



# Patria

ANNUAL REVIEW 2014



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Patria's Annual Review consists of the Business Units' Review, the Corporate Responsibility Progress Report and a separate Financial Statements Report. These parts complement each other. Patria's Annual Review is published only at the company's website [www.patria.fi](http://www.patria.fi).

# Patria briefly

Patria is a trusted provider of defence, security and aviation life cycle support services and technology solutions. Besides Finland, the Group has operations in Sweden, Norway, Estonia, Poland, the United Arab Emirates, the United States, and South Africa. Patria employs 2,800 professionals.

## PATRIA'S BUSINESS UNITS AND NET SALES AS A SHARE OF GROUP NET SALES:

### ADMINISTRATION ●

Admin, Finance, Marketing,  
Business Development and Communication

### AVIATION ●, AEROSTRUCTURES ●

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

25%

### LAND ●

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

40%

### SYSTEMS ●

Systems for situational awareness and applications and services supporting critical infrastructure.

9%

### MILLOG ●

Patria's subsidiary (61,8%) Millog produces life cycle support services for the Finnish Army and Navy material.

26%

### NAMMO ●

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

## PATRIA'S OPERATIONAL SITES IN FINLAND:

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

## PATRIA'S VALUES

We want to succeed

Our operations are customer oriented

Together we create success



# Key figures

In many respects, Patria Group's earnings for the financial period 2014 measured up to expectations. As expected, net sales fell, but profitability remained satisfactory. The Group's operating profit represented 12.1% of net sales. Sales outside Finland for the Financial Period accounted for 50% of the net sales.

Net sales

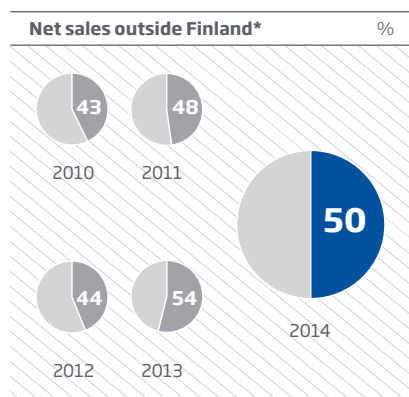
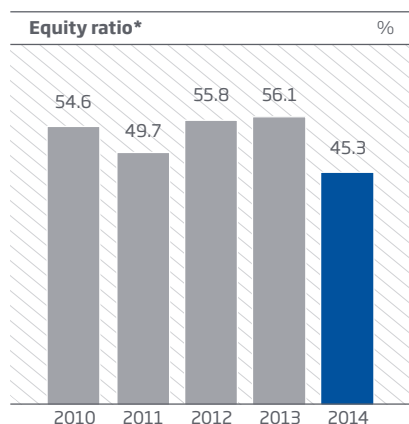
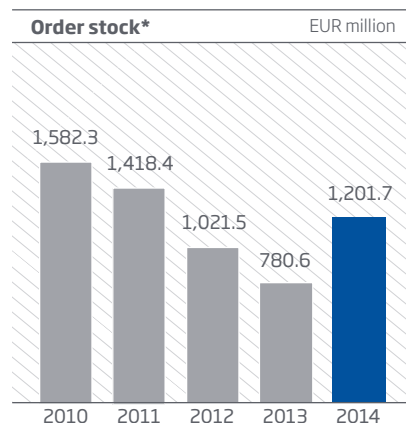
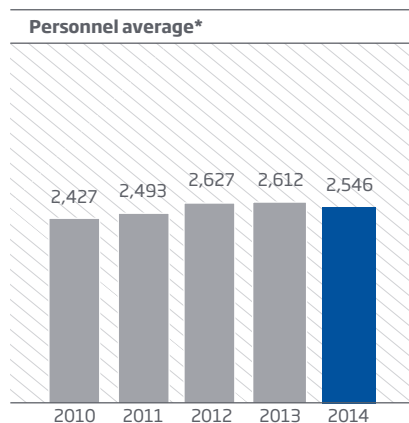
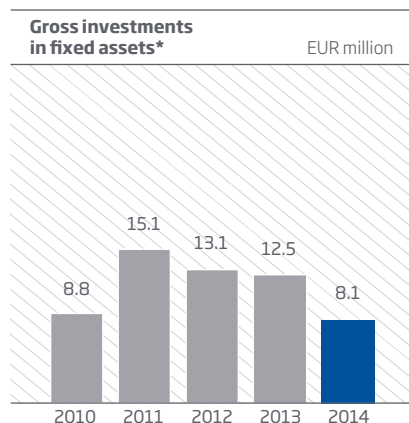
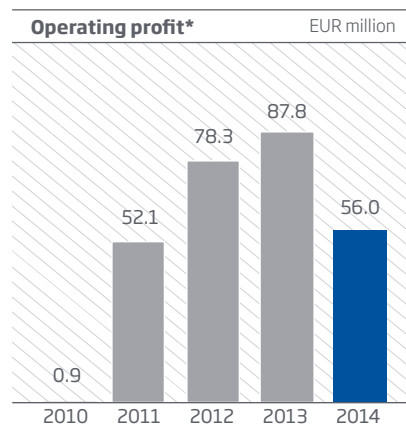
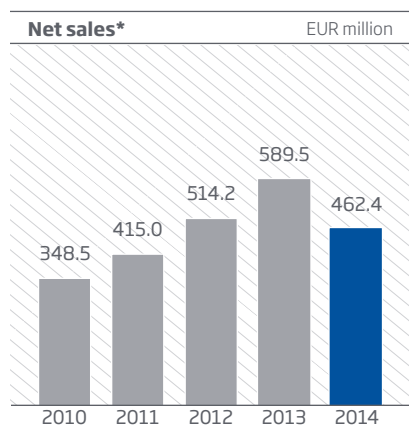
**EUR 462.4 million**

Operating profit

**EUR 56.0 million**

Personnel average

**2,546**



## TAX FOOTPRINT

Patria is subject to corporate income tax in the following countries: Finland, Sweden, Norway, Germany and Poland. Patria does not have operative companies in low taxation countries. A dormant company in Delaware, U.S. Vammas Corporation, was liquidated in 2014.

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

\* The years 2010–2012 pro forma due to the change of Nammo's consolidation method. From the year 2013 onwards, in Patria's financial statements, Nammo is consolidated using the equity method.

## Personnel Statistics

Personnel figures			2012	2013	2014
Personnel, on average			2,627	2,612	2,546
Personnel in Finland			2,567	2,592	2,436
Blue collar, %			41	41	40
Salaried, %			22	22	21
Senior salaried, %			37	37	39
Proportion of women, %			17	17	17
Proportion of women in Board of Directors			1/6	1/6	1/6
Proportion of women in Board of Management			1/7	1/7	1/7
Education level			2012	2013	2014
University, %			17	17	17
University of applied sciences, %			34	33	32
Vocational/upper secondary school, %			46	47	49
Basic education, %			3	3	2
Employment			2012	2013	2014
Average age			43.7	43.8	44.2
Length of services, yrs			13.9	13.9	14.3
Personnel turnover, %			4.5	2.9	2.4
Permanent employees, %			95	92	95
Part-time employees, %			2.2	2.6	2.4
Occupational health and safety			2012	2013	2014
Absenteeism attributable to sickness, %			3.9	3.9	4.2
The frequency of accidents, qty per million work hours*			13	13	17
Employer image			2012	2013	2014
Technology students, Universum - Patria's ranking			25	31	23
Working people (technical education) Universum			29	52	26

\* The figure is calculated according to the instructions of the Federation of Accident Insurance Institutions (FAII). The figure is based on accidents at work that have brought costs. The figure does not include occupational diseases nor work trip related accidents.

The figures cover Patria and the employees of Finnish companies of which Patria owns more than 50%.

## Stakeholder-specific capital flows (MEUR)

Direct economic value, EUR million				2011	2012	2013	2014
		Consolidated net sales		618.4	736.1	589.5	462.4
		Other operating income		5.0	7.9	27.7	28.5
		Financial income		1.3	1.3	0.4	1.3
<b>Customers</b>	Sales	<b>Income total</b>		624.7	745.3	617.6	492.1
<b>Suppliers</b>	Goods, materials and services	Operating costs excluding depreciation and personnel expenses		338.2	411.0	356.0	265.5
<b>Personnel</b>	Wages, salaries and fees	Personnel expenses		203.4	224.7	156.5	154.7
<b>Public sector</b>	Taxes	Payments to government (taxes)		6.5	6.1	5.9	4.6
<b>Not-for-profit organisations</b>	Support and donations	Donations and other charitable payments		0.1	0.0	0.0	0.0
		Payments made to shareholders and loan providers					
<b>Shareholders</b>	Dividends	Dividends		0.0	10.3	19.0	38.0
<b>Investors</b>	Financial costs	Interest and other financial expenses		4.0	3.7	3.5	2.5
		Expenses	Distributed, total	552.2	655.8	540.9	465.4
		Sales-expenses = added value	Economic value retained for operational development	72.5	89.5	76.7	26.7
<b>Investments</b>		Investments in tangible and intangible assets as well as acquisitions		28.9	31.4	17.7	8.1

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

# A year of adaptation confirms expectations

In many respects, Patria Group's earnings for the financial period 2014 measured up to expectations. As expected, our net sales fell, but profitability remained satisfactory. The signing of a long-term contract between Millog and the Finnish Defence Forces (FDF) on the deepening of the two parties' strategic partnership represents the most notable step forward in 2014, bringing the Army garrison repair shops and the Navy maintenance centres under the responsibility of Millog. Not only Millog but also the Aviation Business Unit exhibited an increase in the number of new orders. By contrast, the order intake of the Land Business Unit decreased compared with the previous year, due to project postponements, a fitting indication for the current market situation, in the international market in particular. In the course of the financial period, our operations were developed further, and were geared in a more cost-effective and flexible direction in order to cope with the changes that had occurred in the operating environment. At the end of the financial period, a substantial change in Patria's ownership structure took place, as the Airbus Group sold its share (26.8%) of the company.

