies. The Limited Liability Companies Act is also important for shareholders' rights, as it contains regulations on the rights granted by shares and the exercising of those rights. It also contains the company's main corporate governance principles.

Patria also complies with other principles and recommendations for good governance that are applicable to companies that are majority-owned by the State. Although Patria is not a listed company, it complies with the applicable sections of the Securities Market Association's Finnish Corporate Governance Code 2020, to the extent that compliance with the Code's recommendations is appropriate for ensuring good governance, and taking into account the company's ownership structure and/or special characteristics or line of business. The most significant deviations from the Code concern Patria's process for appointing members of the Board of Directors and members' independence. This stems from the company's ownership base and other special characteristics.

Patria's auditor is PricewaterhouseCoopers Oy, Authorised Public Accountants.

In its statement (KILA 2008/1829), the Finnish Accountancy Board urges companies with a legal obligation to keep books to establish a register of the individuals who are their related parties, in order to enable the monitoring of actions taken by related parties. With the authorisation of the Board of Directors, Patria's General Counsel has arranged the monitoring of the company's related parties, by specifying such parties in a Group and organisation diagram, by sending individuals who are related parties enquiries for the preparation of a register of related parties (a form of declaration of related parties), and by regularly updating the information in the register.

### Group organisation and administrative system

Patria is operationally divided into business areas. The Patria Group consists of the parent company, Patria, and its subsidiaries. In addition to its wholly owned subsidiaries, the Patria Group owns 61.8% of Millog Oy, 50% of Nammo AS and 60% of Milworks OÜ.

### Governing bodies

Patria's highest decision-making body is the General Meeting, at which shareholders exercise their decision-making authority. The tasks of the General Meeting include matters specified in legislation and Patria's Article of Association, such as deciding on the fees paid to members of the Board of Directors and its Committees, the Consultative Committee, and the company's auditor.

An Extraordinary General Meeting is held when the Board of Directors deems it necessary, or if the auditor or shareholders holding at least ten per cent of all shares demand one in writing to handle a specific matter.

Patria's Board of Directors consists of the Board members elected by the General Meeting. The Board of Directors handles Patria's corporate governance and the appropriate organisation of its operations. Patria's operative business is managed by the CEO, who is appointed by the Board of Directors. The CEO handles the daily management of the company and Patria Group in accordance with the guidelines and instructions issued by the Board of Directors. The CEO is supported by the Group Management Team.

## The Board confirms the Group's ethical values and operational principles, and monitors compliance with these values and principles.

Each business area also has its own management team. The Boards of wholly owned Group companies are only responsible for the statutory minimum duties specified in the relevant legislation.

### Consultative committee

According to its Articles of Association, Patria Oyj must have a Consultative Committee appointed by the General Meeting. Patria's Articles of Association further state that the Board of Directors must consult the Consultative Committee on matters that concern any marked curtailment or expansion of operations or any vital changes to the company's organisation, or which are otherwise of great importance to the line of business that the company is engaged in, either in Finland or internationally. The Consultative Committee consists of a chair, a vice-chair, and a maximum of ten other members. The Consultative Committee had 11 members during the financial year and convened five times in 2019.

### Composition, selection procedure and operation of the Board of Directors

According to Patria's Articles of Association, the Board of Directors should consist of a chair, a vice-chair, and a minimum of three and a maximum of seven other members. During the financial year, the Board of Directors consisted of eight members until the end of May 2019 and seven members as from June 2019.

The General Meeting elects the chair and other Board members, and decides on their remuneration. The Board members are elected for one year at a time, their terms of office ending at the close of the first Annual General Meeting held subsequent to their election.

The Board convened 11 times in 2019, and also made two decisions without actually convening.

### Principal duties of the Board of Directors and distribution of duties

The Board of Directors is responsible for Patria's corporate governance and the appropriate organisation of its operations in accordance with applicable legislation, the company's Articles of Association, and any instructions issued by the General Meeting. The Board of Directors appoints the President & CEO, and supervises his actions.

In addition to its statutory tasks, the Board of Directors' main task is to decide on the Group's strategic policies.

The Board of Directors steers and supervises the Group's various businesses, to ensure that the Group complies with applicable regulations and operates in a commercially appropriate manner that generates added value for shareholders. The Board therefore makes decisions on the Group's key operating principles, and annually approves the Group's financial targets, operational objectives, Financial Statements, and any interim reports. It also decides on any significant investments.

The Board confirms the Group's ethical values and operational principles, and monitors compliance with these values and principles. The Board also approves the general setup of the Group's organisational and operational structure. Its task is to promote the interests of both the Group and its stakeholders. The Board has appointed an Audit Committee and a Nomination and Compensation Committee.

The Board has no agreed division of workloads, except for its Committees.

