

Patria

**Annual Report
2020**



ANNUAL REVIEW

BUSINESS UNITS

**PATRIA'S CORPORATE
RESPONSIBILITY**

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

Content

ANNUAL REVIEW

3	Patria in brief
4	Our values
5	Patria 100 years
6	Year 2020
7	Key figures
8	Review by the President and CEO
11	Operating environment
13	Strategy
14	Digitalisation
16	BUSINESS UNITS
17	Aviation
20	Systems
23	International Support Partnerships
26	Land
29	Aerostructures
32	Millog
36	Nammo

40 PATRIA'S CORPORATE RESPONSIBILITY

44	Year 2020
45	Responsibility programme and objectives
47	Stakeholder collaboration
52	PATRIA AS PART OF SOCIETY
53	Responsible exports
54	Ethical conduct
56	Developing supply chains
57	Security of operations
59	Financial responsibility and tax footprint

60 A RESPONSIBLE EMPLOYER

65 ENVIRONMENTAL RESPONSIBILITY

72 GRI INDEX

FINANCIAL

75	Board of Directors' Report
	Consolidated Financial Statements (IFRS)
79	Consolidated balance sheet
80	Consolidated income statement
81	Consolidated cash flow statement
82	Consolidated Statement of Changes in Equity
83	Notes to the Consolidated Financial Statements
	Financial Statements of the Parent company (FAS)
101	Balance Sheet, Parent company
102	Income Statement, Parent company
102	Cash Flow Statement, Parent company
103	Notes to the Financial Statements, Parent company

GOVERNANCE

110	Corporate governance
113	Industrial participation
114	Risk Management
116	Board of Directors
117	Consultative Committee
118	Group Management Team

ANNUAL REVIEW

» **PATRIA IN BRIEF**

OUR VALUES

PATRIA 100 YEARS

YEAR 2020

KEY FIGURES

REVIEW BY THE PRESIDENT AND CEO

OPERATING ENVIRONMENT

STRATEGY

DIGITALISATION

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

Patria in brief

Patria is an international provider of defence, security and aviation life cycle support services, pilot training and technology solutions. Patria provides its aerospace and military customers with equipment availability, continuous performance development as well as selected intelligence, surveillance and management system products and services. Patria's mission is to give its customers confidence in all conditions, and the vision is to be the #1 partner for critical operations on land, sea and air. Patria has several locations including Finland, Sweden, Norway, Belgium, Estonia and Spain. Patria employs approximately 3,000 professionals. Patria is owned by the State of Finland (50.1%) and Norwegian Kongsberg Defence & Aerospace AS (49.9%). Patria owns 50% of Norwegian Nammo, and together these three companies form a leading Nordic defence partnership.

www.patriagroup.com

Business units and net sales as share of group net sales

17% *Aviation*

provides life cycle support services for aircraft and helicopters, covering maintenance, repair and modification of fuselages, engines and equipment as well as pilot training.

16% *Systems*

delivers comprehensive systems and equipment to defence forces and other security authorities. Its areas of special expertise are reconnaissance, surveillance and command systems, as well as their integration and life cycle support.

15% *International Support Partnerships*

provides life cycle support services for aircraft and helicopters internationally. The business unit's core functions are maintenance and overhaul, modifications, spare parts and technical support.

7% *Land*

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

3% *Aerostructures*

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

43% *Millog*

Provides defence materiel life cycle support services to its strategic partner, the Finnish Defence Forces and to other security-critical actors. Patria owns 61.8% of Millog.

Nammo

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

ANNUAL REVIEW

PATRIA IN BRIEF

» **OUR VALUES**

PATRIA 100 YEARS

YEAR 2020

KEY FIGURES

REVIEW BY THE PRESIDENT AND CEO

OPERATING ENVIRONMENT

STRATEGY

DIGITALISATION

BUSINESS UNITS

**PATRIA'S CORPORATE
RESPONSIBILITY**

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

OUR VALUES

**WE WANT
TO SUCCEED**

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

**OUR OPERATIONS
ARE CUSTOMER
ORIENTED**

Cooperation guarantees
the success of all parties.

**TOGETHER WE
CREATE SUCCESS**

We give constructing
feedback. We enjoy
succeeding together.

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

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

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

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

ANNUAL REVIEW

PATRIA IN BRIEF

OUR VALUES

» **PATRIA 100 YEARS**

YEAR 2020

KEY FIGURES

REVIEW BY THE PRESIDENT AND CEO

OPERATING ENVIRONMENT

STRATEGY

DIGITALISATION

BUSINESS UNITS

**PATRIA'S CORPORATE
RESPONSIBILITY**

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

Patria 100



The Finnish Air Force Aircraft Factory is established at Suomenlinna under the command of Major Arne Somersalo.

1921



1924-1927
The first results of Finnish aircraft design, the test fighters I.V.L.C24, I.V.L.C25, Haukka and Kurki are completed.

Mortar production begins at Tampella.

1932



Yhteissisu Oy is established.

1943



1959
The 122 K/60, the first field gun fully developed in Finland, is completed.

The Finnish aviation industry enters the jet engine era with the Fouga Magister.

1960

1965

The first Proto-Sisu are handed over to the Finnish Defence Forces. Patria starts the manufacturing of military vehicles.



1980-luvulla

The serial production of the Pasi XA-180 and Nasu NA-140 begins.



1996

The first single-seat Hornet F-18C is completed on the production line.



1997
Vammass Oy, Lapua Oy, Sisu Defence Oy, Vihtavuori Oy and Finavitec Oy are merged and the current Patria is established.

2004

The serial production of the Patria AMV begins. Patria AMV 8x8 vehicles are sold to Poland and Sweden, among others.



2016
The State of Finland sells 49.9% of Patria to Kongsberg Defence & Aerospace AS.



2020
A contract was signed with Saab, selected as the combat system contractor for the Squadron 2020 project, for the delivery of an anti-submarine warfare sonar system for Pohjanmaa class vessels.

ANNUAL REVIEW

PATRIA IN BRIEF

OUR VALUES

PATRIA 100 YEARS

» **YEAR 2020**

KEY FIGURES

REVIEW BY THE PRESIDENT AND CEO

OPERATING ENVIRONMENT

STRATEGY

DIGITALISATION

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

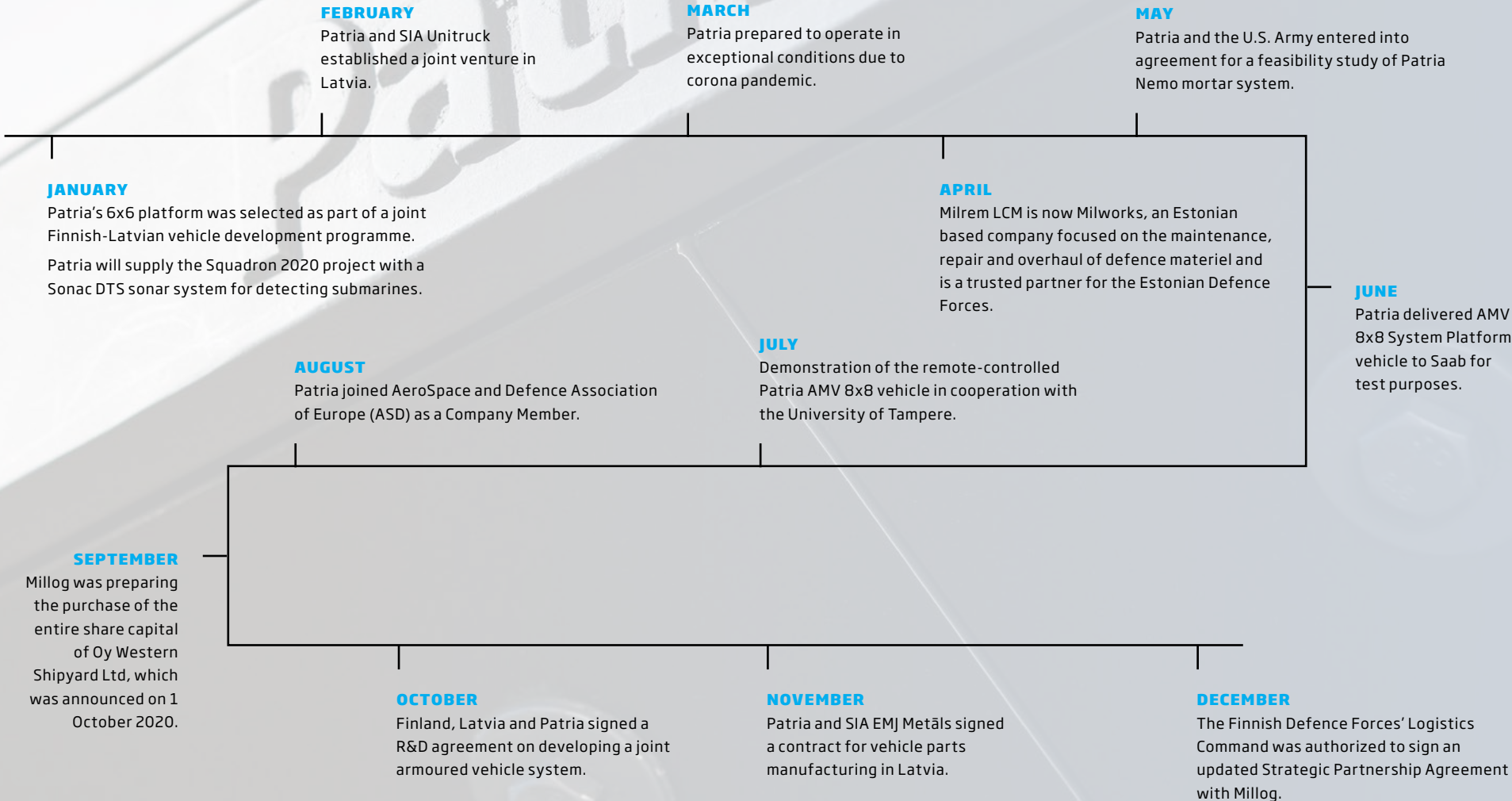
ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

Year 2020



ANNUAL REVIEW

PATRIA IN BRIEF

OUR VALUES

PATRIA 100 YEARS

YEAR 2020

» **KEY FIGURES**

REVIEW BY THE PRESIDENT AND CEO

OPERATING ENVIRONMENT

STRATEGY

DIGITALISATION

BUSINESS UNITS

**PATRIA'S CORPORATE
RESPONSIBILITY**

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

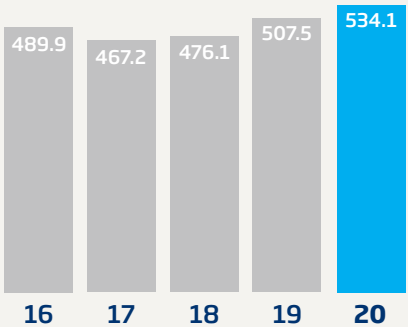
Key figures

534.1 MEUR
NET SALES

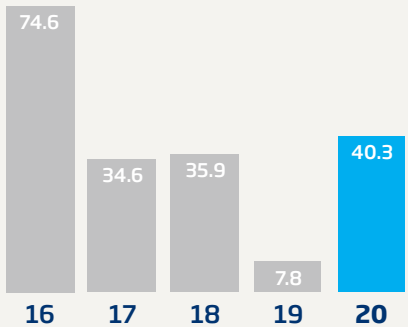
40.3 MEUR
OPERATING PROFIT

2,973
PERSONNEL

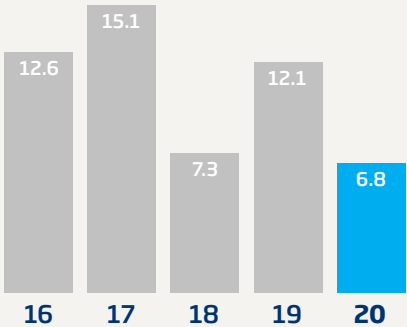
Net sales, EUR million



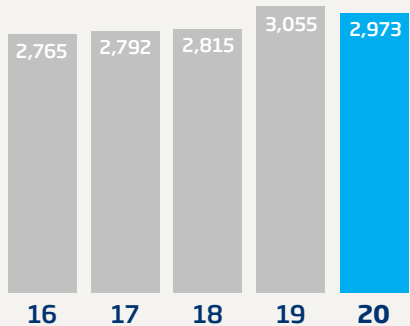
Operating profit, EUR million



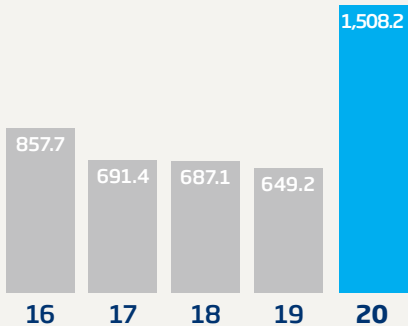
Gross investments in fixed assets, EUR million



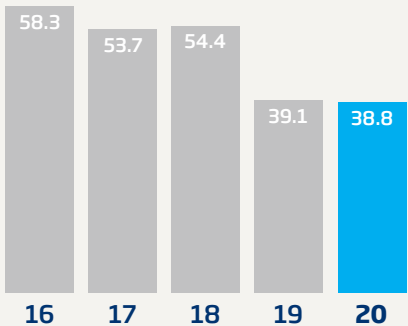
Personnel, end of period (FTE)



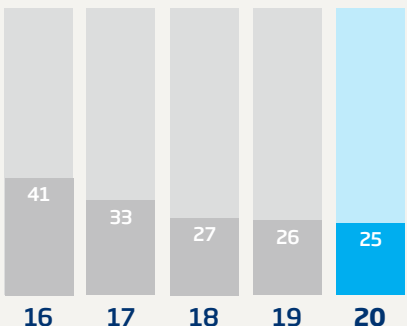
Order stock, EUR million



Equity ratio, %



Net sales outside Finland, %



As of 2018 figure personnel, end of period

ANNUAL REVIEW

PATRIA IN BRIEF

OUR VALUES

PATRIA 100 YEARS

YEAR 2020

KEY FIGURES

» **REVIEW BY THE PRESIDENT AND CEO**

OPERATING ENVIRONMENT

STRATEGY

DIGITALISATION

BUSINESS UNITS

**PATRIA'S CORPORATE
RESPONSIBILITY**

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

PRESIDENT AND CEO'S REVIEW

Developing partnerships and paving the way for future growth



For Patria, 2020 was a year of strong development in terms of partnerships and our own operations in both Finland and international markets. Our new strategy, which emphasises profitable growth, internationalisation and working together, will give us a clear direction in the years to come.

Patria will be turning one hundred this year and our customer promise – *When if is not an option* – means that our operations must be one-hundred-per-cent reliable and dependable under all circumstances.

In 2020, Patria's operating methods and the cooperation models developed together with customers were really

put to the test by the COVID-19 pandemic. However, we still managed to provide our customers with good service in spite of the exceptional circumstances. We were also doing our bit to ensure security of supply and the continuity of society's core functions even during exceptional circumstances such as a pandemic.

In Patria's business units, 2020 was a year of strong development in terms of both partnerships and operations, and also a year paving the way for future growth. Additionally, it was an extremely good year financially for the Group, and our objectives were achieved in this respect. The pandemic's main impacts on Patria were seen in the civilian market, as the collapse of commercial air traffic reduced demand for both pilot training and civil aircraft components.

Global interest in Patria's products and services

Year 2020 was excellent for International Support Partnerships (ISP), which provides international life cycle support services. ISP's new organisation and operating methods are now starting to bear result. A good example is one of Patria's acquisitions, Belgium Engine Center SPRL (BEC), which specialises in the global maintenance and repair of military aircraft engines.

Systems business unit also had a good year financially, and good openings were made for project deliveries over the coming years. The biggest ongoing project in the business unit is the life cycle upgrade of Hamina class missile boats for the Finnish Defence Forces, with Patria serving as overall responsible provider, designer and main

ANNUAL REVIEW

PATRIA IN BRIEF

OUR VALUES

PATRIA 100 YEARS

YEAR 2020

KEY FIGURES

» REVIEW BY THE PRESIDENT AND CEO

OPERATING ENVIRONMENT

STRATEGY

DIGITALISATION

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

integrator. Of the four ships to be upgraded, two missile boats were delivered to the Finnish Navy during 2020.