## PROGRESS IN PROJECTS

Many projects important to Patria made headway during the financial period. The Hawk trainer fighter modernisation project was completed, and the second life-cycle upgrade of Hornet fighters and the structural upgrade of the fighter



During the financial year, operations were reorganised and adapted to the changed conditions.

fleet progressed as planned. We secured an agreement on provision of support for the maintenance of Sweden's HKP16 Black Hawk helicopters, we also started retrofit installations on the NH90 helicopters already delivered.

Deliveries of AMV vehicles to Sweden entered their final phase, progressing according to plan. A project on vehicle deliveries to South African National Defence Force was launched. In Finland, the first modernised XA-180 armoured personnel carrier was delivered to the FDF.

At the end of the year, the Land Business Unit signed a strategically important contract on the delivery of AMV component kits to Poland, a follow-up measure to the manufacturing of AMV vehicles under licence in Poland over a period of more than ten years. In order to secure a vehicle project in Australia, an extensive agreement on cooperation with BAE Systems was signed. We delivered Nemo mortar systems to Canada, under the Foreign Military Sales project of the United States government, as well as Nemo Navy systems to the United Arab Emirates Navy. Our joint venture Patria Hägglunds delivered to the FDF the last AMOS mortar



systems manufactured in the serial production phase.

Other key events during the financial period included the delivery of the modernised Rauma Class Fast Attack Crafts to the Finnish Navy, showcasing of a new training simulator for the Patria Nemo mortar system, and the launch of a new wireless networking data link called CANDL.

In addition to Millog's partnership agreement, a contract signed between Millog and the Army on the delivery of fire control sensors, and a contract signed by Oricopa with Norwegian Kongsberg concerning missile systems, marked other noteworthy events.

## REORGANISATION OF OPERATIONS

During 2014, operations were reorganised and adapted to the changed conditions. The Sastamala ammunition unit was sold to Nammo Lapua Oy, and the space business operations to RUAG. Due to financial and production reasons, cooperation negotiations were conducted in the Land, Aviation, Systems and Aerostructures Business Units. These measures were put in place to adapt the headcount and organisation of the various Business Units to match their work situation and order book, and to ensure their future competitiveness.

## JUDICIAL PROCEEDINGS PROGRESSED

In its judgment issued January 2014, the District Court of Kanta-Häme dismissed all bribery charges and the corporate fine claim against the company related to the Slovenian export project during 2005–2007. The State Prosecutor has appealed against the verdict and the case is pending with the Appeal Court.

The main hearing concerning the bribery charges and the corporate fine claim against the company related to the Croatian vehicle deal in the year 2007 was conducted at



**The signing of a long-term contract between Millog and the Finnish Defence Forces on the deepening of the two parties' strategic partnership represents the most notable step forward during the year.**

Kanta-Häme District Court in the autumn of 2014.

After the financial period, in February 2015 the District Court of Kanta-Häme issued its judgment that sentenced two (2) former Patria employees to conditional imprisonment. Charges against one former Patria employee were dismissed. A corporate fine was imposed on Patria Land Services Oy. Patria has appealed against the verdict and the process will continue in the Appeal Court.

## ETHICAL AND RESPONSIBLE PRACTICES

Patria's Board of Directors and senior management have clearly communicated their requirement for zero tolerance for unethical practices. Ethical practices constitute part of Patria's values and lay the foundations for our operations, their constant development being very important to us. We have again organised online training on ethical practices for our entire personnel, with excellent results, supporting it with a variety of targeted information sessions at a large number of Patria sites. Ethical practices also played a prominent role at the Patria Day event, arranged for the entire personnel.

Patria has begun its chairmanship of the European Land Defence

Industry Group (ELDIG), which operates under the auspices of the AeroSpace and Defence Industries Association of Europe (ASD). This will open up new opportunities for the development of the industry and for creating standardised industry-wide practices.

In Finland, we have continued our long-term work in the prevention of youth marginalisation. We support the activities of the Save the Children Finland organisation, also acting as the main sponsor of the VL Myrsky ('Storm') fighter aircraft restoration project which engages young people through workshops.

## A GLANCE AT THE FUTURE

The forecast for the Group's operations on the whole is stable. Many of the projects already under way, related to equipment life-cycle management, as well as the maintenance activities outsourced to Millog, are progressing as planned. In terms of orders, the situation will depend on whether certain large export projects, now at the tendering stage, are launched on international markets. The company is involved in several significant tendering processes. Internally, we continue to develop our operations along more cost-effective and flexible lines.

At the beginning of the financial period 2015, the state owner, in collaboration with Patria, began measures to find a new minority shareholder for the company. The objective is to find a strong industrial partner that will bring with it know-how, thus strengthening the company's business development and creating synergy benefits especially for the international market.

I would like to thank all of our customers, owners, partners and other stakeholders and all of our employees for excellent cooperation.

**Heikki Allonen**  
President and CEO



# Pilot training and life-cycle support services for aircraft

The Aviation Business Unit continued work on key projects. The delivery of modernised Hawk trainer aircraft to the Finnish Air Force (FAF) marked one of the major events. An agreement on the provision of pilot training was signed with the Kazakhstan Civil Aviation Academy.

**P**atria's know-how with regard to airplanes and helicopters includes assembly, manufacture of repair parts, maintenance, development as well as modifications and pilot training. Experience dating back for decades lays a strong foundation for Patria's expertise and commitment to the development of aviation.

## SUPPORTING THE CUSTOMER IN THE DEFENCE REFORM

In response to the defence reform and the FAF cost-saving programme, Patria provided new solutions, ensuring the continued capability of the FAF to maintain and develop its performance level, even at times of shrinking economic resources. Patria has reorganised its operations in order to meet the requirements set by the defence reform. The target is set in terms of ensuring the availability, quality and cost-effectiveness of the life-cycle support services provided by the company.

In connection with the reform, some maintenance functions were transferred to the Tikkakoski and Pirkkala units, close to the customer. Some of Patria's Hawk-related operations are

## AVIATION

The Aviation and Aerostructures business units offer 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. Additionally, Patria offers design and manufacture of composite structures.

Personnel

**1,022**

Net sales as a share of group net sales

**25%**

Personnel as a share of group personnel

**40%**







now concentrated to Tikkakoski. During the summer, maintenance of transport aircraft was transferred from Tikkakoski to Pirkkala, to the premises under the Satakunta Air Command.

### KEY PROJECTS IN PROGRESS

The Hawk trainer aircraft modernisation project was completed, with the last upgraded Hawk Mk66 aircraft delivered to the FAF in March. After this modernisation, the avionics system of the Hawk Mk66 aircraft includes all the features required in modern pilot training. The Hawks' training efficiency will be improved and instead of the Hornet fighters currently used, the Hawk fleet will be deployable for a number of training tasks, but at more affordable operating costs.

The Mid Life Update of Hornet fighters (MLU2) progressed as planned, with deliveries continuing until the end of 2016. Structural upgrade (SPR) of the fighter fleet also progressed as planned, and these deliveries will continue until 2018.

In January, Patria and the Swiss company RUAG signed an agreement on industrial cooperation regarding life-cycle support services for Finnish and Swiss F/A-18 Hornets. Similar services will be offered to other countries using Hornet aircraft, including the USA, Canada, Australia, Spain, Kuwait and Malaysia. This agreement will improve cooperation and exchange of information and experiences between the countries involved, contributing towards improved cost-effectiveness.

Maintenance of NH90 helicopters at the Army Aviation Base in Utti, has worked as planned, providing an opportunity for finding ways to improve the usability of helicopters

## // Experience dating back for decades lays a strong foundation for Patria's expertise and commitment to the development of aviation.

in collaboration with the customer.

In August, Patria and the Swedish Defence Materiel Administration (FMV) signed a major agreement on provision of support for the maintenance of Sweden's HKP16 Black Hawk helicopter in Linköping, Sweden. This agreement covers the years 2015–2017, including an option for extending it until 2020.

The assembly of NH90 transport helicopters for Finland and Sweden, continued in Halli. The last NH90 for Finland was ready for delivery at the end of the year. The assembly of last helicopters for Sweden will be completed in 2015.

In the beginning of 2014, the Halli unit began retrofit installations for NH90 helicopters, thereby launching a major project spanning the years 2014–2018 to upgrade the helicopters already delivered to the final operational configuration.

Patria signed a subcontracting agreement with Turbomeca S.A. for maintenance services for the TM322 engines used in NH90 helicopters globally. This contract will boost significantly Patria's exports of maintenance services, as well as enhance the capabilities of serving Nordic customers through expanded spare-part services.

Patria's Aerostructures unit continued the manufacturing of composite

structures, product support and deliveries to Airbus A380, A400M and A330 aircraft programs. Structures were also delivered to other defence and aerospace technology companies.