### Nomination and Compensation Committee

The Nomination and Compensation Committee consists of four members who do not belong to the company's operative management. These members have the experience and expertise required by the Committee's tasks. The Nomination and Compensation Committee prepares the Group's and management's payroll structures, along with any bonus and incentive systems. It also approves key appointments. The Nomination and Compensation Committee convened three times during 2019.

### **Audit Committee**

The Audit Committee consists of four members who do not belong to the company's operative management. These members have the experience and expertise required by the Committee's tasks. The Audit Committee supervises and monitors matters such as the implementation of the Group's internal controls, risk management and financial reporting. It is also tasked with supervising the Group's financial reporting, the drawing up of its Financial Statements, and matters related to compliance and ethics. The Audit Committee convened four times during 2019.

### **The company's President & CEO and group management**

Patria's President & CEO is responsible for managing the business activities and governance of both the company and the Group in accordance with the provisions of the Limited Liability Companies Act and any guidelines or rules issued by the Board of Directors. The President & CEO is assisted in this task by the Group Management Team, which convenes monthly. The Group Management Team consists of the Presidents of Patria's business areas; the Chief Business Development Officer; the CFO; The Chief Program Officer, HX; the Chief Officers of Corporate Communications and Human Resources; and the General Counsel, who is also responsible for compliance and ethics. Group management also meets in other combinations as and when necessary.

Patria's Corporate Social Responsibility Steering Group is in charge of CSR activities and reporting. This group is coordinated by the Chief Communications Officer. Patria's Ethics Officer attends the steering group's meetings and supports its work.

The General Counsel also acts as the Chief Compliance Officer. In this role, the General Counsel reports to the Audit Committee on compliance and ethics issues.

### **Compensation**

Information on the compensation and benefits paid to the Board of Directors, Board Committees and Patria's management is available in the Notes to the Financial Statements.

### **Monitoring and controls**

In accordance with the Limited Liability Companies Act, the Board of Directors must ensure that the supervision of accounting and financial management has been appropriately organised. The President & CEO must ensure that the company's accounting complies with legislation and that financial administration has been reliably organised. Patria's management is responsible for ensuring that the Group's routine operations comply with all of the relevant legal provisions and Board resolutions, and that Group risk management has been organised in an appropriate manner. The Presidents of Patria's business units are responsible for operative business. They are also members of the Group's General Management Team, which enhances and clarifies leadership and leads to more effectively organised internal controls.

A reporting system has been set up to handle the Group's financial control, and it produces diverse information about the Group's financial position and its development on a monthly basis. The Group has a clearly defined decision-making hierarchy for investments. Patria has an Internal Audit function outsourced to an independent operator. This audit evaluates and verifies the efficiency and appropriateness of the Group's risk management and internal controls, the reliability of financial reporting, and compliance with the legislation and guidelines. Patria's internal auditors comply with the International Standards for the Professional Practice of Internal Auditing. The Internal Audit reports on its activities and findings to the Audit Committee and the President & CEO. The Audit Committee approves the internal audit plans on an annual basis.

The company's auditors report their observations at least once a year to the relevant business units and to the Group's financial management, as well as to the Board of Directors and the Audit Committee. The auditors also submit a statutory auditors' report to the company's shareholders.

# Industrial participation

In defence procurement, Industrial Participation (IP) in the target country is a common condition and requirement for supply contracts.

In an industrial participation agreement, the seller (a company) must commit to compensating the value of the purchasing contract to the purchaser (a country), either in whole or in part. These obligations seek to ensure industrial participation via a purchasing contract that will create the agreed added value for the procuring country. The requirements and processes for industrial participation are defined in accordance with each target country's national regulations and any contract-specific requirements.

Patria operates in the defence procurement sector, in which industrial participation is often a general requirement and condition of defence contracts. Patria can export its products either directly through a project or, if the government purchasing defence materiel from Patria so requires, via other industrial collaborative arrangements or activities. Patria will decide on whether to take part in projects that require industrial participation by considering Patria's business interests, the value of countertrade and its relation to the main contract or the value of the transaction; and will require operational management to steer and supervise the activities in question in accordance with clearly defined responsibilities.

Industrial participation arrangements and activities comply with the regulations and practices of the countries in question. These arrangements may also include externally created industrial participation activities and collaboration with others who have industrial participation obligations, but only as long as this is permissible under the applicable regulations and practices. Bilateral industrial participation relief

or exchanges are also possible if they are conducted with a permit from the relevant authorities and in accordance with the applicable regulations and contractual terms and conditions. Patria's management, Board of Directors and the Board's Audit Committee are duly notified of the company's industrial participation obligations.