The highlights of Land's year were several cooperation agreements made with partners. Patria signed a research and development agreement with the States of Finland and Latvia for the joint development of an armoured vehicle system. This system is based on the Patria 6x6 vehicle platform, and series production could potentially be launched during 2021.

Patria and the U.S. Army signed a research and development agreement to determine Patria Nemo's suitability and performance as a 120 mm turreted mortar system for U.S. Army vehicles.

Deepening our strategic partnership with the Finnish Defence Forces

Millog, which provides fleet maintenance and life cycle support services, signed a renewed strategic partnership agreement with the Finnish Defence Forces. This agreement is valid until further notice and covers services to the value of approximately EUR 1.4–1.6 billion in 2021–2028.

Millog signed an agreement to acquire 100% of the shares of Oy Western Shipyard Ltd with APX-Metalli Ltd. The Company continues to be owned by Millog as an independent subsidiary which business includes docking and repairs of ships and floating structures.

Senop Oy, which is part of Millog, signed a procurement agreement with the Finnish Defence Forces for night vision combat equipment and target acquisition devices.

2020 was a year of strong growth for Nammo, which is equally owned by Patria and the State of Norway.

The company is an internationally recognised supplier of ammunition, rocket engines and demilitarisation services. It also plays an important strategic role for Patria's stakeholders in Finland. In November, the Finnish Defence Forces signed a partnership agreement with Nammo Lapua Oy and Nammo Vihtavuori Oy to ensure security of supply for Finland's ammunition and explosives sector over the coming years.

New strategy will lead the way in the coming years

In August, the Board of Directors approved Patria's new Horizon 2025 strategy. As its name says, the strategy will steer the Group's activities over the next five years. In the new strategy, the Group will be viewed as an even more cohesive entity: we are building a joint offering that brings together all of Patria's products and services.

Profitable growth lies at the heart of our new strategy and will be sought from international markets in areas such as maintenance, repair and overhaul. In addition to acquiring new customers, Patria promises to continue nurturing and developing existing customer relationships, so that we can provide them with cost-effective and performance-enhancing solutions.

Patria's basic mission is to ensure and develop security of supply. This requires financial resources, and income from international markets is also needed in addition to domestic revenue streams.

Having a competitive and cost-effective defence sector is also important for national economies, as the sector's companies generate jobs, expertise and tax revenues for the country.



In the new strategy, the Group will be viewed as an even more cohesive entity: we are building a joint offering that brings together all of Patria's products and services.

Working together towards our goals

This year, in addition to achieving the targets set for 2021, we will be focusing on putting our Horizon 2025 strategy into practice. Leadership development plays a key role in this new strategy.

In addition to profitable growth, the new strategy requires improved operational efficiency. The latter will

ANNUAL REVIEW

PATRIA IN BRIEF

OUR VALUES

PATRIA 100 YEARS

YEAR 2020

KEY FIGURES

» REVIEW BY THE PRESIDENT AND CEO

OPERATING ENVIRONMENT

STRATEGY

DIGITALISATION

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

also be one of Patria Group's focus areas from now on. In practice, boosting operational efficiency means better resourcing, prioritisation and planning. We will continue this work also this year in order to assure the quality and reliability of customer deliveries and improved customer satisfaction.

In order to develop Patria's operations and sharpen our strategic direction, the Group is currently running a BOOST way of working. Two key elements in the new working model are getting all personnel involved and working together across unit and country borders.

Group management, supervisors and a wide range of employees from all areas of the Group have been involved in the new operating model. It's important that every employee knows where Patria is heading and how each of us can make a difference through our own work.

In addition to developing internal activities, the change programme is seeking to improve our understanding of customer requirements and find new business opportunities.

Responsibility is part of everything we do

At Patria, responsibility, reliability and transparency are integral aspects of everything we do. A company that is majority-owned by the Finnish state cannot operate without a good corporate citizenship. As a strategic partner to the Finnish Defence Forces, Patria also carries out an important task in the Finnish society by ensuring security of supply.

Ethics, transparency and a strong focus on preventing corruption lie at the heart of our business. In the future, we will communicate even more openly with stakeholders about what Patria is doing and about the significance of our company as an employer, taxpayer

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and security of supply provider in our various operating countries.

Patria's environmental responsibility is guided by the Group's environmental policy, and the international principles for environmental responsibility to which the company is committed. We will be promoting these things with concrete measures, such as optimising energy, water and materials use.

Over the coming years, the defence industry will also be placing a greater focus on the fight against climate change, reducing emissions and other environmental issues. Patria can offer effective solutions to these challenges by, for example, developing more energy-efficient technologies and providing life cycle services that extend the lifespan of equipment.

After the review period, Transparency International Defence & Security released Defence Companies Anti-Corruption Index (DCI) 2020 results, according to which Patria was ranked in the second-highest category B. We are a responsible operator in the defence sector developing systematically the various areas of Corporate Social Responsibility. The main focus has been highlighting transparency, importance of ethical operating methods and anti-bribery measures. Our operating environment is constantly changing, which requires active and continuous CSR development work.

Looking ahead

In order to repair the damages done by the coronavirus pandemic, countries have been forced to take on large amounts of new debt and it will further burden their economies over the coming years.

No growth is expected in defence budgets anywhere in the world in the foreseeable future. Major fleet acquisitions, such as Finland's HX project, will be made less frequently. However, many countries do need to modernise and renew defence equipment that is reaching the end of its life cycle. This will open up new growth opportunities for Patria's international maintenance business.

Patria's products, services and technology - coupled with our team of around 3,000 professionals - provide a firm foundation for partnerships both in Finland and globally. Our excellent reputation as a professional and reliable partner also provides us with a competitive advantage. Our goal is to continue providing our customers with high-quality and cost-effective solutions.

Patria's hundred-year history provides an excellent foundation for this. We have chosen *The foundation for a secure future* as the theme for our centenary year, as our long history creates a firm foundation for growth, success, working together and a secure future. On behalf of myself and all Patria employees, I would like to thank our customers, owners, partners and other stakeholders. I would also like to thank all Patria personnel for their efforts during 2020. This challenging year has shown that together we can succeed!

Esa Rautalinko

President and CEO, Patria Group

ANNUAL REVIEW

PATRIA IN BRIEF

OUR VALUES

PATRIA 100 YEARS

YEAR 2020

KEY FIGURES

REVIEW BY THE PRESIDENT AND CEO

» **OPERATING ENVIRONMENT**

STRATEGY

DIGITALISATION

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

OPERATING ENVIRONMENT

International cooperation intensifies in Europe



Multinational cooperation within the EU is becoming more important in the defence sector. Patria is increasingly involved in the joint development of the sector in Europe.

Both world politics and the global security environment have changed dramatically in recent years. In particular, the operating environment is currently being affected by relations between major powers, which have escalated in many issues. Europe also needs to keep up with the USA and China in the ongoing technological competition. The coronavirus pandemic brought its own challenges in 2020. Various uncertainties have contributed to the emphasis on the role of international cooperation in the European Union and more broadly in the world.

Patria is closely monitoring technological developments in the defence sector, but it is equally important to keep a close eye on the civilian sector as well. For example, advances in artificial intelligence, 5G networks and 3D printing must be taken into account in Patria's business and the development of future solutions.

The coronavirus pandemic has put the spotlight on continuity management and, in particular, the functionality of value chains that operate across national borders. During the year, Patria's operating methods and collaboration with customers have also been seriously put to the test. However, Patria has still been able to provide its customers with good service and meet their needs in spite of the exceptional circumstances.

The pandemic has underlined the importance of national solutions in many areas, as countries all across the world are supporting their own economies and

companies. A greater emphasis on national perspectives can also be seen in Europe. This has a number of potential implications for Patria. For example, it might be more difficult for the Group's products and services to access local markets.

Another of the pandemic's long-term impacts relates to public-sector finances, as more funds will be required in areas such as healthcare and debt servicing over the coming years. This may affect future budgets for defence procurement.

Debate on export licences for defence materiel

An export licence is required for all exports of defence materiel. In Finland, these export licences are issued by the Government, with the Minister of Defence deciding on smaller deals. Export licences are currently a subject

ANNUAL REVIEW

PATRIA IN BRIEF

OUR VALUES

PATRIA 100 YEARS

YEAR 2020

KEY FIGURES

REVIEW BY THE PRESIDENT AND CEO

» OPERATING ENVIRONMENT

STRATEGY

DIGITALISATION

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE



of public debate in Finland. In 2020, this discussion focused on extensions to previously issued licences for defence materiel agreements that, for example, involve warranty or maintenance programmes.

Patria's guiding principle in the export of defence materiel is to engage in sustainable and responsible business. Patria complies with all official export legislation, regulations and practices, both in Finland and in other countries as necessary, including those that prohibit exports to countries currently at war. The export control system is open and transparent, and every export licence is considered separately in accordance with the criteria of the EU Common Position. Patria considers important that

export licences are processed consistently, predictably and logically. This should also be the case for extensions to any previously issued licences for defence materiel deliveries, so that any commitments for life cycle services may be fulfilled.

European Defence Fund promotes cooperation

Patria plays a significant role in the development of projects in Finland's national defence sector and as a strategic partner to the Finnish Defence Forces. At the same time, Patria also wants to be even more closely involved in developing the joint European defence sector.

The European Defence Fund (EDF) is an EU-funded programme that was established to coordinate and finance investments and R&D in the European defence sector.

In Patria's opinion, the European Defence Fund offers significant opportunities for networking within the European defence equipment industry. Through competitive tendering, the Fund supports R&D projects that address performance deficiencies defined by Member States. Its guiding principle is cross-border cooperation, as a project must involve actors from at least three Member States in order to receive funding.

Actual implementation of the European Defence Fund is currently behind schedule, and the size of the fund has also been decreased. However, it is still a significant programme

The European Defence Fund consists of R&D packages that are currently ongoing or in the pipeline. Patria is involved in several projects in the European Defence Industrial Development Programme (EDIDP).

Patria's guiding principle in the export of defence materiel is to engage in sustainable and responsible business.

Access to funding is based on open competition and the independent assessment of applications without any quotas per Member State.

Patria involved in European development

In August, Patria became a direct corporate member in the AeroSpace and Defence Association of Europe (ASD), after previously being involved via the Association of Finnish Defence and Aerospace Industries (AFDA). As one of the largest companies in the Finnish aerospace and defence sector, Patria will also continue to be an active member of the AFDA.

ASD is the voice of European Aeronautics, Space, Defence and Security industries, representing more than 3,000 companies and actively supporting the competitive development of the sector both in Europe and worldwide. It includes direct members (including 18 major European companies) and 23 national associations operating in 18 countries.

As Patria's strategy emphasises internationalisation, direct membership in the ASD constitutes an important strategic opening for business development, lobbying and influencing. Patria is now even more actively involved in European development, taking stands on issues and making new openings with regard to the European Union, the European Commission and European governments. The ASD also provides an excellent forum for promoting Patria's products, services and expertise.

ANNUAL REVIEW

PATRIA IN BRIEF

OUR VALUES

PATRIA 100 YEARS

YEAR 2020

KEY FIGURES

REVIEW BY THE PRESIDENT AND CEO

OPERATING ENVIRONMENT

» **STRATEGY**

DIGITALISATION

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

STRATEGY

New strategy highlights growth and internationalisation

The Board of Directors approved Patria's new Horizon 2025 strategy in August. As its name suggests, this strategy will steer the Group's activities over the next five years. It centres around profitable growth that will be sought from international markets.

The new Horizon 2025 strategy is extremely significant for Patria, as it is a genuine Group strategy rather than the previous combination of business unit-specific strategies. Performance targets and performance-based management have traditionally been set separately by business units, which has sometimes led to group synergies being left unharnessed. Thanks to its new strategy, Patria has a common growth target that will, for the first time, be supported by all of the Group's products and services in a single joint offering.

The company's new strategy is founded on thorough preparatory work that examined areas such as operating processes, systems, corporate culture and competence. Patria's important international markets were also carefully analysed.

Basic mission requires profitable growth

Patria's basic mission is – both now and in the future – to ensure and develop security of supply in Finland. This requires financial resources, and income from international markets is needed in addition to domestic revenue streams.

Profitable growth lies at the heart of this strategy, and it will be sought above all from international markets. In line with its strategy, Patria is seeking growth that will enable the Group's net sales to increase to about EUR 900 million by 2025.

Internationally, Patria operates openly in competitive markets in which success requires efficient operations and innovative products and services.

Continuous development in these areas will also benefit security-critical customers in Finland, and in particular the Finnish Defence Forces. Maintaining competitiveness internationally will also enable Patria to provide its Finnish customers with new solutions that will improve both cost-effectiveness and performance.

Combining Patria's expertise with market potential

Patria's proactive approach means that the company analyses appropriate target markets and market poten-

tial from its own perspective. This requires improved international sales and marketing capabilities.

Patria's key strengths include its in-depth understanding of the needs of security-critical organisations. However, the company's own product and service portfolio must be continually developed to ensure that its offering meets customers' changing needs to the greatest possible extent. It is therefore essential to combine Patria's own expertise with market potential.

In order to put the Group's new strategy into practice, Patria will be thoroughly investigating any potential needs to update its operational structure and operating models.

The Group is currently utilising the BOOST operating method to develop its operations. BOOST focuses on involving all personnel and working together across country and business unit borders. The new strategy and its premises will also be openly highlighted in communications, so that stakeholders will get as clear and unified image of Patria as possible.

ANNUAL REVIEW

PATRIA IN BRIEF

OUR VALUES

PATRIA 100 YEARS

YEAR 2020

KEY FIGURES

REVIEW BY THE PRESIDENT AND CEO

OPERATING ENVIRONMENT

STRATEGY

» **DIGITALISATION**

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

DIGITALISATION

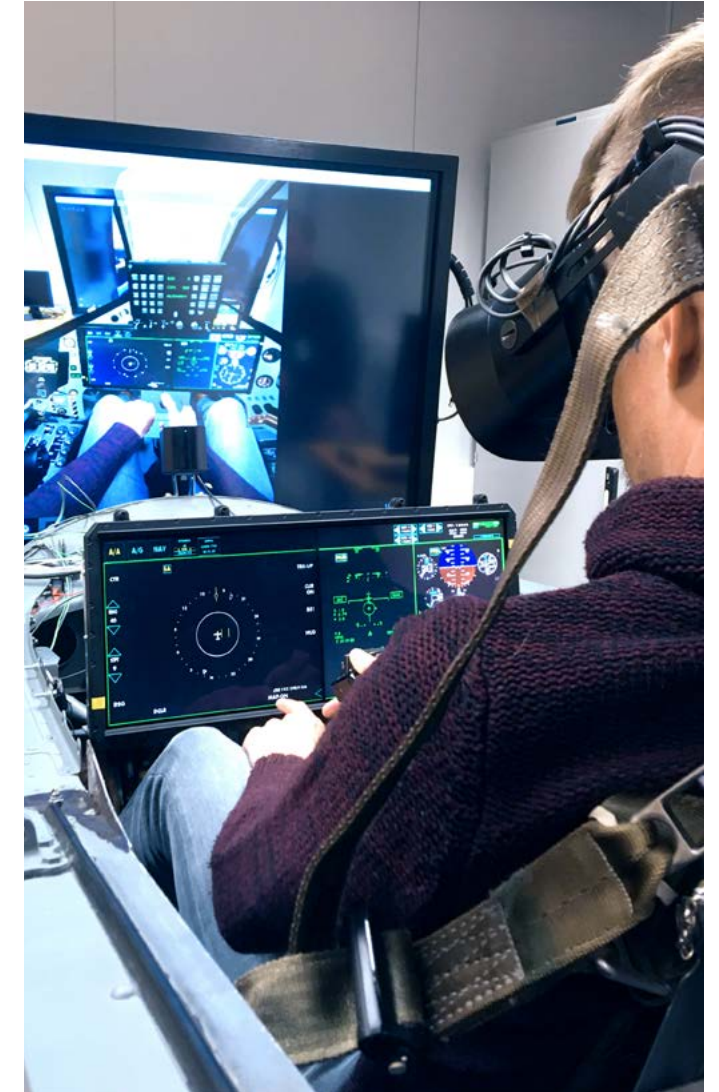
Data-driven business generates added value for customers

Patria is developing data-driven business in which data and analytics applications are used to optimise operations and create new services. Everything revolves around generating added value for customers.