### FLIGHT TRAINING UNDER DEVELOPMENT

In April, The Kazakhstan Civil Aviation Academy and Patria Pilot Training signed an agreement on the provision of commercial pilot training. Patria will train 12 Kazakh students by the end of 2015. Upon completion of the training, the students will receive commercial pilot licences (CPL) with multi-engine and instrument ratings in compliance with the decrees issued by the Council of Europe. The students will also be fully trained in airline transport pilot theory and crew operations. Patria is also negotiating with the Kazakhstan Civil Aviation Academy on the training of flight instructors for the Academy and the establishment of a local training centre in Kazakhstan.

At the end of May, Patria and the Finnish Aviation Academy (SIO) signed a contract on training cooperation, covering the years 2014 and 2015.

Patria is investigating options available to it in the development of its civilian pilot training and as a solution to the decision to close the Malmi airport.

Military pilot training and maintenance of the Vinka trainer aircraft has progressed along established lines. The Finnish Air Force has started a process of finding a successor for the Vinka trainer. Patria will be interested in participating in the maintenance of the new aircraft, as well as in offering flight training for this aircraft.

# Strong export products for the international market

Deliveries by Land business unit proceeded according to plans. Patria introduced new technology such as the training simulator for Patria Nemo mortar system and a new member to AMV product family, Patria AMV<sup>XP</sup> vehicle, developed to meet customers' future needs. Due to a difficult market situation, Patria adapted its operations to match the order book and to improve its future competitiveness.

**W**ith deliveries to seven countries, Patria AMV is the market leader among 8x8 armoured wheeled vehicles, with the latest addition to this product family, Patria AMV<sup>XP</sup>, providing further strength to the company's product range. This vehicle's highly intensive testing phase verified that its features met the expectations. Patria AMV<sup>XP</sup> provides the best solutions to match the customer needs of tomorrow.

Key events of the year included the showcasing of the training simulator for Patria Nemo mortar system at Eurosatory exhibition in Paris. This training simulator creates a realistic, virtual training environment for the provision of training on firing procedures enabled by Patria Nemo mortar system.

## PROJECTS MAKING PROGRESS

In September BAE Systems and Patria signed a teaming agreement

to pursue a major Australian combat vehicle program Land 400 with BAE Systems as prime contractor. BAE Systems and Patria are now engaged in collaboration to develop a solution, based on Patria AMV, for the Australian project.

The delivery project on 113 vehicles for the Swedish Armed Forces proceeded according to plan, with all the products and services being delivered during 2014, in accordance with the contract. The contract also includes an option for 113 vehicles and the related life cycle support services.

The serial production and delivery project of Patria AMVs for the South African National Defence Force was launched in accordance with the contract. The contract includes 238 vehicles; of these, five prototype series vehicles were already delivered during the development phase of the project.

## LAND

Patria's core expertise is in the high-quality armoured wheeled vehicles, mortar systems, and in the 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.

Personnel

**450**

Net sales as a share of group net sales

**40%**

Personnel as a share of group personnel

**18%**

Patria will be responsible for the production of the first 16 vehicles. Thereafter, serial production will be moved to South Africa, with Denel Land Systems being responsible for the production and final integration of the vehicles and Patria delivering the basic component kits.

In November, Patria delivered the first in a series of modernised XA-180 personnel carrier, known as Pasi, to the Finnish Defence Forces (FDF), in line with an agreement between the FDF and Patria's subsidiaries. Based on the first pre-series product, a production series of 70 vehicles will be manufactured in 2015–2017. The contract also includes an option, whose implementation would extend to 2021, for the modernisation of 210 vehicles.

At the end of the year, negotiations were concluded and a contract was reached on the delivery of AMV components to Poland, whose defence ministry had placed an additional order for AMV 8x8 vehicles with Rosomak S.A., Patria's Polish partner. According to this contract Patria will deliver components for 200 vehicles for Rosomak S.A., which produces the vehicles under Patria's license.

## REORGANISATION OF OPERATIONS

Patria conducted cooperation negotiations at the Sastamala ammunition unit, due to a reduction in the number of orders from the FDF. A decision was made to close the unit, with



## Ongoing projects are expected to provide a successful continuation to the export efforts of the Land Business Unit in the coming years.

an ensuing redundancy of the unit's 23 employees. A solution to continuing the unit's operations presented itself when Patria sold the unit to Nammo Lapua Oy, a company that will continue the unit's production and has employed a significant portion of the former personnel.

In April, on financial or productive grounds, cooperation negotiations were commenced at the Business Unit, affecting the Unit's all functions and all personnel groups and leading to a reduction of 100 fixed-term employees in the headcount in the course of the summer and autumn, after the negotiations had been terminated. A further 30 employees were laid off. Objective of the negotiations has been to adapt the number of employees and organisation to meet the current workload and order stock. The main target has been to secure competitiveness of the Land business unit in the future.

## MARKET LEADER IN TURRETED MORTAR SYSTEMS

Patria's turreted mortar systems are among the most advanced indirect fire systems on the market. Key products include single and twin-barrelled 120 mm mortar systems, in which Patria is an international market leader.

Serial production of the Nemo mortar systems, under the Foreign Military Sales project of the United States government, continued throughout the year 2014 in Hämeenlinna, from where the completed

products were delivered to Canada. There, General Dynamics Land Systems Canada integrates the Nemo systems in the LAV II vehicles it has manufactured. US Government verification tests, part of the project, continued according to plan in Arizona, United States. The Nemo system passed these stringent tests, earning the product approval of the US Army.

Patria delivered the last in the series of Nemo Navy mortar systems to the United Arab Emirates Navy, which has already put the first ones of them in operation.

In Finland's AMOS project, Patria delivered, via Patria Hägglunds, the prime contractor, the rest of the vehicles coming from the serial production, according the contract, also completing all the modifications to the pre-series vehicles in order to make them equivalent to the serial production version. Furthermore, Patria ensured the utility of the AMOS systems already delivered for conscript training, within the framework of a support programme.

Patria's role as one of the FDF's partners requires engagement in R&D and testing activity, including test firing. FDF firing ranges are used for the testing of weapons systems, ensuring continuation of the development of such systems within Finland.

## MARKETING AND SALES PROJECTS UNDER WAY

In addition to contracts already signed, Patria has armoured wheeled vehicle and mortar system marketing and sales projects under way for several old and new customers. The company is involved in tendering processes in various countries, including the United Arab Emirates, Switzerland and Australia. These projects are expected to provide a successful continuation to the export of the Land Business Unit in the coming years.







# Integration projects and systems expertise

Key events for the Systems Business Unit included delivering the modernised Rauma Class Fast Attack Crafts to the Navy, showcasing the new training simulator for the Patria Nemo mortar system, and the launch of the new wireless networking data link called CANDL. Business was consolidated through the divestment of the Systems Business Unit's space business.

**P**atria's key competence areas include systems integration projects, of which the company has acquired solid experience both in Finland and abroad. In these projects, Patria assumes responsibility for the functionality of the overall systems assembled from sub-systems, as well as for the life-cycle management of such systems and software. The successful way in which the modernisation project of the Rauma Class Fast Attack Crafts was carried out constitutes sound proof of Patria's expertise.

The four Rauma Class Fast Attack Crafts - Rauma, Raahe, Porvoo and Naantali - were delivered to the Navy in March, after the upgrade project, begun in 2010, was completed. This major life-cycle upgrade project for the Rauma class vessels, completed in 1990-1992, will extend their lifespan well into



**The Patria Nemo mortar system training simulator creates a realistic, virtual training environment for the provision of training on firing procedures.**

the 2020s, enhancing their performance. Patria was the prime contractor in the project.

## **COST-EFFECTIVE SIMULATOR TRAINING FOR THE NEMO MORTAR SYSTEM**

In June, Patria showcased the training simulator for the Patria Nemo mortar system at the Eurosatory exhibition. This training simulator creates a realistic, virtual training

## **SYSTEMS**

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

Personnel

**266**

Net sales as a share of group net sales

**9%**

Personnel as a share of group personnel

**10%**



Reliable data communications are central to all defence systems and also an important area of expertise for Patria.

environment for the provision of training on firing procedures of the Patria Nemo mortar system. The simulator makes use of Patria's broad expertise, which enables the company to meet the increasingly strict customer requirements set for the Nemo system. The simulator also combines Patria's long-term experience of aviation training simulators, fire control systems and weapons systems into one product.

#### **NEW AND RELIABLE DATA TRANSFER TECHNOLOGY**

Reliable data communications are central to all defence systems: this is also an important area of expertise for Patria. The company has further expanded its offering in the field of secure data communications solutions.

Patria's new data communications solution, named CANDL (Compact Airborne Networking Data Link), was showcased at the MILCOM 2014 conference in the United States in October. CANDL is designed for applications which require reliable

and robust communications, such as transfer of unmanned systems' payload and control data. CANDL provides a solution to the demands for a compact data link system combining secure control data connection and high data rate.

#### **ADAPTATION TO THE MARKET**

During February and March, Patria's Systems Business Unit held cooperation negotiations, resulting to a reduction of 39 employees in the headcount. In the same connection, the Business Unit's organisation and structure were geared towards meeting the changes in the operating environment.

In December, Patria and RUAG announced the acquisition by RUAG of Patria's Space Unit, whereby it became part of RUAG's space business. This transaction also includes Patria's business operations related to space business. All the 29 employees at the Patria Space Unit, located in Tampere, will be transferred to the employment of RUAG Space Finland, a company recently founded.