## All industrial participation obligations and activities are governed by the following unconditional requirements:

- Industrial participation obligations and activities that are permissible under the applicable legislation, regulations and international agreements must comply with legislation and regulations.
- The arrangements must comply with the Patria Group's ethical and standardisation practices, the Patria Group's Ethical Code of Conduct, and the guidelines and other instructions governing industrial participation.
- Applicable due diligence reports must be made on any and all partners and vendors related to such arrangements and transactions, with a special focus on anti-bribery and anti-corruption.
- In order to mitigate legal risks and ensure the compliance of Patria's industrial participation activities, Patria must conduct a comprehensive legal analysis of the industrial participation regulations applicable in the country in question.
- All relevant financial and non-financial risks must be assessed and systematically controlled.

## Carrying out Patria's industrial participation obligations:

- Patria's Land business unit handles the majority of the Group's industrial participation obligations (currently an estimated 95%). The obligations of other business areas are minor in comparison.
- The Land business unit has special processes and defined roles and responsibilities for industrial participation, sales and the implementation of industrial participation agreements.

# 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 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 primary responsibility for risk management and internal control lies with the business units and Patria's Group functions in their area of responsibility. The President and 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. Patria's

Internal Audit function and various external auditors evaluate the effectiveness of Patria's risk management and internal control. In addition, Patria's customers perform various audits and 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 standard and industry specific standards and requirements.

## Internal Audit

Patria has an Internal Audit function outsourced to an independent operator, which evaluates and contributes to ensuring the efficiency and feasibility of Patria's operations, risk management and internal control, external and internal reporting and compliance with the applicable legislation, regulations and guidelines. The Audit Committee confirms the internal audit plan annually. In addition, the Audit Committee and the Board may, from time to time, instruct the Internal Audit function to perform specific audits or other control actions. The findings of the Internal Audit function are regularly reported to the Audit Committee and to the management of Patria.

### **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 subject to continuous 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 Patria Ethical Code of Conduct guideline, which 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 functions 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 and executed for ensuring the security and continuity of operations.

# Board of Directors

31.12.2019



**Petri Vihervuori**

Chairman  
the Ownership Steering  
Department in the Prime  
Minister's Office  
Since 2018



**Päivi Marttila**

CEO  
Sievi Capital plc  
Since 2016



**Gyrid Skalleberg Ingerø**

Executive Vice President and  
Chief Financial Officer  
KONGSBERG  
Since 2018



**Harald Aarø**

Executive Vice President  
Business Development  
KONGSBERG  
Since 2016



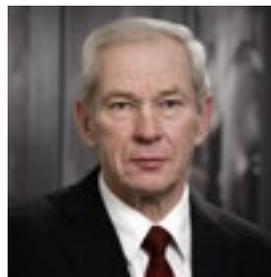
**Jarle Næss**

Senior Vice President Business  
Development  
Kongsberg Defence & Aerospace  
Since 2018



**Eirik Lie**

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



**Ari Puheloinen**

General, ret.  
Since 2016

# Consultative Committee

31.12.2019

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.

## Jussi Saramo

Chairman  
Member of Parliament  
Since October 2019

## Janne Sankelo

Vice Chairman  
Member of Parliament  
Since October 2019

## Hannu Hoskonen

Member  
Member of Parliament  
Since October 2019

## Petri Huru

Member  
Member of Parliament  
Since October 2019

## Jussi Karimäki

Member  
Equipment Assembler, Patria  
Since 2009

## Ilkka Kokko

Member  
System Specialist, Patria  
Since May 2019

## Juha Kuusi

Member  
System Specialist, Patria  
Since 2011

## Jari Metsälä

Member  
Manager, Product Design, Patria  
Since March 2019

## Riitta Mäkinen

Member  
Member of Parliament  
Since October 2019

## Petri Peltonen

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

## Eero Pyötsiä

Member  
Lieutenant General,  
Chief of Defence Command, Finland  
Since August 2019

# Group Management Team

31.12.2019



**Esa Rautalinko**

b. 1962  
President and CEO  
Since 2019



**Ville Jaakonsalo**

b. 1971  
Chief Financial Officer  
Since 2010



**Leena Olkkonen**

b. 1962  
Chief Human Resources Officer  
Since 2017



**Jonas Geust**

b. 1970  
President, Systems  
Since 2018



**Jussi Järvinen**

b. 1979  
President, Land  
Since 2013



**Birgitta Selonen**

b. 1964  
Chief Communications Officer  
Since 2010



**Petri Hepola**

b. 1965  
Chief Program Officer, HX  
Since 2002



**Hanna Kyrki**

b. 1962  
General Counsel, Chief Compliance  
Officer  
Since 2014



**Martti Wallin**

b. 1963  
President, Aviation  
Since 1989



**Jukka Holkeri**

b. 1962  
President, International Support  
Partnerships  
Since 1988



**Pasi Niinikoski**

b. 1961  
Chief Business Development  
Officer  
Since 2006

# Patria

Patria Oyj

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