A massive volume of fragmented data is generated during Patria's and its partners' projects and other operations, and this data could be more effectively utilised in the development of products, services and new business. This is the basic premise of JOAN (Joint Analytics Project), an ongoing project that is developing capabilities and performance in data-driven business.

Patria can benefit from a data-driven operating model in two ways. Firstly, it can be used to develop new business and services for customers in, for example, the maintenance business. Secondly, data can be used to develop new offering for Patria's products.

It thereby enables Patria to combine its expertise in business, application areas and technology in an optimal manner. Partners can also be used as part of solutions and business models. The main objective is to generate added value for customers, as digital solutions can provide them with cost-effective and performance-enhancing solutions.



ANNUAL REVIEW

PATRIA IN BRIEF
 OUR VALUES
 PATRIA 100 YEARS
 YEAR 2020
 KEY FIGURES
 REVIEW BY THE PRESIDENT AND CEO
 OPERATING ENVIRONMENT
 STRATEGY

» **DIGITALISATION**

BUSINESS UNITS

**PATRIA'S CORPORATE
 RESPONSIBILITY**

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE



Patria is investing in analytics expertise

Patria has been involved in developing analytics to meet the operational needs of Finnish authorities. These projects have created a foundation for technology and expertise that can be harnessed in the development of data-driven business.

New digital tools enable efficient data processing, drawing conclusions and steering operations. Some good examples of this include a variety of analytics tools, algorithms, machine learning and artificial intelligence.

Advanced analytics enable us to better understand everything that is happening in and around business or line operations. Analytics can also be used in forecasting.

For example, servicing requirements and equipment wear and tear can be better predicted in maintenance operations. Analytics can also help to identify the need for new services, thereby creating new business opportunities.

Analytics make decision-making more efficient

Processes generate a lot of data. This data needs to be processed into clear and comprehensible information that can be used to steer operations. Data will become even more important in the future, as rapid advancements in industrial internet applications will enable data

Developing data-driven business supports Patria's new strategy.

to be collected even more efficiently from a variety of devices and systems. At best, an organisation will be able to use data and analytics in real-time both in its operations and for decision-making.

Data-driven business deeply involves also the data generated in customers' and partners' processes. For example, Patria's maintenance business is integrated into its customers' processes, which means that Patria has access to both its own data and its customers' interlinked data. This must be taken into consideration during development work. Cybersecurity is essential in data-driven business and Patria has made considerable invests to guarantee it.

Data-driven approach supports the new strategy

Developing data-driven business supports Patria's new strategy, which aims to make the Group an even more closely knit unit. Instead of individual businesses, all of Patria's products and services are being brought together into a single offering.

The JOAN project is seeking synergies between Patria's various products and services. Developing data-driven business also supports BOOST, an ongoing internal operating model that is seeking not only to harness synergies in the Group, but also to improve Patria's understanding of customer needs and reveal new business opportunities.

ANNUAL REVIEW

» **BUSINESS UNITS**

AVIATION

SYSTEMS

INTERNATIONAL SUPPORT PARTNERSHIPS

LAND

AEROSTRUCTURES

MILLOG

NAMMO

**PATRIA'S CORPORATE
RESPONSIBILITY**

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

Business Units

ANNUAL REVIEW

BUSINESS UNITS

» **AVIATION**

- SYSTEMS
- INTERNATIONAL SUPPORT PARTNERSHIPS
- LAND
- AEROSTRUCTURES
- MILLOG
- NAMMO

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

PATRIA 100 CASE

It all begins from the Finnish Air Force Aircraft Factory

Patria's history begins in 1921 with the establishment of the Finnish Air Force Aircraft Factory at Suomenlinna. The operations began with licensed manufacturing of the German Hansa-Brandenburg aircraft, with the total production volume between 1922 and 1926 amounting to 120 aircraft. This workload provided the factory with a strong foundation on which future developments could be based. After seven years, the factory was renamed the State Aircraft Factory (Valtion lentokonetehtäs).

AVIATION provides life cycle support services for aircraft and helicopters, covering maintenance, repairs and modifications of fuselages, engines and equipment. The business area's customer base includes defence forces and other safety critical organisations in various countries, as well as original equipment manufacturers and civilian authorities all across the globe. Its pilot training services cover both military and civil aviation training. Aviation is a strategic partner to the Finnish Defence Forces.

786
Personnel
17%
Of Group net sales
26%
Of Group personnel

ANNUAL REVIEW

BUSINESS UNITS

» AVIATION

SYSTEMS

INTERNATIONAL SUPPORT PARTNERSHIPS

LAND

AEROSTRUCTURES

MILLOG

NAMMO

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

AVIATION

Ongoing projects progress as planned



The Aviation business unit was able to provide life cycle support services as planned during the coronavirus pandemic. Preparations for the HX project were one of the focal points of the year.

Aviation's life cycle support services for aircraft and helicopters were successfully adapted to the coronavirus situation. The maintenance, repair and modification services of customers' fleets were carried out almost according to plan by making changes to operating methods and management practices. This was an excellent achievement, as the nature of Aviation's business means that the majority of its work must be done on location, even in exceptional circumstances.

The NH90 helicopter retrofit project in Sweden, which began in 2017, progressed according to plan during the year. This project covers a total of seven helicopters.

A project to make structural repairs to the Finnish Air Force's Hornet fighters was also significant in terms of workload.

A project to renew the Air Force's elementary training fleet also progressed during the year, as refits and cockpit modifications for Grob 115E elementary training aircraft continued as planned. In January 2020, a conscript in military service made the first training flight in a modified aircraft in Tikkakoski. The modernised aircraft will replace the current L-70 Vinka training fleet.

The Finnish Air Force's project to update its Hawk Nk51 fleet was completed during 2020. Flight simulation technology was installed in the cockpits of fighters

used as training aircraft, and analogue systems were transformed into a digital environment. The project also involved inspection of the structural integrity of aircraft, conducting a damage repair analysis, structural condition monitoring and preventive structural modifications.

Pandemic reduces civil aviation training volumes

The coronavirus pandemic had a major impact on Aviation's civil aviation training, as it made commercial aviation extremely difficult the world over. Pilot training continued throughout the year, although the number of trainees fell considerably. Training in Córdoba, Spain had to be halted in March, but recommenced in November.

Aviation has pilot training agreements with Qatar Airways and Turkish Airlines for customised training

ANNUAL REVIEW

BUSINESS UNITS

» AVIATION

SYSTEMS

INTERNATIONAL SUPPORT PARTNERSHIPS

LAND

AEROSTRUCTURES

MILLOG

NAMMO

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

In spite of the pandemic maintenance, repair and overhaul services were provided to the customers almost as planned.

based on the Multi-Crew Pilot License (MPL) programme. Pilots receive training in both the required aircraft type and the requirements of cockpit work for the airline in question. However, as a result of the pandemic training couldn't be started.

Patria carries out its elementary pilot training in Córdoba using a fleet of single-engine DA40s. In Pirkkala, Patria provides theory and simulator training for commercial pilots, and multi-engine and instrument flight training in DA42 aircraft. In spite of the downswing caused by the pandemic, Patria is seeking strong growth in commercial pilot training over the coming years.

Long-term collaboration on pilot training between Patria and the Finnish Defence Forces continued as planned in 2020. The agreement covers elementary and basic pilot training as a service. It also includes maintenance and servicing of the equipment required for training.

Closely involved in the HX project

Finland's acquisition of fighters to replace its fleet of Hornets - aka the HX project - is highly significant for Aviation. In 2020, Aviation was actively involved in

preparatory work for the project with Patria's Aerostructures and Systems business units.

During the year, Patria took part in negotiations between the Finnish Defence Administration and the companies involved in the HX procurement process. These negotiations covered industrial participation and future maintenance of the Hornet replacements.

Patria is a neutral strategic partner to the Finnish Defence Forces in this project. The most important task will involve cooperation to meet the requirements of industrial participation, and to ensure domestic security of supply and fleet maintenance in line with the tender.

Pandemic impacts

The coronavirus pandemic significantly impacted civil aviation and thereby also Patria's pilot training volumes, as major customers' projects were delayed. As a result, the Pilot Training unit conducted employee cooperation negotiations in April, which resulted in the temporary lay-off of 20 flight instructors and 15 employees. The lay-offs were either full or part time for an average of two months.

However, redundancies were avoided and the payroll remained roughly at the same level as in the previous year.

Revised operating models facilitate work

Major investments were made in personnel induction and training during the year.

Progress was also made with revisions to operating models that were begun in 2018. This had a major impact on daily work, particularly in production. The revised models facilitate work by standardising production



planning, clarifying work supervision roles and responsibilities, and making more effective use of the ERP system. For customers, this means an organisation that can take end-to-end responsibility for handling each customer's individual needs.

Environmental activities

Aviation's environmental system and policy meet the ISO 14001 standard. An extensive environmental risk assessment was carried out in Halli, Jämsä, and several of the areas for development have now been addressed, including groundwater protection, storm water treatment and building basins around fuel tanks.

ANNUAL REVIEW

BUSINESS UNITS

AVIATION

» **SYSTEMS**

INTERNATIONAL SUPPORT PARTNERSHIPS

LAND

AEROSTRUCTURES

MILLOG

NAMMO

**PATRIA'S CORPORATE
RESPONSIBILITY**

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

PATRIA 100 CASE

How Patria became an avionics expert

Patria launched its pioneering work in digital avionics back in the early '80s. By 1983, the company was modernising equipment with western avionics and had already begun to produce its own processor-based devices. This created a foundation for projects to build a data link system for the Draken fleet. When Finland was taking its first steps to renew its fighter fleet, we were more prepared to take responsibility for developing aircraft equipment for the F/A-18 Hornet's national data link system, and later for building the Hornet's system testing environment (the Software Test and Integration Center – STIC).

[Read more »](#)

SYSTEMS makes comprehensive system and equipment deliveries to defence forces and other security authorities. Its areas of special expertise are reconnaissance, surveillance and command systems, as well as their integration and life cycle support. Systems is a strategic partner to the Finnish Defence Forces.

387
Personnel

16%
Of Group net sales

13%
Of Group personnel

ANNUAL REVIEW

BUSINESS UNITS

AVIATION

» SYSTEMS

INTERNATIONAL SUPPORT PARTNERSHIPS

LAND

AEROSTRUCTURES

MILLOG

NAMMO

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

SYSTEMS

A focus on building the future

Systems has focused on investing in future growth in both domestic and international sales, marketing and tenders. Efforts to improve profitability have also continued.

Systems specialises in demanding system and equipment deliveries. The business unit successfully progressed with its ongoing projects in spite of the operational challenges posed by the coronavirus pandemic. However, acquiring new international projects became more difficult, as trade fairs were cancelled and it was harder to set up meetings with customers.

In spite of the coronavirus pandemic, Systems continued to invest in international sales and marketing during the year, and these determined efforts are expected to start bearing fruit in the form of new orders during 2021.

Systems will also continue to further develop and deepen its collaboration with the Finnish Defence Forces. The goal is to maintain its involvement in future research projects and other projects to improve operational capability.

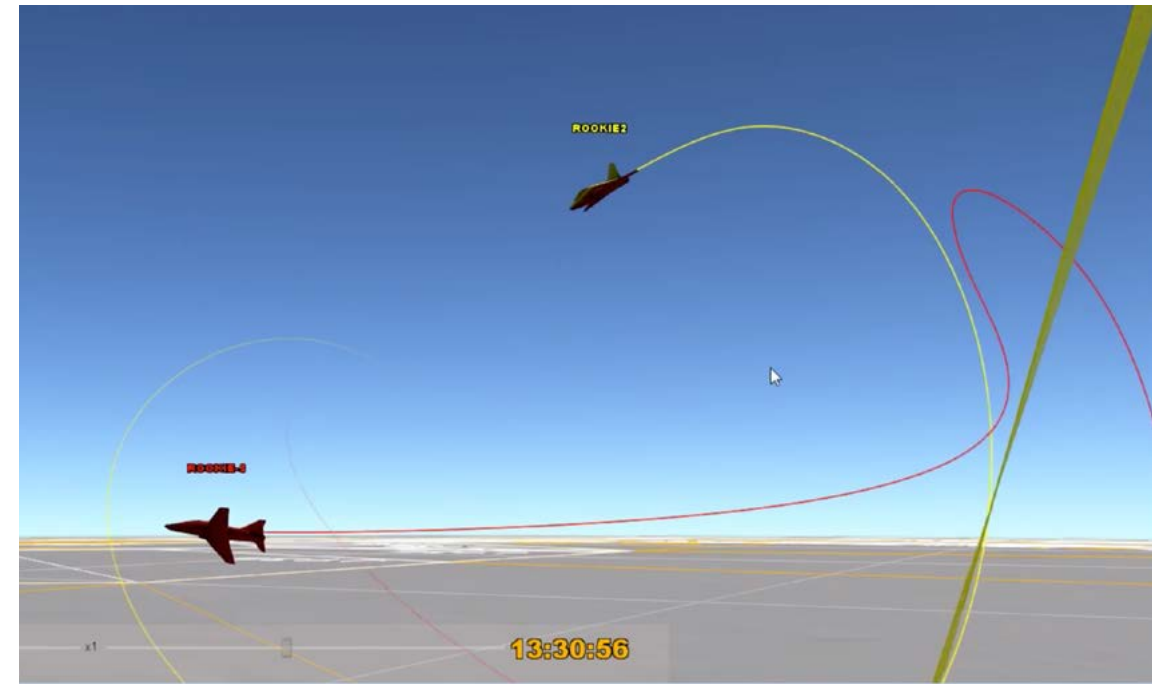
Projects progress as planned

The largest ongoing project in the Systems business unit is a mid-life upgrade of Hamina Class fast attack

craft for the Finnish Defence Forces. Patria is the main contractor, lead designer and lead system integrator for the project. Two of the four vessels to be upgraded were handed over to the Navy during 2020 – the first in January and the second in December.

Overhauling and upgrading these vessels will enhance the Navy's Anti-Submarine Warfare (ASW) and surface defence capabilities with new features. The goal is to lengthen the vessels' independent operation time and extend their service life into the 2030s.

Patria also signed a contract with Saab, which has been selected to provide the weapons systems for the Finnish Defence Forces' Squadron 2020 project. Patria



ANNUAL REVIEW

BUSINESS UNITS

AVIATION

» **SYSTEMS**

INTERNATIONAL SUPPORT PARTNERSHIPS

LAND

AEROSTRUCTURES

MILLOG

NAMMO

**PATRIA'S CORPORATE
RESPONSIBILITY**

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

will supply a Sonac DTS sonar system for detecting submarines. Collaboration will encompass both system integration and software development for the weapons system. The Patria Sonac DTS system will also strengthen Patria's product range in international markets.

Systems carries out maintenance, repairs and performance-enhancing measures on the Finnish Air Force's avionics systems. This work continued as planned during the year.

The business unit's Software Test and Integration Center (STIC) received the prestigious F-18 Hornet Handler award from the Finnish Air Force in recognition of the expertise and commitment shown by Patria's STIC expert team in testing software for F/A-18 Hornets. Software and system testing for Hawk and Grob fleets also continued as planned.

Systems supplied the Finnish Air Force with two modern tactical flight simulators built into the cockpit chassis of a Hawk training fighter. These simulators will further enhance the Air Force's modern training environment.

In the field of surveillance and control systems, the clients Systems has gained include not only the Finnish Defence Forces, but also other security-critical authorities. A significant system delivery was made during the year to the Finnish national security authority. Security-critical systems are now more dependent on software,



In the field of surveillance and control systems, the clients include not only the Finnish Defence Forces, but also other security-critical authorities.

electronics and other digital solutions, and this will open up new opportunities for Systems in the future.