# Millog - the strategic partner of the Finnish Defence Forces

Millog, the provider of life-cycle support services for the Finnish Defence Forces FDF, continues positive development. The key events of the year were the signing of the extended strategic partnership contract, the contract for delivering night vision devices to the FDF and its subsidiary Oricopa's entering to the delivery contract of the NASAMS ground-to-air missile system project with Kongsberg Defence & Aerospace AS.

## SIGNIFICANT ENLARGEMENT OF THE FDF PARTNERSHIP CONTRACT

In September of 2014, Millog and the FDF signed a partnership contract, thereby expanding and deepening their existing strategic partnership. The company assumed a greater role in the FDF's

maintenance responsibilities of Army and Navy material. This partnership contract covers the period between 2015 and 2020 at a fixed price of €581 million and being effective until further notice. The contract covers life-cycle support and repair services for Army material related to wheeled and tracked vehicles, electronics, missile and weapon systems and equipment, as well as related modifications and installations. The enlarged contract also includes vessel and system maintenance and related services for the Navy. As a result of the FDF reform the Logistics Command became operational from 1st of January 2015 and Millog was given a more prominent role in the annual planning and implementation of the

## MILLOG

Patria's subsidiary Millog (Patria's share of Millog's stocks is 61.8%) is the FDF's strategic partner, providing life-cycle support services for material under the responsibility of the Army and the Navy, in both normal and crises time. Such services include the maintenance of wheeled and tracked vehicles, weapon and electronic systems, naval vessels and systems, as well as the materiel services and life-cycle services including modifications and installations.

Personnel

**698**

Net sales as a share  
of group net sales

**26%**

Personnel as a share  
of group personnel

**27%**







The fact that Millog was chosen as the supplier for the Finnish Defence Forces as a result of intense international competition provides an important reference for the company in its efforts to bring products to the international market.

maintenance process. A total of 317 people were transferred from the FDF to Millog. After the transfer Millog employs more than one thousand maintenance professionals.

#### **DEMAND FOR NIGHT VISION DEVICES**

The Finnish Defence Forces and Millog signed an agreement on target acquisition sensors. The value of the contract is €26.8 million. The deliveries of the Millog LISA sensors and accessories will take place in 2014–2017. The sensors, based on uncooled thermal imaging technology will be manufactured by Millog in Finland. Amounting to almost 140 person-years, this deal will have a significant employment effect for Millog and its subcontractors.

The contract will strengthen Millog's position as a domestic developer and supplier of optronics products. The fact that Millog was

chosen as the supplier as a result of intense international competition provides an important reference for the company in its efforts to bring products to the international market.

#### **SIGNIFICANT CONTRACT FOR ORICOPA**

In May, Oricopa Oy, a 100% owned subsidiary of Millog, and Norwegian Kongsberg Defence & Aerospace AS signed a contract, worth €25 million, on deliveries for the NASAMS anti-aircraft system. Oricopa's role in the deal is the manufacturing of containers for housing communications and command systems and devices. Oricopa will install the systems in containers and manufacture components for the systems. The contract will provide employment to Oricopa and its supply chain amounting to nearly 100 person-years. Deliveries will take place in 2015–2017.





# Nammo - high-tech ammunition

Specialising in ammunition, missile rocket motors and environmentally sound demilitarisation services, Nammo continued on a track of stable development.

**N**ammo Group is owned in equal shares by Patria (50%) and the state of Norway (50%). In Patria's financial statements, Nammo Group was redefined, at the beginning of 2014, as a joint venture, and is now consolidated using the equity method instead of the proportionate method.

Nammo is strongly focused on the international market, with more than 70 per cent of its turnover originating from outside the Nordic countries, with the USA and Canada being the largest markets. The company has continued developing along a stable track, despite significant cuts to defence budgets worldwide.

## NEW BUSINESS AREAS IN FINLAND

In 2014, Nammo Lapua Oy, a subsidiary of Nammo, acquired an ammunition production facility, located in Sastamala and owned at the time by Patria. With this contract in effect, the production of components for heavy ammunition will continue in

Finland. Nammo will take ownership of the Sastamala production facility, providing employment to a substantial proportion of the personnel now engaged in production at the plant. Earlier during the financial year, Nammo Lapua Oy purchased the Vihtavuori gunpowder factory from the French Eurenco.

Nammo's strengths include high technology, an extensive product range and operations in the international market. The company's key market areas include the Nordic countries, North America and Europe.

Nammo's business focus areas vary from year to year, depending on market developments, with the various areas even compensating for each other's developments. The Nammo Group continues to seek growth in its current markets, both organically and through acquisitions. Nammo AS publishes its own annual report and corporate responsibility report, available on the company's website at [www.nammo.com](http://www.nammo.com).

## NAMMO

Nammo AS develops and manufactures high-technology ammunition both for military and civilian uses. Other products include shoulder-launched munitions systems and rocket motors for military and space applications. Nammo is the world-leading provider of environmentally sound demilitarisation services. Nammo has subsidiaries in Australia, Canada, Finland, Germany, Norway, Sweden, Switzerland, Spain and the USA. Nammo is owned in equal shares by Patria (50%) and the state of Norway (50%).

# Responsibility as the Basis of Operations

In defence business environment, safeguarding business continuity is of paramount importance. This requires profitable and responsible operations. In addition to financial performance, Patria bears responsibility for the well-being of its employees and the environment. Patria also acknowledges its role in increasing responsibility across the industry at national and international level.

Patria bases its profitable business operations on good partnership relations. The Group aims to be a good partner by being a good employer and an ethical player. Patria takes into account all identified environmental issues, including their impact on business planning, business operations and management.

## PARTNERSHIP

For Patria, a good partnership is defined in terms of professional, reliable, open and transparent collaboration, which all parties involved can

embrace. Patria provides, requires and develops cost-effective operations together with its stakeholders.

## BEING AN EMPLOYER

Patria holds transparent cooperation in high regard, values competence and experience, treats its personnel in an equal and just manner, and attends to the personnel's well-being.

## ETHICAL CONDUCT

Patria's ethical business practice is founded on an absolute requirement for zero tolerance with regard to unethical conduct, set by the Board and the senior management. Ethics are embedded in everyday work, begin with the individual, and apply to everyone. Ethical conduct goes beyond compliance with laws, international treaties and customer contracts, including collaborative agreements, and encompasses the prevention, detection and inspection of identifiable industry risks.

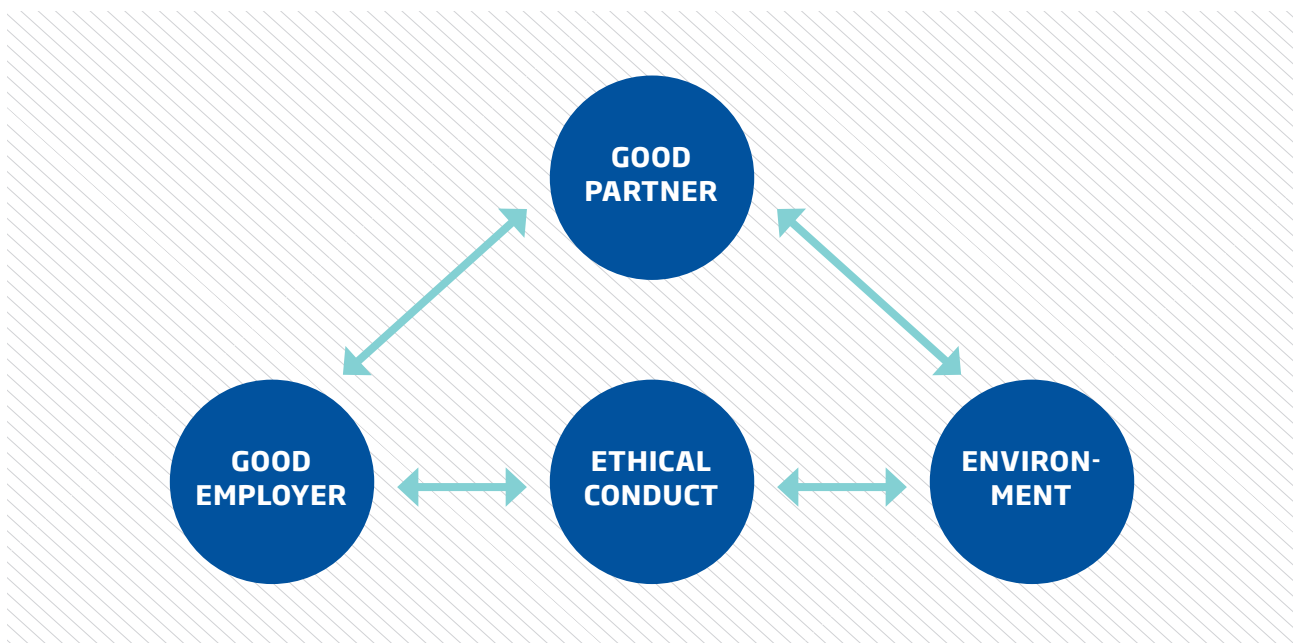
At Patria, ethical conduct has been adopted throughout the organisation, with the operational metrics, evaluated by the senior management on a regular basis, constituting part of the conscious choices made by the company.

## ENVIRONMENTAL RESPONSIBILITY

At Patria, responsibility for the environment finds an expression in the company's recognition of the possible environmental impact that its products and services pose, and in the active measures taken to diminish such impact. We abide by the environmental legislation, obtaining all environmental permits required by authorities for our operations. Our most significant production facilities feature certified environmental systems.

## FURTHER INFORMATION

[www.patria.fi/EN/](http://www.patria.fi/EN/) > Corporate responsibility





# Ethical conduct is a prerequisite for success

In Patria ethical conduct is founded on the absolute requirement for zero tolerance with regard to unethical conduct, set by the Board and the senior management. Ethics are embedded in everyday work, begin with the individual, and apply to everyone. Ethical conduct goes beyond compliance with laws, international treaties and customer contracts, as well as agreements on collaboration, and encompasses the prevention, detection and inspection of identifiable industry risks. Ethical conduct has been adopted throughout the organisation and indicators of ethical conduct are regularly monitored by top management and affect the company's conscious decisions.

**M**ost of the targets set for the year 2014 were achieved. With regard to the training of the personnel, a coverage rate of 99 per cent was achieved and Patria took an active part in the survey conducted by Transparency International. The results will be published in April of 2015.

At Patria, continued efforts were directed towards the development of ethical practices and anti-corruption measures. The company actively and openly communicated of its commitment to these important matters.

Patria signed the UN Global Compact initiative to combat corruption, and reported for the first time on its operations to promote the UN Global Compact's principles.

## MANAGEMENT

The steering of ethical practices was made the responsibility of the Group Board of Management, a task held previously by a separate steering group. This will add to transparency and encourage dialogue across the entire Group. The responsibilities were also more clearly defined; responsibility for providing guidance on and monitoring for ethical practices was written into the charter of the Audit Board of the Board of Directors.



**//** Patria signed the UN Global Compact initiative to combat corruption.

## EDUCATION

Patria's personnel engage in ethical training seeking to increase their awareness and understanding by undergoing an annual online training programme. Out of Patria's personnel in Finland, 99 per cent completed this training, compared with 92 per cent in 2013. All new Patria employees learn about our policies regarding ethical operations during their orientation period.

Ethical training was also expanded to Sweden, where a coverage rate of 90 per cent was achieved, as well as to Millog, a Finnish company whose stocks are 61.8 per cent owned by Patria, where the entire staff not only participated in classroom training but also underwent an online course. At Millog, a new guidebook for ethical practices, entitled "The Millog Code", was published, corresponding to a publication by Patria entitled "Ethical Method of Operation".

Ethical practice was one of the themes on Patria's company-wide training day in Tampere, held in November.

## OBSERVATION

Patria's personnel are encouraged to report on unethical activity, primarily to their supervisors or through their shop steward's organisation.



## Out of Patria's personnel in Finland, 99 per cent completed the ethical operations training.

A channel for anonymous reporting is also available. A total of 12 reports were submitted through the reporting channel, five of which were anonymous, with one report being submitted directly to the General Counsel. All the reports were investigated and results were reported to the Audit Committee. No indications of serious infringements were detected in the reports. The number of reports fell compared with the previous year when they numbered 15. This reduction is believed to be attributable to active training.

The reporting and investigation processes were described in Patria's Integrated Management System, with a description being drafted of the management of personal data.

### FIGHT AGAINST CORRUPTION

Combating corruption was made a separate development area, with Patria's policy statements regarding such activity being collected and presented on Patria's website.

The company participated actively in a survey entitled 'Defence Companies Anti-Corruption Index', conducted by Transparency International, whose results will be published in April of 2015.

Patria signed the UN Global Compact initiative to combat corruption.

### RISK MANAGEMENT

A survey of the possible occurrence of serious infringements in Patria's operations was conducted in the company. This survey will be repeated every two years. The management of the Group's Business Units, the sales and marketing personnel and the financial and procurement personnel were selected as respondents for the survey, in addition to which 10 per cent of the company's other personnel were randomly sampled. According to the survey,

no discernible potential for serious infringements exists at Patria.

The survey results have been taken up in the risk management steering group, as part of the risk management process.

### PARTNERS

Patria's partners are obliged to achieve, in their operations, a level corresponding to that specified by Patria's ethical guidelines. During the financial period, Patria was engaged in an active dialogue on ethical practices with South African Denel, Polish Rosomak, Croatian Duro Dakovic and Norwegian Kongsberg.

A further step in this sphere was the introduction of a process for the evaluation of the vendors' / subcontractors' economic situation and ethical practices, as well as the creation of a system for the conduct of background surveys, to enable improved partner and supplier chain management.

### LEGAL PROCEEDINGS

Patria has been in the public eye following certain court cases. In its judgment issued January 2014, the District Court of Kanta-Häme dismissed all bribery charges and the corporate fine claim against the company related to the Slovenian export project 2006. The State Prosecutor has appealed against the verdict and the case is pending with the Appeal Court of Turku. The main hearing of the case shall take place at the Appeal Court during spring 2015.

On 16 February 2015 the District Court of Kanta-Häme issued its judgment that sentenced two (2) former Patria employees to conditional imprisonment for aggravated giving a bribe in relation to the Croatian export project during 2005–2008. Also a corporate

### OBJECTIVES TO BE ACHIEVED BY 2017

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

### FOCUS AREAS IN 2015

- To increase openness and transparency in Patria's ethical practices
- To develop collaboration and dialogue with our partners and vendors
- To expand our training offering through increased use of eLearning modules
- To develop further the process applied to the selection of business partners

fine was imposed on Patria Land Services Oy. Patria has appealed against the verdict and the process will continue in the Appeal Court.

### FURTHER INFORMATION

[www.patria.fi/en/](http://www.patria.fi/en/) > corporate responsibility > Ethical conduct

- Anti-corruption
- Export licence procedure
- Corporate responsibility networks

# Responsible employer

Patria holds transparent cooperation in high regard, places a value on competence and experience, treats its personnel in an equal and just manner, and attends to the personnel's well-being at work.

In 2014, Patria's headcount fell by approximately five per cent. Although jobs in certain sectors decreased, in others more staff were hired. According to the employer survey conducted by Universum, Patria ranks among the 30 most interesting workplaces in Finland; according to the Federation of Finnish Technology Industries, the company is the 10th biggest employer.

Patria paid attention to developing managerial skills and personnel assessments, as well as to staff's well-being, health and occupational safety. The development has by and large been positive. With regard to the employer image and development discussions, the measurements developed in a positive direction, but absenteeism due to sickness exhibited a trend that was more negative than expected, albeit understandable considering the work situation.

## PERFORMANCE MANAGEMENT

Patria's supervisors were trained to set annual targets, review them with their teams, specify the skills required for the work, and monitor target achievement on a regular basis. In addition, targeted supervisor training events were arranged. Personal targets for annual target achievement are agreed in performance reviews, with the achievement rates and their usefulness being monitored on a regular basis. The implementation rate for performance reviews was 93% while in 2013 this figure was 90%.

The training programme aimed at supervisors was renewed, and today this programme, now under the name of STEP, offers a

framework under which those in a managerial position can develop their supervisory and management skills. The guiding principle behind the programme's renewal was to create a tighter and more practical link between new skills and the daily routines, and to encourage supervisors to assume a stronger role in the renewal process for their areas of responsibility and in the leadership of their teams. The renewal of the STEP programme was a remarkable success, with the participants giving its first module an average rating of 4.6 points out of five possible.

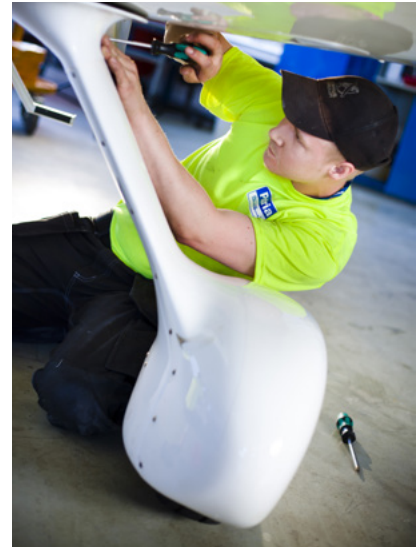
## IDENTIFICATION OF TALENT

New methods for personnel assessment were introduced at Patria, aimed at identifying talent and singling out people's varying motivational factors. Experiences obtained from these methods have been encouraging, and they will see a more widespread application in the development of work teams.

A special two-year programme, named Patria LEAP, is helping employees with recognised potential to develop their skills. People participating in the programme receive both individual and group-level support, aiding them to grow as employees and to assume more responsible positions at Patria. The programme has received positive feedback – 5.6 points out of seven possible.

## WELL-BEING AT WORK, HEALTH AND OCCUPATIONAL SAFETY

A training event, the Patria Day, which is already a tradition, was arranged for the Patria staff in Finland. Key themes at the event



// In the employer image survey by Universum, Patria's ranking rose from No. 31 to No. 23.

were well-being and coping with work. Feedback obtained on the Patria Day provided further proof of a positive employer image. The participants gave the event an average rating of 4.1 points out of five. A corresponding event was arranged for Millog's personnel.

Patria employees, whose work focuses on occupational safety issues, convened at their annual meeting. The themes of the meeting were occupational health services and their costs, accidents





The training programme aimed at supervisors was renewed. The programme offers a framework under which those in a managerial position can develop their supervisory and management skills.

at work and problems attributable to people's inappropriate treatment at the workplace. A new process on how to resolve conflict situations is on the drawing board at Patria.

Absenteeism attributable to sickness has risen, and is now at 4.2 % (as opposed to 3.9% in 2013). This figure is somewhat higher than the Confederation of Finnish Industries average. This rise is assumed to reflect the challenging economical situation and the cooperation negotiations conducted within the company.