Increased expertise in new technologies

A survey of Patria personnel indicated that job satisfaction was at a good level. According to the survey, personnel were highly committed to their own teams, tasks and employer. The areas requiring the most development were communications and information flow, which is partly due to increased remote working as a result of the coronavirus pandemic. The impacts of remote working

will be studied in order to obtain information that can be used to develop new working methods.

Systems recruited new employees during the year, for tasks such as programming, testing, analytics, and project management. The goal is to ensure broad-ranging engineering expertise, and particularly in sensor and surveillance systems. In recent years, Systems has also made considerable investments in expertise in the fields of artificial intelligence and data analytics. Systems' expertise is also being increasingly harnessed within the Patria Group in addition to customer projects.

ANNUAL REVIEW

BUSINESS UNITS

AVIATION

SYSTEMS

» **INTERNATIONAL SUPPORT PARTNERSHIPS**

LAND

AEROSTRUCTURES

MILLOG

NAMMO

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

PATRIA 100 CASE

From mail deliveries to maintenance services

In 1947 Ostermans Aero AB, nowadays Patria, starts commercial helicopter business. With Bell 47 the company delivered mail to Stockholm archipelago. In 1957 the company celebrated its anniversary as a helicopter operator with own maintenance organisation. Main missions were post delivery, medical transport, forestry disinfection, agricultural fertilizing, taxi flights, personal transport to central Stockholm from the islands and power line inspections.

Photo: Pratt & Whitney

INTERNATIONAL SUPPORT PARTNERSHIPS

provides life cycle support services internationally. The business unit's core functions are maintenance and overhaul, modifications, spare parts and technical support. Its services include maintenance for fighter jet engines, helicopters and military vehicles at service centres authorised by the manufacturers.

246
Personnel

15%
Of Group net sales

8%
Of Group personnel

ANNUAL REVIEW

BUSINESS UNITS

AVIATION

SYSTEMS

» **INTERNATIONAL SUPPORT PARTNERSHIPS**

LAND

AEROSTRUCTURES

MILLOG

NAMMO

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

INTERNATIONAL SUPPORT PARTNERSHIPS

Planned actions start to bear fruit



The operating model that has been systematically built for International Support Partnerships (ISP) is starting to bear fruit, and this international service provider is now paving the way for other Patria products and services.

2020 was an extremely strong year for ISP both financially and operationally. ISP's operating model and organisation have been built up over the past two years to create a service provider that can successfully supply the international defence market. This included two acquisitions that were made in 2019. In one of these acquisitions, Patria acquired the entire share capital of a company specialising in the global maintenance, repair

and servicing of military aircraft engines. This company was named Patria Belgium Engine Center (PBEC). The second acquisition involved a company responsible for maintaining and upgrading the Norwegian Air Force's aircraft and helicopters. After the transaction, Kongsberg Defence & Aerospace AS owned 50.1% and Patria 49.9% of the company, which was renamed Kongsberg Aviation Maintenance Services (KAMS). As a result of this acquisition, the company's operations have experienced strong development and its service offering has expanded from the maintenance of F16 fighters and Sea King helicopters to the maintenance and servicing of F135 engines and new types of helicopters.

Patria's helicopter unit in Sweden has been a key player in helicopter maintenance since 1947. It services helicopters manufactured by companies such as

Leonardo, Airbus and Bell. Patria also maintains Sweden and Norway's NH90 helicopters, and acts as the Nordic service centre for these helicopters.

Milworks (formerly Milrem LCM) operating in Estonia is another ISP unit. The company maintains and repairs armoured vehicles belonging to the Estonian Defence Forces, and has also expanded into weapons systems such as automatic firearms. In 2020, Milworks was also granted permission to handle the Estonian Defence Forces' weapons outside official defence force areas, which has made maintenance easier and more efficient to organise.

ISP strengthened its position in Latvia with the acquisition of Milrem Latvia SIA's entire share capital, and the company was renamed Patria Latvia. This acquisition will enable Patria to permanently expand its operations

ANNUAL REVIEW

BUSINESS UNITS

AVIATION

SYSTEMS

» **INTERNATIONAL SUPPORT PARTNERSHIPS**

LAND

AEROSTRUCTURES

MILLOG

NAMMO

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

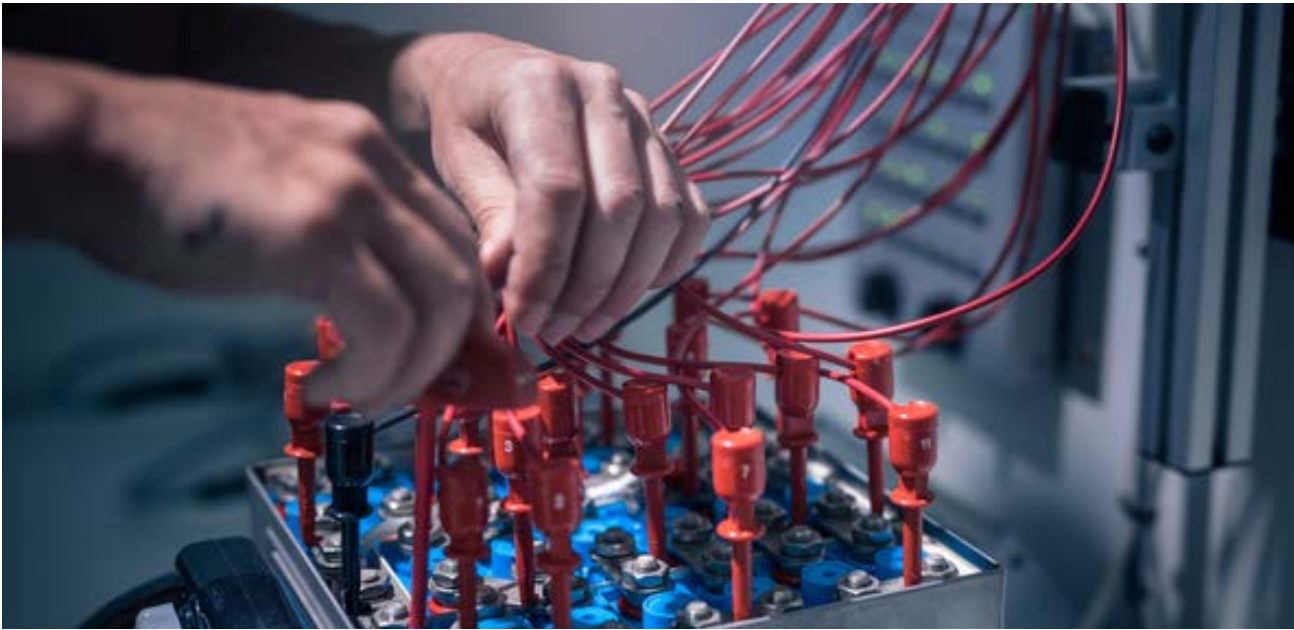
A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE



There is growing market interest in ISP's services, which offer comprehensive partnerships to both defence and civilian authorities.

into the Latvian defence market and provide a wide range of services to the Latvian Defence Forces. In conjunction with the acquisition, Patria also established a joint venture with a Latvian partner (Defence Partnership Latvia).

ISP is opening doors to international markets

Operating methods were standardised across country borders over the course of the year. Standardised operating models also proved their worth during the pandemic: all units could be kept open to ensure the uninterrupted operation of important customer services. Although delays in spare part deliveries hindered ISP's operations, more effective solutions to this challenge were found during the year.

There is growing market interest in ISP's services, which offer comprehensive partnerships to both defence and civilian authorities. This means both the potential for business growth in existing core business and opportunities to develop new services. Concrete results have already been achieved in Latvia: Patria has signed a research and development agreement with the States of Finland and Latvia for the joint development of an armoured vehicle system. The system is based on the Patria 6x6 vehicle platform developed by Land business unit.

Responsibility and cooperation with local communities

In Belgium, almost 30 new employees were hired by Patria Belgium Engine Center (PBEC) in 2020 to cover increased volume and compensate for retirements.

Patria Helicopters AB's contract for the maintenance of the Swedish Defence Forces' Black Hawk helicopters expired at the end of 2020, which led to the closure of the Linköping site and redundancies for 28 employees. However, all of them found new jobs before the end of the year.

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

In practice, ISP's social responsibility involves cooperation between its units and local communities. In Belgium, for example, PBEC's site canteen delivered lunches to the local hospital and care home during the coronavirus pandemic.

ANNUAL REVIEW

BUSINESS UNITS

AVIATION
SYSTEMS
INTERNATIONAL SUPPORT PARTNERSHIPS

» **LAND**

AEROSTRUCTURES
MILLOG
NAMMO

**PATRIA'S CORPORATE
RESPONSIBILITY**

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

PATRIA 100 CASE

The reconstruction of Finland

The large construction sites of the early 1950s required heavy transport equipment. Vanaja's automobile factory profiled itself even more clearly as a manufacturer of heavy trucks, sturdy special-purpose vehicles, and bus chassis. The serial production and quality control were learned during the war and those skills helped also succeed in later times.

LAND'S key product and service areas include cutting-edge armoured wheeled vehicles, mortar systems and their associated life cycle support services. The Patria AMV, Patria 6x6 vehicles and the Patria Nemo mortar system are the highest-profile products in this range. Both the AMV and Nemo are market leaders in their product segments.

231
Personnel
7%
Of Group net sales
8%
Of Group personnel

ANNUAL REVIEW

BUSINESS UNITS

AVIATION

SYSTEMS

INTERNATIONAL SUPPORT PARTNERSHIPS

» LAND

AEROSTRUCTURES

MILLOG

NAMMO

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

LAND

New agreements pave the way for future growth

The Land business unit signed an agreement with Finland and Latvia for the joint development of an armoured vehicle system. A research and development agreement made with the U.S. Army will deepen cooperation on mortar systems.

Land is focused on paving the way for future growth, and this was furthered by several agreements signed with partners during the course of the year.

Patria signed a research and development agreement with the Ministries of Defence of Finland and Latvia for the joint development of an armoured vehicle system. This agreement aims to develop a joint

armoured vehicle system that is based on the Patria 6x6 vehicle platform and meets both countries' requirements. The agreement will also enable future R&D for other vehicle versions and system features.

This multinational collaboration is based on identified common benefits that will be generated throughout the product's life cycle. The participating countries will receive an extremely high-performance and cost-effective solution that will most likely interest other countries that are seeking to improve the mobility of their defence forces.

Patria expects the joint project to lead to serial production of the new vehicle platform, and this could potentially start as early as 2021. In connection with this, Patria and SIA EMJ Metāls (a Latvian metalworking

company) signed an agreement on vehicle component manufacture in November.

Turreted mortar interests the U.S.

Patria and the U.S. Army signed a research and development agreement to determine Patria Nemo's suitability and performance as a 120 mm tower mortar system for U.S. vehicles. This agreement is a logical continuation of Patria's collaboration with the U.S. Government, which began with export deals for Patria Nemo.

The agreement reflects the increased performance that a modern turreted mortar system is capable to provide to the army, and also demonstrates Patria's leading global role in this field of technology.



ANNUAL REVIEW

BUSINESS UNITS

AVIATION

SYSTEMS

INTERNATIONAL SUPPORT PARTNERSHIPS

» LAND

AEROSTRUCTURES

MILLOG

NAMMO

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

AMV^{XP} 8x8 – Patria's armoured personnel carrier and support vehicle – is also generating global interest. In October, the AMV^{XP} was selected for the next phase of Bulgaria's vehicle project on the basis of a competitive tender. The final decision on the acquisition will be made after negotiations and field tests.

Patria AMV^{XP} is also taking part in field tests in Japan, where vehicles from three companies are being tested on the basis of a competitive tender. Japan's Ministry of Defence purchased two test vehicles from Patria. The final decision on the acquisition will be made after the tests, which last approximately a year.

Patria AMV 8x8 System Platform vehicle was delivered to Saab in Sweden, where it will be used as a testing and development platform in the electronics and video



systems of Saab's latest generation of vehicles. The agreement includes both the vehicle and training and maintenance services related to its use.

During the year, Land continued to develop its products and services. One of the priorities in Patria's vehicle R&D has been a steering system that enables remote control and autonomous functions. Patria organised a demonstration in which a Patria AMV 8x8 vehicle was remotely controlled from outside visual range using 5G and 4G networks. This demonstration was organised in collaboration with the University of Tampere, which is one of Patria's partners.

In Croatia, Patria fulfilled its counter-trade commitments related to the agreement on the manufacture and supply of 126 Patria AMV 8x8 vehicles. The fulfilment of Patria's commitment was verified in December by Croatia's Ministry of Economy and Sustainable Development. The counter-trade project, which ran until the end of the year, involved Croatian companies from several industrial sectors. It also included the transfer of skills for the long-term benefit of the Croatian economy.

In Finland, Patria continued mid-life upgrades to the Finnish Defence Forces' XA-180 personnel carriers in order to guarantee the performance, condition and technical life cycles of these vehicles into the 2040s. Among other things, the project will update the vehicles' electrical systems, recondition their transmission components, and renew their suspension and exterior coating.

Patria also continued deliveries for the armoured bridge layers ordered by the Finnish Defence Forces. This project, which runs from 2019–2021, will increase the number of armoured bridge layers and update existing equipment.

Patria expects the joint project between Finland and Latvia to lead to serial production of the new vehicle platform as early as 2021.

Significant improvement in job satisfaction

When the coronavirus pandemic began, Land was able to organise its own operations effectively, even in exceptional circumstances. Although there were minor delays in component deliveries from subcontractors, they did not have a major impact on operations.

According to a personnel survey, job satisfaction had clearly improved on the previous year. The survey also highlighted some areas for development that were discussed at both team and business unit level.

The number of accidents at work and the rate of sickness absences remained at the same good level as in the previous year. During the year, Land achieved 385 days without any accidents at work.

Environmental impact of products assessed

Land's direct impact on the environment is fairly minor. The business unit's environmental policy has identified and assessed the environmental impacts and associated risks caused by its own products and services throughout their entire life cycles, and likewise for the operations of its subcontractors.

ANNUAL REVIEW

BUSINESS UNITS

AVIATION
SYSTEMS
INTERNATIONAL SUPPORT PARTNERSHIPS
LAND

» **AEROSTRUCTURES**

MILLOG
NAMMO

**PATRIA'S CORPORATE
RESPONSIBILITY**

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

PATRIA 100 CASE

Beyond the stars

Patria's space expertise: In 1997 the XMM scientific satellite was delivered to the customer, the European Space Agency ESA. The Rosetta spacecraft was launched into space in 2004 in search of new information about the early development of our solar system. Patria designed and built the spacecraft's platform structure and some of its power distribution units. Rosetta landed on the surface of a comet in 2014.

AEROSTRUCTURES

designs and manufactures demanding composite and metal structures for aircraft and the defence sector. The business unit is actively involved in programmes to develop new manufacturing technologies. Its core competence comprises strong structural design expertise and efficient production processes.

101
Personnel

3%
of Group net sales

3%
of Group personnel

ANNUAL REVIEW

BUSINESS UNITS

AVIATION

SYSTEMS

INTERNATIONAL SUPPORT PARTNERSHIPS

LAND

» **AEROSTRUCTURES**

MILLOG

NAMMO

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

AEROSTRUCTURES

COVID-19 pandemic impacts civil aviation deliveries



The Aerostructures business unit continued to manufacture demanding aircraft structures for both civil aviation and defence applications. However, the difficulties caused by the coronavirus in commercial aviation led to a fall in deliveries.

The Aerostructures business unit was significantly affected by the coronavirus pandemic in 2020, as it manufactures composite and metal structures for aircraft and defence applications. Commercial air traffic volumes plummeted suddenly, and this has forced many airlines to cancel or postpone orders for new aircraft.

In 2020, the aircraft manufacturer Airbus made 45 per cent fewer orders for composite civil aircraft components manufactured by Aerostructures. Deliveries of metal components to Airbus and Embraer, another aircraft manufacturer, halved.

The majority of the composite unit's net sales still consist of carbon fibre structures for the tail fins of Airbus A320 passenger aircraft. These structures are manufactured in Halli, Jämsä. During 2020, last spoilers for Airbus A380 aircraft were delivered to Airbus, following the company's decision to end this aircraft programme.