With regard to accidents, the situation was fairly satisfactory, the frequency of accidents being 17, compared with 13 the year before. The figure is calculated according to the instructions of the Federation of Accident Insurance Institutions (FAII). The figure is based on accidents at work that have brought costs. The figure does not include occupational diseases nor work trip related accidents. According to the statistics of FAII, the frequency of accidents of companies manufacturing motor vehicles and trailers was 54 in the year 2013. Compared to this Patria's frequency of acci-

dents was fairly good. The figure for the year 2014 was not yet available when Patria's annual review was published.

#### ADJUSTMENT OF OPERATIONS

Cooperation negotiations were conducted in the Aerostructures, Aviation, Land and Systems Business Units. In the course of these negotiations, the various options for solving the difficult economic and production-related problems were charted in group work with the personnel. Employment coaching sessions were arranged for people made redundant, in order to aid them in finding new jobs and coping with the situation. Following the cooperation negotiations, a total of 127 Patria employees were made redundant, the number of laid off people being 36. In addition 20 employees were made redundant in the Aviaton Business Unit's Swedish unit.

Personnel turnover was 2.4%, the figure being 2.9 in 2013. The target level is 3%, which enables an optimal level of renewal in the organisation. The higher figure is considered to be a consequence of adjustments of operation and reorganisations taken place in 2014.

#### EMPLOYER IMAGE

The employer image that Patria presents outside the company is measured through regular participation in employer image surveys conducted by Universum. Patria's employer image has developed along desired lines. Among technology students, Patria's ranking in terms of employer image rose from No. 31 to No. 23. Correspondingly, among the technology professionals, Patria's image rose from position 52 to 26.

An internal employer image survey will be conducted in 2015, to be followed by regular repetitions. The previous survey was conducted in 2008.

#### OBJECTIVES TO BE ACHIEVED BY 2017

- Patria employees find their work meaningful
- The company offers its personnel an opportunity for personal development
- Integration of work and other sectors of life is easier than before

#### FOCUS AREAS IN 2015

- Renewal of the principles and methods guiding leadership in expertise
- Surveying personnel satisfaction - Patria Pulssi 2015
- Bringing the role of the expert to the forefront
- Development of the employer image

#### FURTHER INFORMATION

Personnel statistics, p. 5

[www.patria.fi/EN/](http://www.patria.fi/EN/) > Corporate

responsibility > Good employer

- Competence development and training
- Compensation and remuneration
- Co-operation and employee influence

# Successful collaboration

Collaboration with customers, subcontractors, suppliers, and other stakeholders is close and planned for the long term. For Patria, a gratifying partnership is defined in terms of professional, reliable, open and transparent collaboration, which all parties involved can embrace. Patria provides, requires, and develops cost-effective operations together with its stakeholders.



Millog and the Finnish Defence Forces signed a partnership contract, thereby expanding and deepening their existing strategic partnership.

The collaboration focus areas included developing the Group's internal operations to improve its competitiveness and effectiveness; developing the management of the procurement chain; arranging regular meetings with non-governmental organisations with interests in the defence sector; and contributing towards more open corporate communications and a better dialogue with the stakeholders. In many respects, our activities developed and improved in line with our objectives.

## **COST-EFFECTIVE OPERATIONS**

Development of internal operations within the scope of the ALERT programme will continue in order to enhance competitiveness and efficiency. For the strategy period 2014–2015, a cumulative effect on earnings amounting to EUR 50 million was set. During 2014, efforts to harmonise operations were continued, as was the development of business operations and the refinement of the processes of Group Services and common key figures. The impacts of the ALERT programme are assessed by the Board of Management on a regular basis.

## **A RELIABLE PARTNER**

The most significant partnership agreement of the year was the one signed by Millog and the Finnish Defence Forces (FDF) on the expansion and deepening of the existing strategic partnership between the two parties. Millog is now responsible for the maintenance of Army material not only at the depot level

but also at garrison repair shops and Navy maintenance centres.

In response to the defence reform and the Finnish Air Force cost-saving programme, Patria has reorganised its activities, moving some of its maintenance functions to the Tikkakoski and Pirkkala units, close to the customer.

BAE Systems and Patria signed an agreement on cooperation regarding the tendering process for the LAND 400 programme, a project targeted on finding a combat reconnaissance vehicle for the Australian Land Forces. Patria and Denel Systems, for their part, continued a joint project focused on the delivery of AMV vehicles to the South African Defence Force. Similarly, the long partnership with Patria's Polish partner was extended, with Rosomak S.A. manufacturing the vehicles for a new follow-up order under a licence from Patria.

As in previous years, customer satisfaction was measured on various organisational levels. Constructive, mostly positive feedback was also received from the customers in the follow-up meetings for various projects.

## **EFFICIENT PROCUREMENT CHAIN**

Development of procurement chain management will continue. The implementation of a new management model for indirect procurement continued. A process for the evaluation of the vendors'/subcontractors' economic situation and ethical practices was introduced, as well as a system for the conduct of background surveys,

to enable improved partner and supplier chain management. The number of suppliers was reduced in order to achieve a better overview of the supplier chains.

#### **INFLUENCING THE DEFENCE MATERIEL INDUSTRY**

The President and CEO of Patria continued in his role as Chairman of the Finnish Defence and Aviation Industry Association (AFDA). Patria employees also participate in the work conducted in its various subcommittees. The company plays a significant role in AFDA in order to communicate, among other things, the importance of ethical practices to all the member companies.

Through AFDA, Patria takes an active part in NORDEFECO, which improves Nordic defence cooperation. In 2014, AFDA chaired the collaboration between Nordic defence industry associations.

Patria began chairmanship of ELDIG, the European Land Defence Industry Group. This organisation operates under the auspices of the Aerospace and Defence Industries Association of Europe (ASD) and serves as a forum for the land systems industry, promoting standardised procedures across the sector. The industry within its sphere provides employment to approximately 100,000 people. The ELDIG chairmanship circulates every second year.

#### **CONTACTS WITH NGOS**

During 2014, Patria met representatives for non-governmental organisations at various events. The company also arranged a morning event for the representatives of the organisations, opening up communication channels for future discussions. Such meeting will be made a recurrent event. The company also participated in a survey called Defence Companies Anti-Corruption Index, conducted by Transparency International and directed at companies operating in the defence sector.



### **Patria began chairmanship of ELDIG, the European Land Defence Industry Group.**

#### **SPONSORSHIP AND DONATIONS**

In 2014, Patria began cooperation with the Finnish Aviation Museum Society and the Aviation Museum of Central Finland with the target of restoring the VL Myrsky ('Storm') fighter aircraft to its original appearance. Patria is the main sponsor of the project. Young people studying at a number of technical education institutions are involved in the restoration project, as well as youth workshops from locations such as Jyväskylä and Vantaa, whose participation is central to the project in its objective of preventing youth marginalisation.

In 2014, the company continued its cooperation with the Finnish Military Sport Federation. This cooperation seeks to provide continuity for the concept of conscript exercise clubs after the end of the three-year Get Moving project at the training units. This will promote the sports-oriented lifestyle, even after their conscription.

Since 2011, the company has supported the Finnish national team in biathlon, continuing this activity during the season 2013-2014. Patria's CEO is the Deputy Chairman of the Biathlon Association and has excluded himself from any decision-making concerning the sponsorship.

Patria supports the United Nations Global Compact operations through voluntary donations.

Patria supported Save the Children Finland, a national organisation fighting for children's rights, by donating funds for Christmas presents. The charity is annually chosen by the Patria Consultative Committee.

#### **OBJECTIVES TO BE ACHIEVED BY 2017**

- Our operations are cost-effective and competitive
- Our production capacity has been adapted to reflect the changes taking place with our principal customer, the FDF
- Our cooperation has become increasingly transparent
- We are familiar with the expectations of our partners, responding to them in an appropriate manner

#### **FOCUS AREAS IN 2015**

- Our Corporate Responsibility Essentiality Chart will be updated, with the new targets being set to meet the expectations of the various stakeholders
- The rules applied to our lobbying strategy towards stakeholders will be combined into a single set of guidelines
- Openness and transparency will become an increasingly important element in the development of our operations and interaction

#### **FURTHER INFORMATION**

**Stakeholder-specific capital flows, p. 5**

**[www.patria.fi/EN/](http://www.patria.fi/EN/) > Corporate responsibility > Good partner**

- Stakeholders-specific capital flows
- Patria's certificates



# Responsibility for the environment

Patria is familiar with the environmental impacts of its operations, products and services, taking active measures to reduce such effects. The company abides fully by the provisions of environmental legislation and ensures that all the permits required by the authorities are secured. Patria's most significant production facilities feature certified environmental systems.

Patria's Business Units are responsible for implementing the Group's environmental policy in their operations. The company's most significant production facilities have in place environmental standards that are in compliance with the ISO 14001 standard. Operations are developed in line with environmental targets and within the framework of environmental programmes, individually set for each Business Unit. A new environmental permit was obtained for the Halli site, in addition to which Patria submitted, in late 2014, an application for a revision of the conditions of the permit for the company's Linnavuori site.

A survey related to the practices currently applied to the management practices of environmental issues was conducted. The survey assessed the management of environmental issues in relation to legislation and the expectations and requirements set forth by the key stakeholders, taking account of foreseeable changes.

## ENVIRONMENTAL ASPECTS IN THE FACE OF OPERATIONAL CHANGE

Patria sold its Sastamala ammunition production facility to Nammo Lapua Oy. The environmental permit covering ammunition production was transferred to Nammo as part of the transaction. Prior to the transfer, a geotechnical survey was conducted on the site grounds, and the chemical storage was invento-

ried, upon which all chemicals no longer serving any useful purpose were sent for treatment. The geotechnical survey found no soils to be classified as contaminated.

Patria expanded its operations at the Tikkakoski site, and started new activities in Pirkkala, in response to the defence reform. The environmental aspects and risks related to the reform were assessed in the same connection.

## PROPERTY ENERGY EFFICIENCY

Caverion Suomi Oy is responsible, on behalf of Patria, for maintaining and improving the energy-efficiency of approximately 175,000 square metres of property. In 2013 and 2014, investments aimed at energy savings were carried out in Halli, Hämeenlinna, Tikkakoski, Linnavuori, and Utti. In addition a remarkable amount of adjustments to property automation including revisions of air-conditioning operation times, additions to sensor-based control systems, and upgrades of AC machines to include heat recovery, have been made. The actions so far have brought 4,5 GWh of yearly electricity and heat energy saving.

## CARBON DIOXIDE EMISSIONS

Due to the video conferencing systems that were put in place, travel between the Group's various units was reduced. Carbon dioxide emissions caused by travel were reduced by approximately 19,000 kg from 2013.



A survey related to the practices currently applied to the management practices of environmental issues was conducted.



Common rules and compensations related to the use of the water areas of Vattaja firing range were agreed on.

#### WASTE

At the Halli and Linnavuori sites, the target was set for reducing the proportion of landfill waste in the total amount of waste, prompting training sessions to be arranged for the personnel, among other similar measures.

#### CHEMICALS

Patria complies with the REACH regulation related to chemicals. For example, a needs assessment and a procurement process for a replacement for trichloroethylene are under way.

#### WATER AREA USAGE

Patria agreed with the Lohtaja and Karhi partition units on the rules to be applied to the use of the water areas off the shore of the Vattaja shooting range, including compensations to be paid for the use of these areas. This five year agreement is based on rules which will guarantee both the development work on Patria's weapons systems and ensure the opportunities of the local people to use these water areas for recreation and fishing.

#### MONITORING THE CONDITION OF THE ENVIRONMENT

To monitor environmental conditions, Patria's various sites analyse, on a regular basis, subsoil, surface and/or storm water samples, as well as samples obtained from sewage water, and conduct noise measurements. The results thus obtained are reported to the environmental authorities. In 2014, monitoring found no deviations from the limit values.

#### OBJECTIVES TO BE ACHIEVED BY 2017

- Improved property energy efficiency
- Better gathering and utilisation of and reporting on environmental indicator values
- Group's environmental systems meet the requirements of the ISO 14001 standard by the end of the transition period

#### FOCUS AREAS IN 2015

- Identification of the effects brought forth by the re-drafting of the ISO 14001 environmental standard, including the implementation of the required changes in the procedures of the operational system and its guidelines
- Implementation of the provisions of the new environmental permits at Patria's Halli and Linnavuori sites
- Inclusion of the fourteen new sites, transferred under the responsibility of Millog on 1 January 2015, in the environmental system

#### FURTHER INFORMATION

[www.patria.fi/EN/](http://www.patria.fi/EN/) > Corporate responsibility > Environmental responsibility

- Environmental statistics
- Patria AMV eco balance

# Risk management and internal control

In Patria risk management and internal control are defined as the coordinated activities to direct and control the organization with regard to risks. The objective is to provide reasonable assurance regarding the achievement of the Patria's strategic, operations, reporting and compliance objectives.

Risk management and internal control are an important part of Patria's management system and control system. Risk management and internal control also help to ensure that operational and profitability targets can be achieved and loss of resources prevented. Furthermore, risk management and internal control help to ensure appropriate reporting, compliance with laws and regulations, as well as avoid damage to Patria's reputation.

Patria has a Risk management and internal control policy, approved by the Board of Directors, which specifies the related tasks, objectives, components, responsibilities and authorities. The primary responsibility for risk management and internal control lies with the business units and Group services in their area of responsibility. Patria's Group services provide guidelines for risk management and internal control, and perform monitoring on different levels. The Internal Audit Function and the Auditors, security and quality auditors, as well as customers, monitor and evaluate the effectiveness of risk management and internal control. The Board provides the ultimate oversight and direction for risk management and internal control. The Audit Committee of the Board monitors the effectiveness of risk management and internal control.

The CEO is responsible for the proper functioning and monitoring of the Group's risk management and internal control. Patria also has a risk management steering group that supports the Group and business unit management in the planning,



**Internal control activities are part of everyday work and they are implemented in the operational processes.**

development, and implementation of risk management processes.

Risks are classified into strategic, operations and financial risks, caused either by external conditions and events or activities within the Group. Risk identification and assessment, as well as the planning and monitoring of risk treatment activities, are part of Patria's annual business operations planning and an integral part of the daily operations of the business units and Group services.

Twice a year, Patria's business units and Group services report their major risks to Group management.

New significant risks are reported to Group management without delay, immediately after they have been identified. The most significant risks faced by the Group, together with the related risk treatment activities, are reported to the Board of Directors and the Audit Committee.

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

The risks related to Patria's major projects are assessed with regularity by the Risk and Revenue Recognition Board and the Board of Management, and thereafter reported to the Board of Directors.

The policies and guidelines accepted by the Board, the completing guidance given by the Group or business units as well as the organization structure of the Group and the defined authorities, responsibilities and job descriptions provide the basis for internal control. Internal control activities are part of everyday work and they are implemented in the operational processes. Internal control activities are carried out at all levels and functions of the Group.



# Corporate governance

## APPLICABLE STATUTES, GUIDELINES AND RECOMMENDATIONS

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

## GROUP ORGANISATION AND ADMINISTRATIVE SYSTEM

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

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

## CONSULTATIVE COMMITTEE

According to the Articles of Association, Patria Oyj must have a Consultative Committee appointed by the

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

The Consultative Committee consists of a chairman, a vice-chairman, and a maximum of ten other members. During the current financial period, the committee had 11 members. As a general rule, the Consultative Committee convened four times a year. In 2014, the Consultative Committee convened three times. The average attendance of the members of the Consultative Committee was 91%.

## COMPOSITION OF THE BOARD OF DIRECTORS AND THE ELECTION PROCEDURE

As per the Articles of Association, amended in December 2014, the Board of Directors of Patria Oyj consists of a minimum of three and a maximum of eight members. In the financial period under review, the Board had six members until 11 December 2014 when two members of the Board resigned as a result of Airbus Group NV selling its share of Patria Oyj. The two resigned members were not replaced with new members.

The General Meeting of Shareholders elects the chairman, the vice-chairman, and other Board members, and decides on their remuneration. The Board members are elected for one year at a time, their terms of office ending at the close



In addition to its statutory duties, the Board's principal duty is to make decisions on the Group's strategic focus, to monitor and steer the Group's business operations.

of the first Annual General Meeting held subsequent to their election. The Board of Directors meets at least eight times a year. The Board convened fifteen times in 2014. The average attendance of Board members was 98%.

## PRINCIPAL DUTIES OF THE BOARD OF DIRECTORS AND DISTRIBUTION OF DUTIES

The Board of Directors is responsible for the governance of Patria and the appropriate organization of Patria's operations in accordance with applicable legislation, the Articles of Association and any instructions issued by

the General Meeting of Shareholders. In addition to its statutory duties, the Board's principal duty is to make decisions on the Group's strategic focus, to monitor and steer the Group's business operations, to ensure that the Group complies with legal provisions applicable to its operations and conducts business in a commercially sustainable manner, providing added value to its owner. The Board also makes decisions on the Group's key operating principles, approves annually the Group's financial targets and operational objectives, as well as its financial statement and any interim reports, and decides on material investments of the Group.

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

As of 11.12.2014 the Nomination and Compensation Committee consisted of two members after the board members appointed by Airbus Group NV resigned from the Board of Directors of Patria Oyj on 11.12.2014 due to Airbus Group selling its share of Patria Oyj.

#### **THE PRESIDENT AND CEO AND THE GROUP MANAGEMENT**

Patria Oyj's president and CEO is responsible for managing the compa-

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

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

In Patria corporate responsibility related activities and reporting are steered by Patria's Corporate Responsibility Steering Group. The Steering Group is chaired by Patria's General Counsel and Chief Compliance Officer. Patria's Ethics Officer participates in the steering group's meetings and supports the work of the Steering Group. The General Counsel and Chief Compliance Officer reports to the Audit Committee.

#### **COMPENSATION AND BENEFITS**

Information regarding compensation and benefits of the management is available in the attachment of the Financial Statement, see chapter 4 (Personnel expenses).

#### **MONITORING AND CONTROLS**

In accordance with the Companies Act, the Board of Directors is responsible for ensuring that the monitoring and controls of accounts and funds management has been organized appropriately. The president and CEO is responsible for ensuring that the company's

accounting complies with legislation and that the funds management is reliably organized. Patria's management is responsible for ensuring that the Group's day-to-day operations comply with all applicable legal requirements and Board decisions, and that the Group's risk management has been organized in an appropriate manner.



### **The Audit Committee is responsible for monitoring of ethics and compliance related activities.**

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

Patria has an independent, external Internal Audit function, which evaluates and contributes to ensuring the efficiency and feasibility of risk management and internal controls, the reliability of financial reporting and the compliance of the operations, and which reports to the Audit Committee. The Internal Auditors comply with the International Standards for the Professional Practice of Internal Auditing. Internal Audit reports on its activities and findings to the Audit Committee and Patria's management. The Audit Committee confirms the audit plans annually. The company's auditors report their observations at least once a year to the relevant business units and to the Group's financial management, as well as to the Board of Directors and the Audit Committee. The auditors also submit a statutory auditors' report to the company's shareholders.