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

Patria highly involved in the HX program

One of the Patria Group's most significant projects for the coming years is Finland's HX fighter program, in which the Finnish Air force will be replacing its existing Hornet fleet with a solution based on a new multipurpose fighter.

Aerostructures together with the Aviation and Systems business units has been engaged in the industrial participation part of the project. During the year, Patria took part in the industrial participation negotiations between the Finnish defence administration and the companies involved in the HX procurement process. The aim is to secure a significant Finnish industrial footprint in the program and to secure the national security of supply as well as to strengthen the technological

ANNUAL REVIEW

BUSINESS UNITS

AVIATION
SYSTEMS
INTERNATIONAL SUPPORT PARTNERSHIPS
LAND

» **AEROSTRUCTURES**

MILLOG
NAMMO

**PATRIA'S CORPORATE
RESPONSIBILITY**

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

***During the HX program Patria
has also charted the future
competencies that the industrial
cooperation requires.***

and industrial basis of the Finnish defence. During the program Patria has also charted the future competencies that the industrial cooperation requires.

**Difficulties in civil aviation impact
business**

Aerostructures conducted three employee cooperation negotiations during the year. The negotiations were a result of work reorganisation and reduced delivery volumes in civil aviation projects.

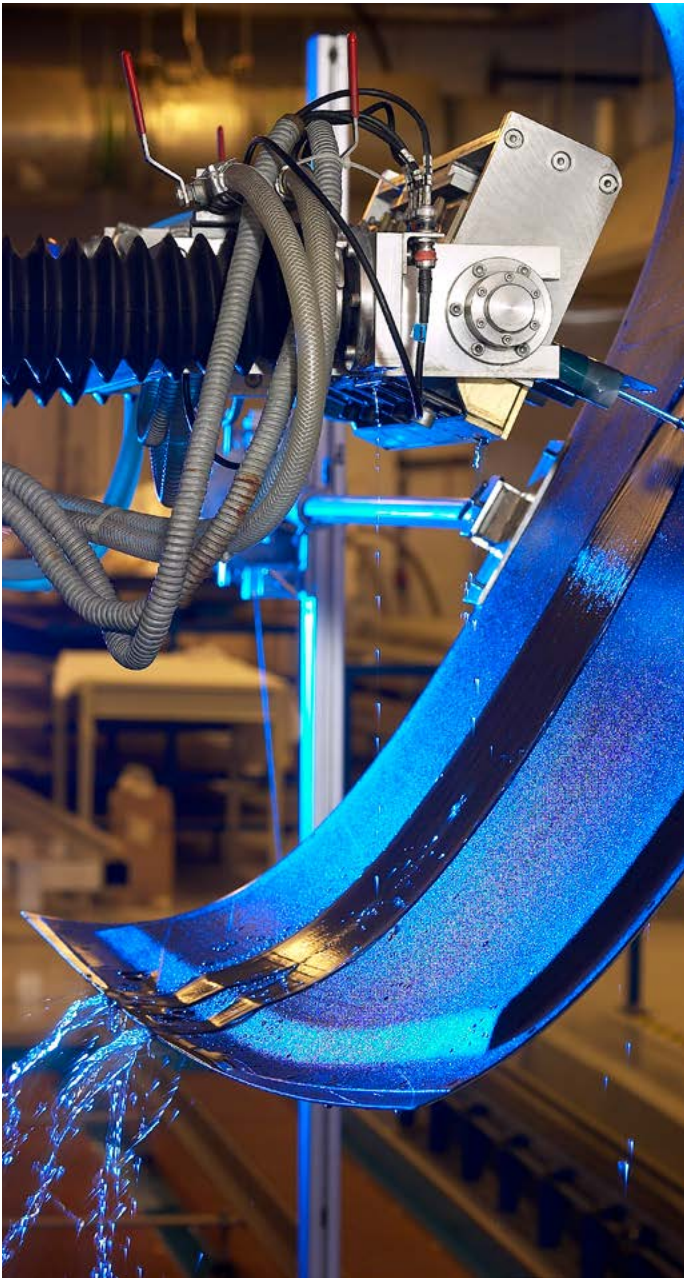
Various measures were agreed on as a result of these negotiations, including shorter working hours, lay-offs, a six-week closure of the unit over the summer, and redundancies for 12 personnel, as the amount of work done in the unit has significantly declined or, in some cases, ceased altogether.

Supporting health

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

**Material efficiency and environmental
activities**

Implementation, monitoring and reporting continued to comply with the ISO 14001 environmental standard. In production, continued efforts were made to improve material efficiency, minimise waste and increase recycling.



ANNUAL REVIEW

BUSINESS UNITS

- AVIATION
- SYSTEMS
- INTERNATIONAL SUPPORT PARTNERSHIPS
- LAND
- AEROSTRUCTURES
- » **MILLOG**
- NAMMO

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

PATRIA 100 CASE

Millog guarantees life cycle support for military equipment

Millog was established in 2006 and is today a consortium of various companies, with Patria holding most shares. For the Finnish Defence Forces, Millog is the life cycle maintenance provider for the defence materiel of the Finnish Army and Navy, as well as for the surveillance systems of the Finnish Air Force in all conditions. Millog also serves civil industries for whom national security, security of supply, and partnership are critical success factors.

[Read more »](#)

MILLOG provides material life cycle support services to strategic partners such as the Finnish Defence Forces and other security-critical actors. The company's responsibilities include the maintenance of vehicles and armoured equipment, weapon and electronic systems, vessels and various other systems; the provision of the material and life cycle services required by them; as well as equipment and system installations and modifications. Patria owns 61.8% of Millog.

1,137
Personnel

43%
Of Group net sales

38%
Of Group personnel

ANNUAL REVIEW

BUSINESS UNITS

AVIATION

SYSTEMS

INTERNATIONAL SUPPORT PARTNERSHIPS

LAND

AEROSTRUCTURES

» **MILLOG**

NAMMO

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

MILLOG

Deepening the continuing strategic partnership with the Finnish Defence Forces

Millog and the Finnish Defence Forces signed an updated strategic partnership agreement. The long contractual period will enable long-term collaboration, cost-effectiveness and active business development.

Millog provides fleet maintenance, life cycle management and material services. The company achieved its financial targets for the year and fulfilled its agreed service deliveries as planned in spite of the challenges posed by the coronavirus pandemic.

Millog has been employing its readiness plan during the pandemic, and this has enabled the company to

quickly adapt its operations even in the face of a disruption such as the pandemic. In terms of protection and operating methods, Millog proactively implemented more stringent measures than required by official recommendations in line with its main customer, the Finnish Defence Forces. These measures kept the number of infections at a very low level in 2020, and infections did not have an impact on Millog's service provision.

After a year of preparatory work, the highlight of the year was the updated strategic partnership agreement signed between Millog and the Finnish Defence Forces in December. This agreement is valid until further notice and covers services to the value of about EUR 1.4-1.6 billion in the pricing period 2021-2028. Procurement related to this agreement will have an employment

impact of about 10,000-11,000 person-work-years during the aforementioned period.

Millog companies have a network of 28 locations in Finland and approximately 1,200 employees. Millog companies also make use of their extensive subcontractor network, and together they are important for domestic security of supply.

Actively developing collaboration

A long pricing period enables long-term collaboration and cost-effectiveness. Proactive operational development will play an even more significant role in cooperation. Key areas for development include requirements related to changes in the reliability-based maintenance, digitalisation and cost-effectiveness management. Their



ANNUAL REVIEW

BUSINESS UNITS

- AVIATION
- SYSTEMS
- INTERNATIONAL SUPPORT PARTNERSHIPS
- LAND
- AEROSTRUCTURES
- » MILLOG
- NAMMO

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE



development will be actively supported with the aid of, for example, mutual incentives.

Millog's largest ongoing project is the upgrade of the Finnish Defence Forces' Jurmo Class landing craft. The vessels' hulls, engines, gears and cockpits will be renewed or repaired to the required extent. The project progressed on schedule and according to plan during 2020, and will run until the end of 2021.

Millog's acquisition of new customers will focus on areas that are important for Finland's security-critical infrastructure and whose operation must be assured in exceptional circumstances. The VR Group is one of Millog's partners, and Millog will be repairing locomotive

gearboxes and equipment. Coronavirus restrictions have extended sales cycles in the acquisition of new customers.

Millog expands into new fields

During 2020, two strategic acquisitions were made to strengthen the range of products and services provided by Millog companies. These acquisitions were a concrete step forward in Millog's growth strategy to expand into new sectors and acquire new customers.

Ownership of Virve Tuotteet ja Palvelut Oy was transferred to Millog at the beginning of 2020, and the company will continue to operate as an independent sub-

Millog executes its growth strategy by expanding into new sectors and acquiring new customers.

sidiary. Its business includes the sale and maintenance of terminal equipment for terrestrial trunked radio (TETRA) networks. The company's customers include security-critical organisations such as the Finnish Defence Forces, the Police, the Rescue Services, and the social welfare and healthcare sector. When it comes to business development and partnerships, Millog is currently focusing on new technology: existing solutions based on a 2G network are being replaced with 5G technology.

In October 2020, Millog signed an agreement with APX-Metalli Oy to acquire the entire share capital of Oy Western Shipyard Ltd, which will continue as an independent subsidiary under Millog's ownership. The company provides docking and repairs for ships and floating structures, and its customers include the Finnish Defence Forces, the Finnish Border Guard, Finferries and Patria. The acquisition will enable Millog companies to provide a larger overall maintenance service package than any other shipyard in Finland.

New recruits and developing leadership

Millog's company-specific collective labor agreement was signed in November 2020 and will remain in force until the end of 2021.

Millog recruited 90 new employees during the year. As several dozen employees retire every year, Millog has

ANNUAL REVIEW

BUSINESS UNITS

- AVIATION
- SYSTEMS
- INTERNATIONAL SUPPORT PARTNERSHIPS
- LAND
- AEROSTRUCTURES
- » **MILLOG**
- NAMMO

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

invested in finding young experts by, for example, engaging in closer cooperation with educational institutions all across Finland.

Millog made further investments in developing leadership during the year. The "Fair Leadership" coaching programme for supervisors has significantly improved leadership quality. This improvement has also been concretely measured using a supervisor index that will now be used annually to follow up and steer leadership development.

The number of sickness absences was at a record low in 2020. Proactive efforts have led to a significant improvement in work safety over the past few years. For example, personnel have been encouraged to make safety observations that will help develop operations, prevent accidents, and improve occupational safety culture. An increasingly positive attitude to safety at work is reflected in the more than 3,000 safety observations that were made during 2020, compared to about 2,000 observations in 2019. Proactivity also had a positive impact on accident rates.

Significant order for Senop from the Finnish Defence Forces

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

In 2020, Senop's net sales experienced a clear increase on the previous year. The company has contin-



ued its strategic efforts by focusing on the development of existing partnerships with Finnish customers. International sales and marketing has also been intensified in Sweden and the Baltic countries in particular.

Senop's international customers include the Norwegian company Kongsberg Defence & Aerospace AS, which has been provided with lightweight container solutions for command centres. These deliveries are a continuation of Kongsberg and Senop's earlier collaboration, and will continue over the coming years.

In Finland, Senop Oy signed a procurement agreement with the Finnish Defence Forces' Logistics

Command for night combat equipment and target acquisition devices. The contract, which includes new image intensifiers, laser sights and target acquisition devices, is worth more than EUR 13 million.

It also includes an additional procurement option for weapon-mounted laser sights, image intensifiers and target acquisition devices. The five-year additional procurement option is worth about EUR 209 million including VAT. Without the additional procurement option, the contract will have a domestic employment impact of 40 person-work-years.

ANNUAL REVIEW

BUSINESS UNITS

- AVIATION
- SYSTEMS
- INTERNATIONAL SUPPORT PARTNERSHIPS
- LAND
- AEROSTRUCTURES
- MILLOG

» **NAMMO**

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

PATRIA 100 CASE

Nammo's heritage dates back to 1920s Finland

Nammo and the Finnish Defence Forces signed a new long-term strategic partnership agreement on December 2020. The agreement is a continuation of a previous security of supply agreement between the two parties signed in 2014.

"This agreement confirms the close relationship between Nammo and the Finnish government, which has existed since the formation of Nammo in 1998, and before that since our current Finnish factories were founded in the 1920s", said Morten Brandtzæg, President and CEO of the Nammo Group.

[Read more »](#)

NAMMO is an international aerospace and defense company headquartered in Norway. With more than 2,700 staff spread across more than 30 sites and offices in 12 countries, Nammo is one of the world's leading providers of ammunition, rocket motors and demilitarization services for both military and civilian customers. Patria and the State of Norway own equal shares of Nammo (50%).

Nammo AS publishes its own annual report and corporate responsibility report, available on the company's website at www.nammo.com.

2,752
Personnel

562.8%
Net sales

ANNUAL REVIEW

BUSINESS UNITS

AVIATION

SYSTEMS

INTERNATIONAL SUPPORT PARTNERSHIPS

LAND

AEROSTRUCTURES

MILLOG

» **NAMMO**

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

NAMMO

Nammo delivers unprecedented results in unprecedented conditions



Owned 50% by Patria, the Norwegian aerospace and defense innovator delivers solid performance in challenging times

In 2020, the global coronavirus pandemic has shadowed also Nammo's operations – but the company has demonstrated remarkable resilience in tough times. Nammo's delivery rate for the year was 95% or better.

Nammo attributes this result to its employees who have shown great initiative and resilience in a tough situation. Though the challenges of coronavirus are in no way over, the company has seen remarkable examples of

teamwork and of everyone pulling together to get the job done.

Nammo currently operates through four business units: Commercial Ammunition, Small and Medium Caliber Ammunition, Large Caliber Systems, and Aerospace Propulsion. The company remains one of the world's leading manufacturers of specialty ammunition and rocket motors and has grown significantly in the years following its founding in 1998.

Lately, the company has been steadily strengthening its presence in its European and North American core markets. All key markets had a positive underlying trend in 2020 despite COVID-19.

Finnish Defence Forces partnership continues

The most recent highlight for Nammo was the December 2020 signing of the strategic partnership agreement with the Finnish Defence Forces. The agreement is a continuation of a previous security of supply agreement between the two parties signed in 2014.

Nammo sees itself as committed to Finnish safety and security as it has ever been, believing that a new agreement will allow it to take on an even greater role and build an even closer partnership with the Finnish Defence Forces.

ANNUAL REVIEW

BUSINESS UNITS

- AVIATION
- SYSTEMS
- INTERNATIONAL SUPPORT PARTNERSHIPS
- LAND
- AEROSTRUCTURES
- MILLOG
- » **NAMMO**

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE



In 2020, the company reported its third consecutive year of record-high revenue and order books.

Welcoming Nammo Perry

The year was also significant with Nammo completing its acquisition of Chemring Ordnance Inc. in Perry, Florida, in May 2020. The company is now known as Nammo Perry Inc. The Florida operation joins the group during a time of major change and development for the company, as it is delivering more than ever, and taking an even greater role in supporting the security of supply for its core markets.

Also, with the arrival of Perry, Nammo now has more employees in the U.S. than in any other country, which in itself represents a major milestone for the company.

Growth despite pandemic

In 2020, the company reported its third consecutive year of record-high revenue and order books. Nammo has also succeeded in improving its overall profitability.

Nammo believes its operations are going strong, and it continues to work on new technology developments, particularly within areas where it can combine its twin competencies of ammunition and rocket motors. To that end, it will continue its focus on improving its operations to ensure it remains able to invest in its future.

ANNUAL REVIEW

BUSINESS UNITS

» **PATRIA'S CORPORATE RESPONSIBILITY**

YEAR 2020

RESPONSIBILITY PROGRAMME AND OBJECTIVES

STAKEHOLDER COLLABORATION

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

RESPONSIBILITY

40 PATRIA'S CORPORATE RESPONSIBILITY

44 Year 2020

45 Responsibility programme and objectives

47 Stakeholder collaboration

52 PATRIA AS PART OF SOCIETY

53 Responsible exports

54 Ethical conduct

56 Developing supply chains

57 Security of operations

59 Financial responsibility and tax footprint

60 A RESPONSIBLE EMPLOYER

65 ENVIRONMENTAL RESPONSIBILITY

72 GRI INDEX



The foundation for a secure future

Corporate responsibility and sustainability are integral to the way modern businesses operate. A reputation based on ethical conduct and decision-making is a strategic necessity that generates sustainable business benefits.