# Group management



**Heikki Allonen, b. 1954**  
**President and CEO**  
 Master of Science (Eng.)  
 Employed by Patria since 2008

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



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



**Ville Jaakonsalo, b. 1971**  
**Chief Administration Officer  
 (CAO)**  
 LL.M./MBA  
 Employed by Patria since 2010



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



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



**Lassi Matikainen, b. 1961**  
**President, Aviation**  
 Master of Science (Eng.)  
 Employed by Patria since 2008



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



# Board of Directors

The Board of Directors is responsible for the management of Patria Group and the appropriate organisation of its operations, in accordance with legislation, the Articles of Association and any instructions issued by the General Meeting of Shareholders. The Board's principal duty is to make decisions on the Group's strategic policy, as well as to guide and monitor the Group's business operations. During the 2014 accounting period, the Board met fifteen times. In the Board of Directors the Audit Committee is responsible for ethics and compliance issues.



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



**Kirsi Komi**  
**Vice Chairman**  
Master of Laws  
Board member since 2011  
Chairman of the Audit Committee



**Maximilian Thomasius**  
Head of Participation Management  
Airbus Defence and Space  
Board Member since 2013



**Arto Honkaniemi**  
Master of Laws, Master of Science  
(Econ. & Bus. Adm.)  
Board member since 2009



**Kari Rimpä**  
Lieutenant General (Ret.)  
Board member since 2012



**Jussi Itävuori**  
Senior Partner  
RJI Partners Limited  
Board Member since 2003

Maximilian Thomasius and Jussi Itävuori resigned from the Board of Directors on 11th of December 2014 after Airbus Group NV sold its share of Patria Oyj.

# Consultative Committee

Patria Oyj has a Consultative Committee appointed by the General Meeting of Shareholders. The Articles of Association further state that the Board of Directors shall consult the Consultative Committee on matters that concern major decrease or increase of operational activities, material changes in the company's organization, and on issues which are otherwise of material importance to the industry that the company is engaged in, either in Finland or internationally. The Consultative Committee consists of a chairman, a vice-chairman, and a maximum of ten other members. During the current financial period, the committee had 11 members. In 2014, the Consultative Committee convened three times.

## Consultative Committee

### **Raimo Vistbacka** **Chairman**

Master of Laws  
Member since 2012

### **Thomas Blomqvist** **Vice Chairman**

Member of Parliament  
Member since 2012

### **Jussi Karimäki**

Equipment Assembler, Patria  
Member since 2009

### **Ilkka Kokko**

System Engineer, Patria  
Member since 2014

### **Juha Kuusi**

System Specialist, Patria  
Member since 2011

### **Seppo Kääriäinen**

Member of Parliament  
Member since 2012

### **Petri Peltonen**

Director General, Department of  
Enterprise and Innovation,  
Ministry of Employment  
and Economy  
Member since 2012

### **Tuula Peltonen**

Member of Parliament  
Member since 2012

### **Petri Pitkänen**

Workshop Manager, Patria  
Member since 2013

### **Juha Rannikko**

Vice Admiral, Chief of Defence  
Command Finland  
Member since 2011

### **Kari Tolvanen**

Member of Parliament  
Member since 2012

# GRI Content Index

## REPORTING AND CALCULATION PRINCIPLES

This is Patria's fourth Corporate Responsibility Report. This report covers the progress during the period from 1 January to 31 December 2014. The report covers all subsidiaries of which Patria owns more than 50%. These are described in the Annual Report. Nammo (50% ownership) publishes its own reports. The financial statement figures and the total number of employees include 50% of Nammo's

figures. The data for the report was gathered from Patria Group's internal data systems. Financial figures were aggregated using the Hyperion system, after first acquiring each business unit's figures from their own ERP systems. Personnel figures were obtained from the Group's ARC HR information system. Accident statistics came from insurance company Pohjola's data system. Environmental figures were acquired from location-specific environmental reports.



Section of the GRI guidelines				Notes/comments
Standard disclosures				
1.	Strategy and analysis			
1.1	CEO Statement	Reported	6-7	
1.2	Description of key impacts, risks, and opportunities	Reported	17	
2.	Organisational profile			
2.1-2.10	Basic information on Patria	Reported	3-5	
3.	Report parameters			
3.1-3.4	Report profile	Reported	2, 32	
3.5-3.11	Report scope and boundary	Reported	5	<a href="http://patria.fi/en/corporate-responsibility/management-and-organisation/essentiaility-chart">http://patria.fi/en/corporate-responsibility/management-and-organisation/essentiaility-chart</a>
3.12	GRI content index	Reported		
3.13	Approach to external assurance	Reported		Quality and accuracy of the data presented in the report is monitored and ensured internally. External assurance is not included.
4.	Governance, commitments and engagement			
	Governance			
4.1-4.10	Governance	Reported	18, 27-31	<a href="http://patria.fi/en/corporate-responsibility/management-and-organisation/christer-granskog-chairman-board">http://patria.fi/en/corporate-responsibility/management-and-organisation/christer-granskog-chairman-board</a>
				The Audit Committee nominated by the Board has a responsibility to monitor compliance with ethical principles.
	Commitments to external initiatives			
4.11	Precautionary principles	Reported	18, 26	
4.12	External principles or initiatives Patria endorses	Reported	18	
4.13	Membership in associations and organisations	Reported	18-19, 22-23	<a href="http://patria.fi/en/corporate-responsibility/ethical-conduct/corporate-responsibility-networks">http://patria.fi/en/corporate-responsibility/ethical-conduct/corporate-responsibility-networks</a>
	Engagement			
4.14-4.17	Stakeholder engagement	Reported	22-23	



Section of the GRI guidelines				Notes/comments
Management approach and performance indicators				
Economic responsibility				
	Disclosure on management approach	Reported	18, 27–28	
Economic performance				
EC1	Direct economic value generated and distributed	Reported	5	
EC3	Coverage of defined benefit plan obligations	Reported		Note to the Consolidated Financial Statements 4. Personnel expenses
Environmental responsibility				
	Disclosure on management approach	Reported	24–25	
Materials				
EN1	Materials used	Reported		<a href="http://patria.fi/en/corporate-responsibility/environmental-responsibility/materials">http://patria.fi/en/corporate-responsibility/environmental-responsibility/materials</a>
Energy				
EN4	Indirect energy consumption	Reported		<a href="http://patria.fi/en/corporate-responsibility/environmental-responsibility/eco-balance">http://patria.fi/en/corporate-responsibility/environmental-responsibility/eco-balance</a>
EN7	Initiative to reduce indirect energy consumption	Reported	24	
Emissions, effluents and waste				
EN18	Initiatives to reduce greenhouse gas emissions	Reported	24	
EN20	Other significant air emissions	Reported		<a href="http://patria.fi/en/corporate-responsibility/environmental-responsibility/eco-balance">http://patria.fi/en/corporate-responsibility/environmental-responsibility/eco-balance</a>
EN21	Total water discharge	Reported		<a href="http://patria.fi/en/corporate-responsibility/environmental-responsibility/eco-balance">http://patria.fi/en/corporate-responsibility/environmental-responsibility/eco-balance</a>
EN22	Waste	Reported		<a href="http://patria.fi/en/corporate-responsibility/environmental-responsibility/eco-balance">http://patria.fi/en/corporate-responsibility/environmental-responsibility/eco-balance</a>
Compliance				
EN28	Sanctions for non-compliance with environmental laws and regulations	Reported	24	
Social responsibility				
	Disclosure on management approach	Reported	18–21	
	Labor practices and decent work			
Employment				
LA1	Personnel by employment type, contract and gender	Reported	5	
LA2	Employee turnover	Reported	21	
Labor/management relations				
LA4	Percentage of employees covered by collective bargaining agreements	Reported		All employees except the top management and certain expert positions
Occupational health and safety				
LA7	Injuries and absenteeism	Reported	5, 20–21	
Training				
LA11	Programmes for skills management and life-long learning	Reported	20–21	
LA12	Performance reviews	Reported	20	
Diversity and equal opportunities				
LA13	Composition of governance bodies and breakdown of employees	Reported	5, 30–31	
Human rights				
Investment and procurement practices				
HR3	Human rights training given to employees	Reported	18–19	Training in Ethical Code of Conduct

<b>Society</b>				
<b>Corruption</b>				
S02	Corruption risk assessment	Reported	18-19	<a href="http://patria.fi/en/corporate-responsibility/ethical-conduct/active-anti-corruption">http://patria.fi/en/corporate-responsibility/ethical-conduct/active-anti-corruption</a>
S03	Training in anti-corruption policies	Reported	18-19	Training in Ethical Code of Conduct
S04	Actions taken in response to incidents of corruption	Reported	18-19	
<b>Public policy</b>				
S05	Participation in public policy and lobbying	Reported	22-23	
S06	Contribution to political parties	Reported		According to the Ethical Code of Conduct Patria does not give gifts or make donations to political parties nor does it participate in party-political activities
<b>Compliance</b>				
S08	Sanctions for non-compliance with laws and regulations	Reported	19	
<b>Product responsibility</b>				
<b>Product and service labelling</b>				
PR5	Customer satisfaction	Reported	22	

# Patria

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## PATRIA'S ANNUAL REVIEW 2014

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