Ethics, transparency and a strong focus on all aspects of responsible conduct lie at the heart of business management. An unwavering commitment to fair and ethical business practices and a legacy of transparency guide Patria's operations.

A secure future is founded on a country's autonomy, that is, the ability of its parliamentary machinery to make independent decisions about its affairs. This calls for a credible military defence capability, which in turn requires sound security of supply. Security of supply comes from reliable technology and engineering expertise. Digital security is also becoming more critical.

In order to ensure a secure future, Patria must have the ability to perform its duties in the spheres of maintenance and servicing, security of supply, manufacture and crisis preparedness, both in Finland and in other countries where the company has public-sector customers.

Sustainability is integral to the way modern businesses operate. In practice, Patria contributes to the implementation of the Paris Agreement on climate change, and we see it as our duty to our customers and shareholders to do so. Also, the defence customers require Patria to provide better cost-effectiveness, including lower consumption, lower emissions, and more efficient logistics chains.

Esa Rautalinko
President and CEO



ANNUAL REVIEW

BUSINESS UNITS

» **PATRIA'S CORPORATE RESPONSIBILITY**

YEAR 2020

RESPONSIBILITY PROGRAMME AND OBJECTIVES

STAKEHOLDER COLLABORATION

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE



Business and cooperation with all stakeholders requires high ethical norms, honesty and transparency.

CORPORATE RESPONSIBILITY MANAGEMENT

As a public limited liability company, Patria Oyj's corporate governance complies with the Limited Liability Companies Act, Auditing Act, Accounting Act and any other binding legislation.

For example, the Limited Liability Companies Act specifies the company's governing bodies, their roles and responsibilities, and the relationships between governing bodies. As a state majority-owned company, Patria's operations are also governed by the Government Resolution on State-Ownership Policy, the latest version of which was published in April 2020.

Patria cooperates with national and international stakeholders (such as private companies, state-owned companies, governments, officials and agencies) at many levels and in many ways (for example, as a

corporate citizen, taxpayer, supplier, business partner and employer). Business and cooperation with all of these stakeholders requires high ethical norms, honesty and transparency. This collaboration is also subject to strict anti-bribery and anti-corruption regulations, and strict requirements relating to procurement practices, lobbying, sponsorship, representation, conflicts of interest, gifts and benefits.

Patria has a corporate responsibility team that is coordinated by the Chief Communications Officer. This team consists of the General Counsel/Chief Compliance Officer, the Chief Human Resources Officer, experts in finance, communications and environmental issues, and business unit representatives.

The General Counsel/Chief Compliance Officer is responsible for compliance and ethical issues (including anti-corruption activities). Matters related to these areas

are reviewed by the Group Management Team, and the General Counsel regularly reports to both the Board of Directors and the Audit Committee. Patria's ethics and compliance action plan is approved by the Board of Directors. The Audit Committee, which is appointed by the Board of Directors, has been assigned special responsibility for supervising ethical issues and this task is listed as one of its duties in the Audit Committee Charter.

Responsibility for environmental management lies with the organisations appointed for each business unit, and these organisations report to each business unit's Management Team. Patria's Environmental Team is tasked with furthering collaboration, sharing information and experiences between various business units, and planning and reporting on the Patria Group's environmental responsibility. The Environmental Team is coordinated at Group level.

ANNUAL REVIEW

BUSINESS UNITS

» **PATRIA'S CORPORATE RESPONSIBILITY**

YEAR 2020

RESPONSIBILITY PROGRAMME AND OBJECTIVES

STAKEHOLDER COLLABORATION

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

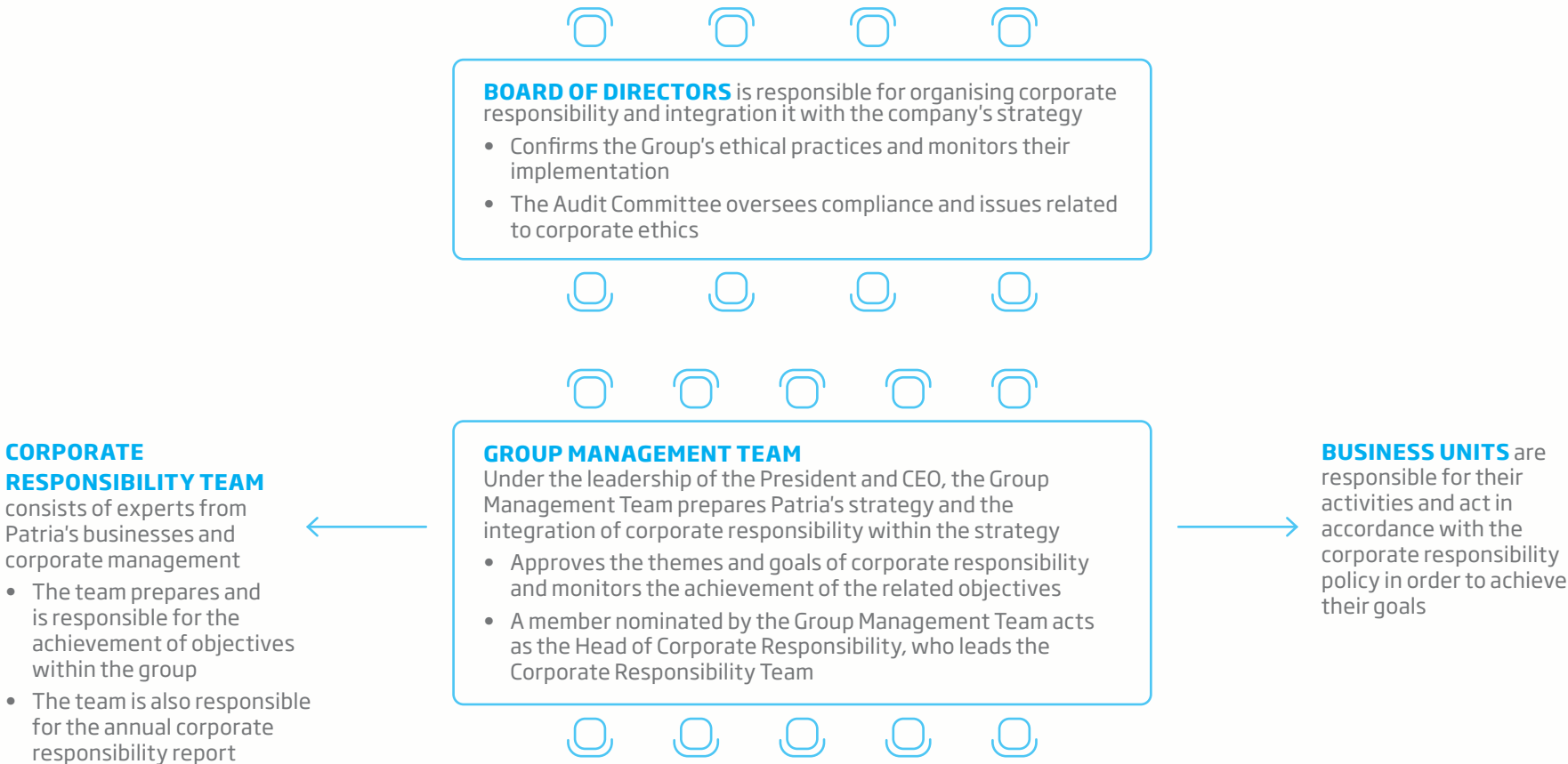
GRI INDEX

FINANCIAL

GOVERNANCE

Corporate responsibility management and monitoring

ANNUAL GENERAL MEETING CONFIRMS PATRIA'S CORPORATE RESPONSIBILITY ACTIVITIES



ANNUAL REVIEW

BUSINESS UNITS

» **PATRIA'S CORPORATE RESPONSIBILITY**

YEAR 2020

RESPONSIBILITY PROGRAMME AND OBJECTIVES

STAKEHOLDER COLLABORATION

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

2020 Performance

ESSENTIAL THEMES OF CORPORATE RESPONSIBILITY DURING 2017-2020	LONG-TERM OBJECTIVE	INDICATORS	2020 PERFORMANCE
Role as a partner of the Finnish Defence Forces and security of supply	To be a sought-after and trusted partner.	A corporate image survey with a particular focus on customer-orientation and cooperation.	A stakeholder survey was conducted in October 2020. Patria is customer-oriented – score rose from 3.76 (2017) to 3.87. Patria operates in a networked manner and in cooperation with partners – score rose from 3.81 (2017) to 3.83.
Responsible defence materiel export practices	To be a trusted exporter of defence materiel.	The results of Transparency International UK's Defence Companies Anti-Corruption Index (Category B) and continuous competence development for personnel who work in exports.	Transparency International published its results in February 2021. Patria was in Category B, in accordance with its target. Patria continued its Trade Compliance events in collaboration with Kongsberg. Patria and Millog published updated ethical code of conducts.
Ethical operations and good governance	To be recognised as an ethical operator in the industry.	The annual training attendance rate of all Group personnel and developing the company's corporate image as part of the corporate image survey.	A decision was made to organise training for all personnel at two-year intervals. Preparations were made for two-tier training for 2021. A stakeholder survey was conducted in October 2020. Patria operates in an ethical and responsible manner – score rose from 3.97 (2017) to 4.01.
Financial performance	Financial profitability.	Achieving the profit targets budgeted for each year.	Patria Group's financial performance exceeded its key targets and profitability for the financial year 2020 was at a strong level, in spite of coronavirus pandemic.
Wellbeing at work	To offer a safe and inspiring working environment for all employees.	The sickness absence rate and the results of the employee satisfaction survey.	In Finland, the rate of sickness absences fell 2020, being 3.0% compared to 3.6% in the previous year. Patria People Personnel Survey's People Power Index was 64.8 in 2020 compared to 61.3 in 2018, implying positive developments in all areas.

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE
RESPONSIBILITY

» YEAR 2020

RESPONSIBILITY PROGRAMME AND
OBJECTIVES

STAKEHOLDER COLLABORATION

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

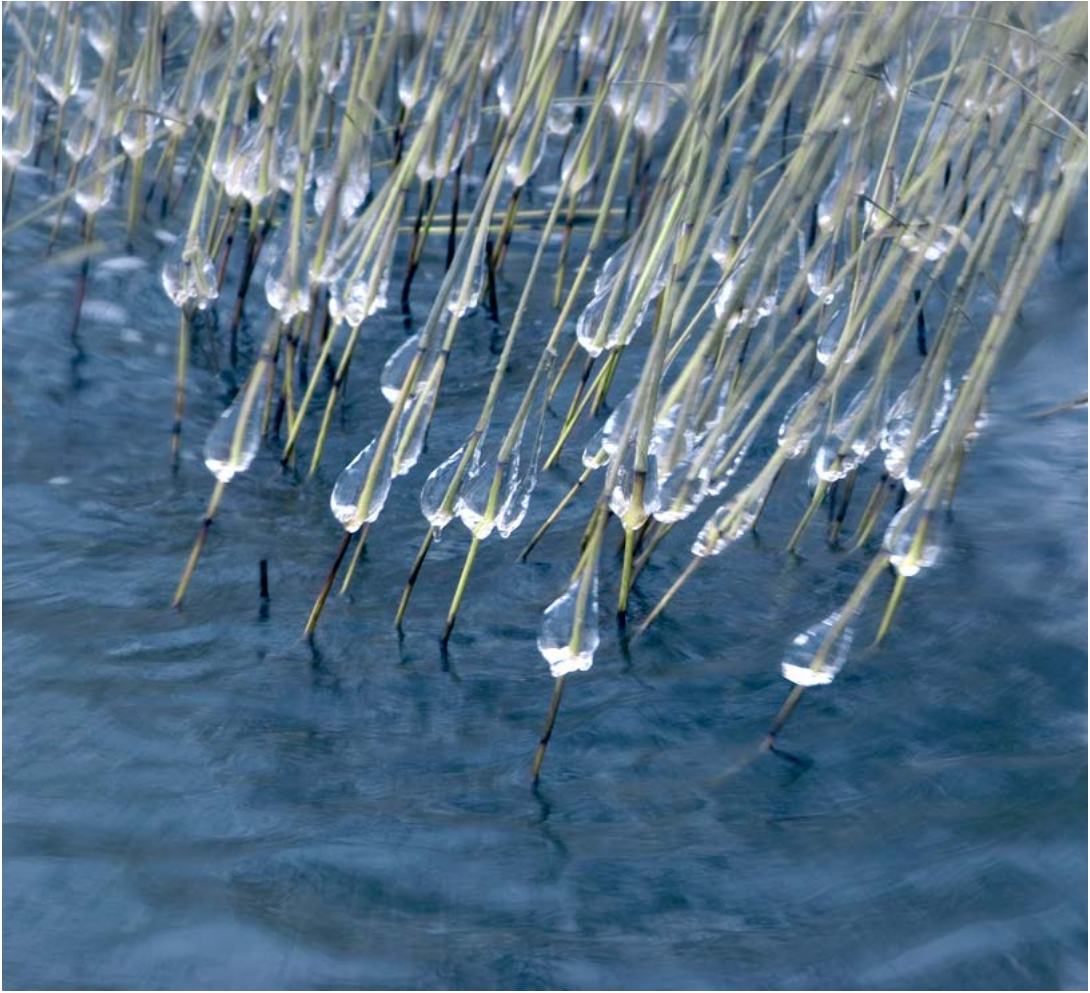
GRI INDEX

FINANCIAL

GOVERNANCE

YEAR 2020

Responsibility highlights



Carbon footprint calculated

Patria generated 2,508.72 tonnes less greenhouse gas emissions than in previous year, if only operations in Finland are considered. Patria aims to reduce the carbon footprint of its own operations and will be setting targets to reduce greenhouse gas emissions during 2021.

Patria People personnel survey supports development efforts

According to the survey, Patria's clear strengths at Group level include commitment, team spirit, and motivation for one's own work.

Ethical code of conduct updated

According to the personnel survey, 94 per cent of respondents stated they knew Patria's guidelines on ethical practices. Patria and Millog's ethical code of conducts were updated.

Special pandemic arrangements successfully implemented

2020 was a year overshadowed by the coronavirus, yet Patria survived it commendably. The Group Management Team and a separate monitoring team both followed the situation regularly and took the necessary action to contain the effects. Transitioning to remote working took place flexibly.

New responsibility programme

A stakeholder survey was conducted, and the results were used to update Patria's main essential responsibility themes.

Transparency International's Defence Companies Anti-Corruption Index

Patria achieved its target Category B.

RESPONSIBILITY PROGRAMME AND OBJECTIVES

Patria's responsibility programme 2020-2025

Essential themes updated in 2020

Patria's essential responsibility themes were updated in 2020 on the basis of an international stakeholder survey. The survey was sent to a variety of stakeholders but was also open to Patria's personnel on the intranet and to the general public on Patria's website.

The results were almost identical to those of the 2017 survey. However, the essential themes have now been reorganised. Although environmental issues did not rank among the top five most important topics in the survey, they are one of Patria's themes due to global responsibility perspectives. The themes correspond to policies defined by Patria's management in accordance with its new strategy.

Patria's essential responsibility themes have now been defined in five categories:

- a trusted partner and security of supply,
- ethical conduct, good governance and responsible export,
- financial performance,
- occupational wellbeing and
- environmental actions against climate change.



ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE
RESPONSIBILITY

YEAR 2020

» RESPONSIBILITY PROGRAMME AND
OBJECTIVES

STAKEHOLDER COLLABORATION

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY




GRI INDEX

FINANCIAL

GOVERNANCE

Responsibility programme 2020-2025

LONG-TERM OBJECTIVES AND INDICATORS

	THEMES	LONG-TERM OBJECTIVE 2025	INDICATORS	OBJECTIVES AND INDICATORS 2021	PLANNED MEASURES 2021
	TRUSTED PARTNER AND SECURITY OF SUPPLY	To be a sought-after and trusted partner.	Continuous improvement of the company's corporate image. A corporate image survey with a particular focus on customer- orientation and cooperation.	Designing and introducing a strategic, customer-oriented operating model. Indicator: A corporate image survey with a particular focus on customer-orientation and cooperation.	<ul style="list-style-type: none"> • Good continuous communication and cooperation with customers and other stakeholders. • Customer relationships are monitored in accordance with long-term objectives.
	ETHICAL CONDUCT, GOOD GOVERNANCE AND RESPONSIBLE EXPORT	To be a recognised ethical operator and a reliable exporter of defence materiel.	Continuous development of ethical practices and a stakeholder survey that measures ethics and responsibility in particular.	100% of personnel have completed ethics training. Indicator: completion rate.	<ul style="list-style-type: none"> • Two-tier training for all personnel. • Awareness of ethical conduct and communications about training.
	FINANCIAL PERFORMANCE	Profitable growth of EUR 300 million in line with the company's strategy by 2025.	Strategic development. Continual improvements in efficiency. Net sales of EUR 900 million by 2025.	Budgeted targets are achieved. Indicator: financial result 2021.	<ul style="list-style-type: none"> • Performance monitoring.
	OCCUPATIONAL WELLBEING	To offer a safe and inspiring working environment for all employees. Successful transformation according to the strategy.	Results of the employee satisfaction survey.	A successful change in line with strategy. Indicator: maintaining sickness absences at the current level.	<ul style="list-style-type: none"> • Ensuring occupational health and safety during the change process. • Developing processes for data specification and collection in all business areas. Recording and monitoring incidents and analysing the reasons for sickness absences. • Developing automated data collection processes.
	ENVIRONMENTAL ACTIONS AGAINST CLIMATE CHANGE	Reducing emissions.	Development followed in the Science Based Target initiative (https://sciencebasedtargets.org/). Carbon footprint reduction % to be defined by the end of 2021.	Define and decide on SBTi targets. Measures to reduce GHG emissions.	<ul style="list-style-type: none"> • Calculate scope 1+2 emissions for locations outside Finland. • Calculate scope 3 emissions for the entire organisation. • Prepare an SBTi application. • An energy audit of the Halli location. Energy-saving measures based on the audit. • Short-term targets for GHG emissions.

SHORT-TERM OBJECTIVES IN 2021

STAKEHOLDER COLLABORATION

Close and long-term cooperation

Patria works in close, long-term cooperation with many stakeholders and manages its stakeholder relations professionally, confidentially and honestly.

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

tices, lobbying, sponsorship, representation, conflicts of interest, gifts and hospitality.

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

Patria works in close, long-term cooperation with its stakeholders. Patria understands good partnership as professional, reliable, open and transparent collaboration that all parties can accept without reservation. Patria manages its stakeholder relations honestly, ethically, fairly and confidentially. Patria does not accept

any kind of deviation from high standards of integrity, transparency, ethical conduct and compliance.

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

A key stakeholder can be defined as follows:

- A key stakeholder has a significant impact on the organisation's result.
- Patria's business units and/or support functions are aware of what they want or need from the stakeholder.



ANNUAL REVIEW

BUSINESS UNITS

PATRIA’S CORPORATE RESPONSIBILITY

YEAR 2020

RESPONSIBILITY PROGRAMME AND OBJECTIVES

» STAKEHOLDER COLLABORATION

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

- Patria wants to maintain and enhance its relationship with this stakeholder.
- Replacement would be difficult.

Key stakeholders

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

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

Stakeholder interaction

Patria interacts with key stakeholders in a variety of different ways. Patria’s stakeholder interaction is based on regular, transparent and open dialogue.

Patria has drawn up a plan for lobbying on the basis of a stakeholder analysis. The main goals are to be transparent about Patria’s activities and objectives, and to take even better account of stakeholders’ needs. On the basis of this plan, Patria has been engaging in continual dialogue with key stakeholders during 2020.

In October 2020, Patria conducted a Group-level stakeholder survey in which stakeholders assessed the Group’s operating methods, reliability and corporate image, as well as various aspects of its corporate social responsibility. The survey was available on Patria’s website and intranet. It was also emailed to a wide range of stakeholders. Patria’s corporate image was assessed on a scale of one to five, with five being the best. The overall

result was 3.83. When Patria’s corporate image was last surveyed in 2017, the overall result was 3.73. According to external stakeholders, Patria had improved its operations in several areas or remained unchanged, which indicates that Patria’s measures have been taking the company in the right direction.

The best assessments were given in the following areas:

- Patria represents specialist expertise
- Patria keeps its promises
- Patria is taking on a larger role and its tasks are getting more demanding
- Patria is international
- Patria is customer-oriented

Cost-effectiveness was one area for development that was identified by external stakeholders.

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

Direct economic value, EUR million			2020	2019	2018	2017
Customers	Sales	Consolidated net sales	534.1	507.5	476.1	467.2
		Other operating income	38.4	18.0	17.7	21.2
		Financial income	0.5	0.4	0.4	0.1
		Income, total	573.0	525.9	494.2	488.5
Suppliers	Goods, materials and services	Operating costs excluding depreciation and personnel expenses	308.0	305.2	274.3	266.1
Personnel	Wages, salaries and fees	Personnel expenses	194.7	186.8	171.1	171.2
Public sector	Taxes	Payments to government (taxes)	3.6	0.2	7.3	9.5
Non-profit foundations	Support and donations	Donations and other charitable payments	0.1	0.1	0	0
		Payments made to shareholders and loan providers				
Shareholders	Dividends	Dividends	13.9	13.9	16.7	31.2
Investors	Financial costs	Interest and other financial expenses	4.1	4.3	2.6	2.7
	Expenses	Distributed, total	524.5	510.5	472.0	480.7
	Sales - expenses = added value	Economic value retained for operational development	48.5	15.4	22.2	7.9
Investments		Investments in tangible and intangible assets as well as acquisitions	15.2	34.6	7.3	19.6

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

YEAR 2020

RESPONSIBILITY PROGRAMME AND OBJECTIVES

» **STAKEHOLDER COLLABORATION**

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

Patria's key stakeholders

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

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

YEAR 2020

RESPONSIBILITY PROGRAMME AND OBJECTIVES

» **STAKEHOLDER COLLABORATION**

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

The next corporate image survey will be conducted at the end of 2021. In addition to this extensive survey, business units also conduct project-specific assessments throughout the year.

Patria's website has several feedback channels for stakeholders, one of which is anonymous. This ensures that Patria takes all its stakeholders' interests into consideration.

Other major events in 2020

Transparency International Defence & Security updates the Defence Companies Anti-Corruption Index – a survey of more than a hundred companies in the international defence industry – at approximately three-year intervals. Patria was also invited to respond to the survey, whose results were published in February 2021. The survey assesses a wide range of anti-corruption related topics on the basis of externally available information. Patria was placed in the second-highest category (Category B), which was also the target set by the company. The scale runs from A to F, with A being the best. This result shows that Patria is on the right track as a responsible operator in the defence sector. Various areas of corporate social responsibility have been systematically developed with the main focus on promoting ethical practices and anti-corruption activities.

During 2020, Patria and Kongsberg continued Trade Compliance – a joint project that seeks to promote business compliance. The project aims to develop operating models for the companies' export control by sharing best practices, and to improve both companies' ability to conduct international business.

Patria People survey was conducted in October–November 2020. 83.4 per cent of the personnel responded to the survey, which tells about a genuine desire to develop the Group as a whole, as well as own working environment. The goal of the survey was to identify the strengths of our organization and areas of development, as well as to develop the working culture. According to the survey, clear strengths at the Group level were commitment, team spirit and motivation for your own work. Same things were the strengths also in the survey in 2018. Issues to be developed according to the survey were: access to information relevant to your own work, decision culture, and implementation of changes.

Key topics in public during the year have been especially the 6x6 vehicle project. Patria uses a media monitoring tool for identifying topics to analyse themes, content and sources of news on a daily basis. Patria openly communicates about all current issues in order to further develop transparency of the company's operations. All the company's news releases are published in the news section of Patria's website.

Responsible collaboration in society

Patria and Tampere University of Technology (TUT) have a cooperation agreement on aviation technology. Patria provides TUT with considerable financial support for ten years. This agreement seeks to ensure the continued availability of top aviation technology expertise in Finland, and to support and bolster research in the field.

Patria continued its cooperation with the Finnish Aviation Museum Society, the Aviation Museum of Central Finland and the Finnish Aviation Museum, as the main sponsor for the restoration project of the VL



Patria was ranked to the second-highest category in Transparency International UK's Defence Companies Anti-Corruption Index.

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

YEAR 2020

RESPONSIBILITY PROGRAMME AND OBJECTIVES

» STAKEHOLDER COLLABORATION

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

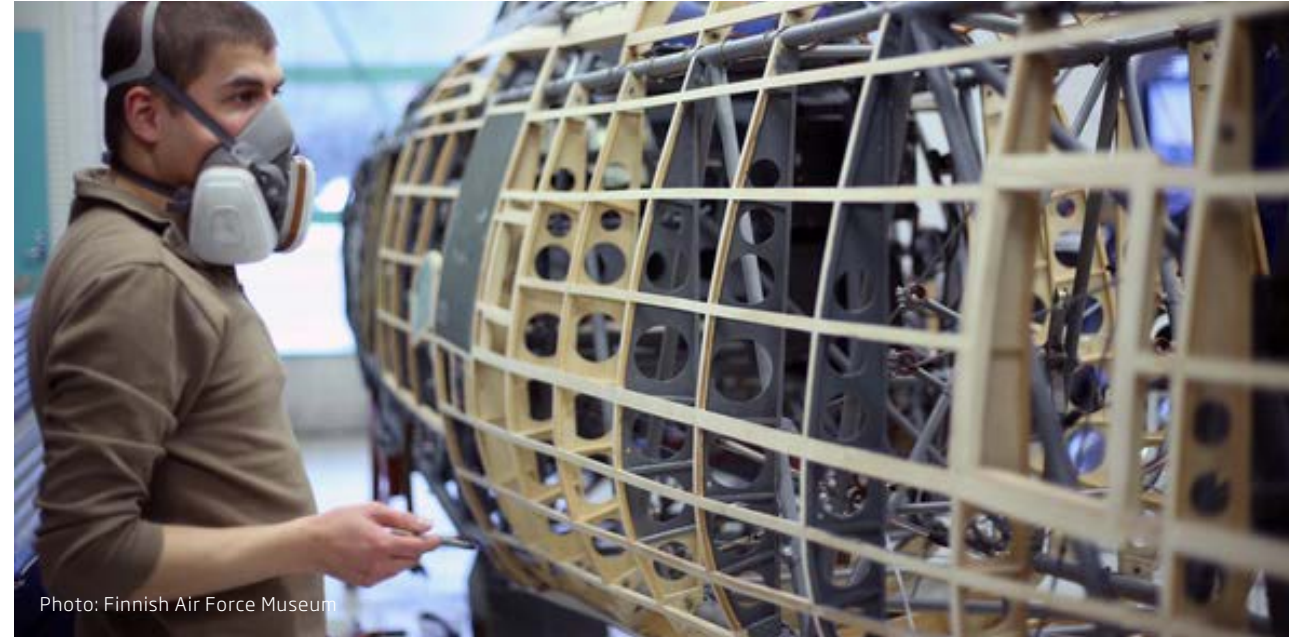


Photo: Finnish Air Force Museum

Myrsky ('Storm') fighter plane. Young people studying at a number of technical colleges and youth workshops, in locations such as Jyväskylä and Vantaa, are also involved in the restoration project. Read more about this project at www.vlmyrsky.fi/.

Patria also continued its long-term cooperation with the Finnish Military Sport Federation. This involves promoting a sports-oriented lifestyle among young people that will continue even after their military service. Patria has supported the Finnish National Biathlon Team since 2011 and continued to do so during the 2019–2020 and 2020–2021 seasons.

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

Patria's Christmas donation was distributed to several organisations to promote the welfare of young people and children.

Memberships

Patria is a member of the Association of Finnish Defence and Aerospace Industries (AFDA), and Patria's President and CEO Esa Rautalinko currently chairs this association. AFDA covers almost all defence-related industries and

Patria is a member in various networks and supports the United Nations Global Compact with an annual donation.

has more than 120 member companies in Finland. AFDA also maintains a close relationship with the Ministry of Defence and Finnish Defence Forces. AFDA is also a member of the AeroSpace and Defence Industries Association of Europe (ASD).

In 2020, Patria joined ASD as a direct company member after previously being involved through AFDA. Direct membership in ASD is the best way to promote Patria's interests in dialogue with EU governing bodies and other stakeholders, in order to formulate effective policies and legislation that will promote the sector's common positions both in Europe and globally. ASD is the voice of European Aeronautics, Space, Defence and Security industries, representing more than 3,000 companies and actively supporting the competitive development of the sector both in Europe and worldwide. It includes direct members (including 18 major European companies) and 23 national associations operating in 18 countries.

Patria supports the United Nations Global Compact with an annual voluntary donation. Patria is also a member of the Global Compact Finland network and the Finnish corporate responsibility network FIBS.

Patria is involved in the industry's interest groups and is a member of AmCham Finland and the Helsinki Region Chamber of Commerce.

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

» PATRIA AS PART OF SOCIETY

RESPONSIBLE EXPORTS

ETHICAL CONDUCT

DEVELOPING SUPPLY CHAINS

SECURITY OF OPERATIONS

FINANCIAL RESPONSIBILITY AND

TAX FOOTPRINT

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

PATRIA AS PART OF SOCIETY

Ensuring security in all conditions

Security of supply and ensuring secure future are the cornerstones of Patria's operation.

A secure future is founded on a country's autonomy, that is, the ability of its parliamentary machinery to make independent decisions about its affairs. This calls for a credible military defence capability, which in turn requires sound security of supply. Security of supply comes from reliable technology and engineering expertise – and this is what Patria provides.

In order to ensure a secure future, Patria must have the ability to perform its duties in the spheres of maintenance and servicing, security of supply, manufacture and crisis preparedness, both in Finland and in other countries where the company has public-sector customers.

In addition to the security aspect, Patria is a significant and responsible employer and taxpayer that pays dividends to its owners.

Human rights

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

The sale of defence materiel is strictly regulated and Patria operates in compliance with both national legislation and international commitments in the way they are nationally applied in the Group's business countries. When Patria's operating countries are subject to international restrictions, Patria's units will engage



in discussion with the relevant governing bodies. Patria is involved in various initiatives in the sector, including dialogue with EU actors such as the Council Working Party on Conventional Arms Exports (COARM).

RESPONSIBLE EXPORT

Regulated international operation

Patria complies with all official export legislation, regulations and practices. The export control system is open and transparent, and every export licence is considered separately in accordance with the criteria of the EU Common Position.

Finland's Ministry for Foreign Affairs is responsible for the country's foreign and security policy, and administers the EU's export control system on behalf of Finland. Examples of absolute barriers to exports (and where applicable also to other transactions) include UN and EU arms embargoes.

Patria is committed to shared ethical standards, such as those issued by the Aerospace and Defence Industries Association of Europe (ASD).



The export, import and transfer of defence industry products is wholly and without exception subject to a licence. In Finland, the Ministry of Defence, Ministry for Foreign Affairs and, if necessary, the Government decide on whether to grant the appropriate export licences. A licence will not be granted if the proposed export project would present a risk to Finnish security or be in conflict with Finland's foreign policy. The Finnish authorities and ministries, in particular the Ministry for Foreign Affairs and its embassy network, have the best capacity for evaluating the situation in each country. For this reason, Patria continuously discusses its projects and the situation in destination countries with the ministries. Export licences are conditional upon providing a reliable account of the end user of the goods.

The development and manufacture of defence materiel is a normal and accepted business, and military

security of supply requires Finnish expertise in the field. The defence industry and its competencies cannot be sustained solely by the domestic customer's needs and volumes. For this reason, Patria has been operating on the international market for decades.

Defence materiel procurement projects usually last several years. If an agreement is made now, it will normally take 2-3 years for the products to be manufactured. Depending on the overall scope of the project, it may take up to ten years before the customer has the product in full service with all of the appropriate training. Many procurement projects also involve lifecycle support functions and maintenance services that require a variety of different export licences for the materiel in question.

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

RESPONSIBLE EXPORTS

» ETHICAL CONDUCT

DEVELOPING SUPPLY CHAINS

SECURITY OF OPERATIONS

FINANCIAL RESPONSIBILITY AND

TAX FOOTPRINT

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

ETHICAL CONDUCT

Group-wide attitude of responsibility

Patria's ethical conduct is based on a group-wide attitude of responsibility. Patria's ethical way of operation is described in Patria's Ethical Code of Conduct, which forms the basis for all operations. The Ethical Code of Conduct is supplemented by other detailed guidelines.

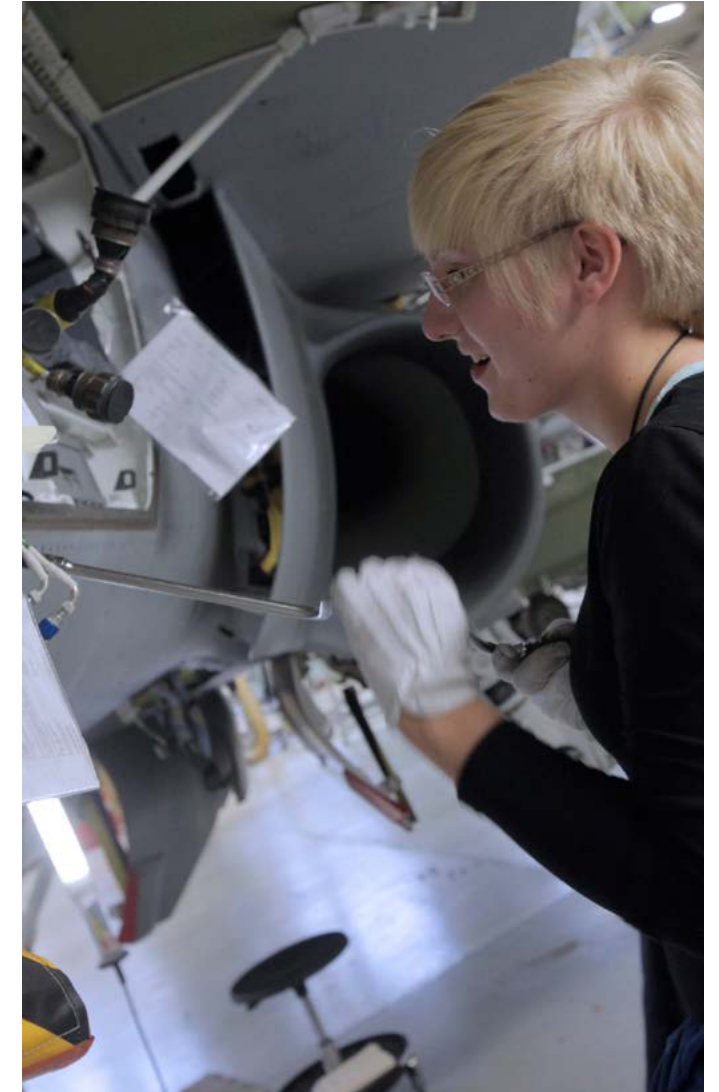
Patria operates responsibly and expects the same from both its existing and future partners. This is why Patria has a clear process for selecting business partners, and why suppliers are required to commit to its Supplier Code of Conduct.

In 2020, Patria continued its Trade Compliance project in collaboration with Kongsberg. SpeakUp,

a new channel for reporting unethical conduct, was introduced throughout the Group. Patria also launched development work to ensure ethical conduct from suppliers.

Ethical training

Annual ethical training for all personnel was launched in 2013 and will now be conducted every other year with the approval of the Audit Committee. From now on, this training will have two levels: a basic training section plus a more demanding section for selected groups. Topics include issues such as anti-corruption, gifts and hospitality, conflicts of interest, data protection and security, and harassment in the workplace. Training will be held throughout the Group in 2021. New Patria employees will take the training when



ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

RESPONSIBLE EXPORTS

» **ETHICAL CONDUCT**

DEVELOPING SUPPLY CHAINS

SECURITY OF OPERATIONS

FINANCIAL RESPONSIBILITY AND

TAX FOOTPRINT

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

they start work. Classroom sessions on topical issues will be arranged as necessary.

Every two years, Patria measures personnel's views on serious misconduct and other unethical conduct with the aid of an anonymous survey (the Survey on the potential for serious misconduct at Patria). This survey is sent to senior management, middle management and other randomly selected employees equating to 10 per cent of all Group personnel. The next survey will be conducted in 2021.

Reporting on misconduct

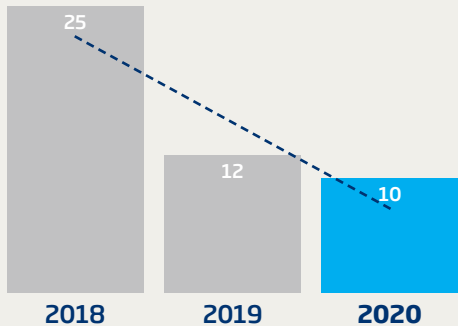
Any actions that violate Patria's Ethical Code of Conduct – even if those actions were made in good faith – can cause significant long-term damage to Patria's reputation and may even lead to legal proceedings against the company and its personnel. Every employee who acts in contravention of the code will be subject to penalty measures that, when necessary, may mean termination of their employment contract. It is impossible for the Ethical Code of Conduct and other guidelines to cover every single situation that personnel may encounter in Patria's complex operating environment. If in doubt, Patria employees are encouraged to discuss the issue with their closest supervisor or HR specialist, or contact the company's legal department for advice. All personnel are obliged to report any concerns or suspected violations of the code to their closest supervisor or the Legal Counsel. The following reporting channels can be used:

- a general email address that will send reports to the General Counsel & Chief Compliance Officer, or
- SpeakUp, a channel for anonymous reporting and anonymous dialogue, either online or by phone.
- external stakeholders can also make reports through the feedback channel on website.

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

Two reports were made via the new SpeakUp reporting channel in 2020, both via the internet. In both reports, the whistle-blower had checked the response. Eight reports were made via the old reporting channel, four of which were made anonymously. All of the reports received through the various channels are investigated in accordance with the process described in the Integrated Management System. Information about reports and any resulting measures is regularly presented to the Audit Committee.

Reports received via various channels



No reports of serious misconduct were made in 2020. The reports mainly concerned issues related to HR and corporate management, such as supervisory tasks and inappropriate behaviour. There were also one report of concern relating to the supplier selection process (potential conflict of interest) and two reports of concern relating to safety issues.

DEVELOPING SUPPLY CHAINS

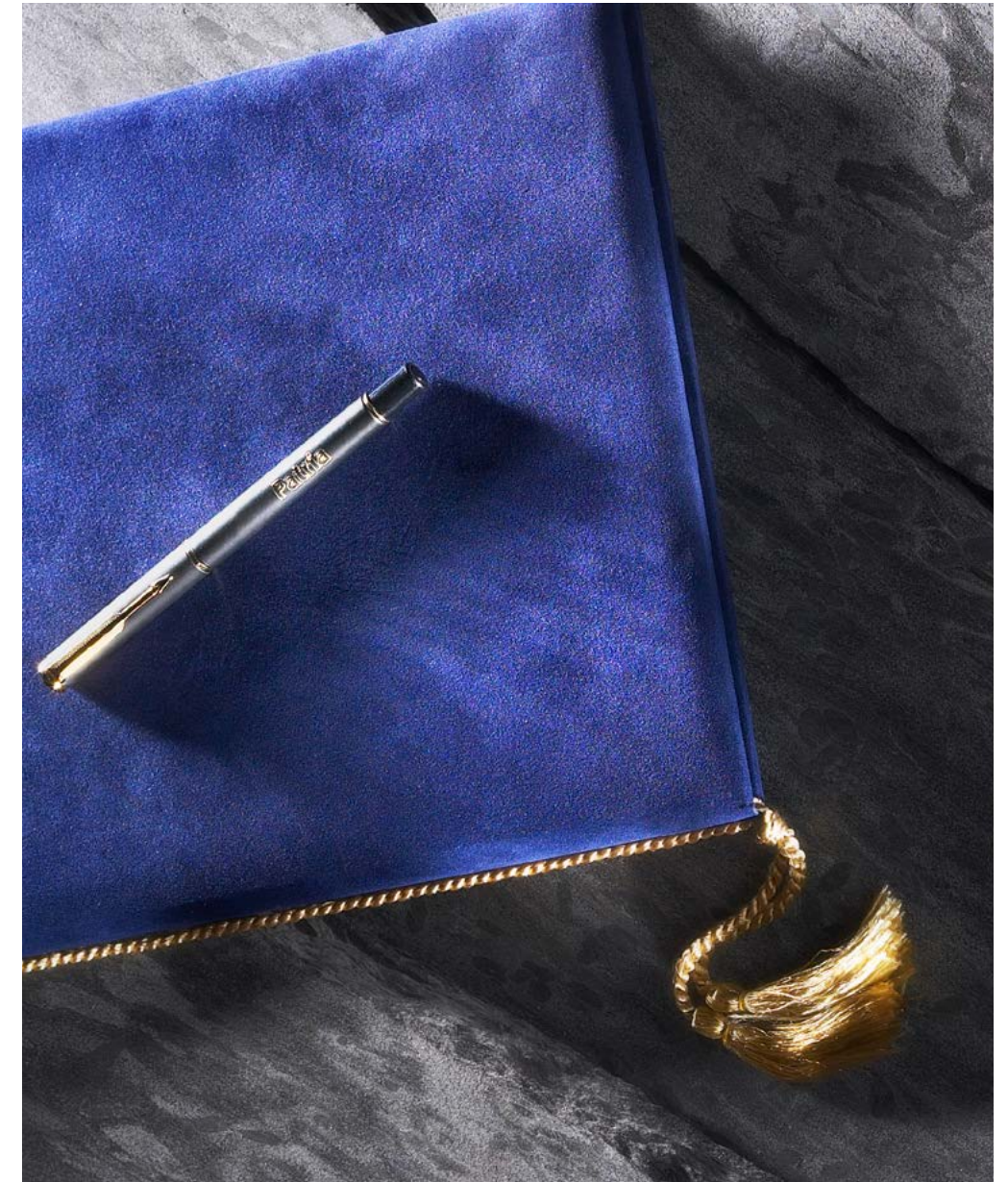
Reliable and mutually beneficial relationships

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

Acquisition responsibility in Patria is divided into business and group acquisition, as well as those responsible (indirect acquisitions) of group operations. On a group-level, common vendor selection matters are instructed, and business units integrate them in their own guidelines. Compliance, quality, ethics and cost-effectiveness are taken into account in the supplier selection. Patria requires its suppliers to comply with the principles set out in their Supplier Code of Conduct as well as the national law of their countries of operation.

During 2020, the joint guidance for vendor selection and evaluation has been refined and integrated.

Patria's Supplier Code of Conduct is available at www.patriagroup.com/about-us/supplier-chain-management/supplier-code-of-conduct



ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

RESPONSIBLE EXPORTS

ETHICAL CONDUCT

DEVELOPING SUPPLY CHAINS

» **SECURITY OF OPERATIONS**

FINANCIAL RESPONSIBILITY AND
TAX FOOTPRINT

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

SECURITY OF OPERATIONS

Ensuring undisrupted operations all the way

Security of operations in Patria covers comprehensive management of corporate security and related competency development. Security and data protection reliability are especially important in critical projects.

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

- to enable Patria to conduct business in its sector with regard to its various areas of responsibility;
- to promote and ensure the attainment of Patria's business objectives by maintaining and developing security;
- to safeguard business continuity during various disturbances and exceptional circumstances by ensuring that Patria has prepared for them in advance;

- to ensure Patria's reliability as a partner to its customers, the authorities and other stakeholders;
- to maintain a level of security that ensures the protection of customers', other stakeholders' and its own information and material.

Primary responsibility for corporate security lies with Patria's business units and Group functions, which each take responsibility for matters related to their operations. Patria's corporate security division provides business units and support functions with services in the various fields of corporate security. It steers, develops and monitors the comprehensive management of corporate security, and also maintains and develops the related competencies within Patria.



ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

RESPONSIBLE EXPORTS

ETHICAL CONDUCT

DEVELOPING SUPPLY CHAINS

» SECURITY OF OPERATIONS

FINANCIAL RESPONSIBILITY AND
TAX FOOTPRINT

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE



Corporate security is divided into: production security, rescue safety, preparedness and crisis management, facility security, management of misuses and non-conformities, information security, and personnel security.

Patria has been granted national Facility Security Clearance. The designated national security authorities (DSA and NCSA) regularly audit Patria's level of corporate security.

Data security and protection

Patria maintains an adequate level of data security to ensure the confidentiality, integrity and usability of data

concerning its business partners, customers and other stakeholders. Patria also guarantees data security and protection when working on critical projects for partners and authorities. Patria protects trade secrets and privacy in a way that ensures business continuity even in the event of exceptional circumstances and other disruptions. Patria ensures that every employee has access to the information they require for their work. Patria respects the privacy of its staff, business partners and customers, and requires strict adherence to all applicable personal data legislation and regulations.

Patria protects trade secrets and privacy in a way that ensures business continuity even in the event of exceptional circumstances and other disruptions.

The most significant event of 2020 was the completion of a data protection project at Patria's Estonian subsidiary Milworks. Regular data security and data protection processes were also continued, such as the development of security procedures and technical measures; the processing of security threats and reports; inventories of personal data and processing purposes; and the updating of privacy policies. Privacy policies that must be made available to Patria's stakeholders and website users have been updated and added to Patria's external websites.

It is already standard practice to take data protection into consideration in agreements, and a significant number of data protection appendices were drawn up for new service and procurement contracts. Patria ensures that the required data protection is implemented not only through contractual means, but also using a variety of guidelines and procedures. All personnel receive training on Patria's data protection procedures. It is also essential for Patria to have adequate physical security on its premises, and particular attention is paid to the level of information security. Patria's data security is continually monitored and developed.

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

RESPONSIBLE EXPORTS

ETHICAL CONDUCT

DEVELOPING SUPPLY CHAINS

SECURITY OF OPERATIONS

» FINANCIAL RESPONSIBILITY AND TAX FOOTPRINT

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

FINANCIAL RESPONSIBILITY AND TAX FOOTPRINT

Business in a long-term and responsible manner

Patria enhances and develops its business in a long-term and responsible manner. In its financial reporting, Patria complies with all applicable rules of accounting and financial reporting.

Patria complies with all applicable rules on accounting and financial reporting. Patria's financial reporting is

based on IFRS. Under no circumstances will Patria falsify or forge financial or other documents or give misleading information.

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

will always obtain the necessary permits for mergers or acquisitions.

Tax footprint

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

2020	Finland	Sweden	Poland	Total
Direct taxes payable for the financial year, EUR million				
(taxes and tax-like charges paid directly by the company)				
Income taxes (business income taxes)	4.1			5.2
Employer contributions (employer's pension and social security contributions, etc.)	1.9	1.8		6.0
Property taxes	0.3	0.0		0.5
Indirect taxes payable for the financial year, EUR million				
(taxes paid by the company as part of the price of the service/product and recognised as expenses.)				
Other taxes	0.0			0.0
Taxes to be remitted for the financial year, EUR million				
(taxes that the company collects from its customers or employees which it remits to the tax authorities)				
Wage taxes (withholding, employee social security contributions, etc.)	36.8	1.8		39.1
Tax-at-source	0.1			1.8
VAT, sales	95.0	7.4	0.4	104.5
VAT, procurements	-56.1	-4.3	-0.2	-61.8

A RESPONSIBLE EMPLOYER

Building a shared sense of security

The goal is to provide a safe, productive, equal and healthy working environment in which every person and every team has the opportunity to perform at their best as part of a well-run organisation. Amid the exceptional circumstances of 2020, Patria completed several development projects to support HR management.

HR management is guided by Patria's group-wide HR policy and, in practical work, also by shared principles and high-level processes. These are applied by business units and countries to supervisory work, resource management, ending internal transfers and employment

contracts, remuneration and engagement, learning, and health and wellbeing. Annual targets and indicators have been set for all sub-areas.

Effects of the pandemic

The coronavirus pandemic also impacted Patria's HR work and HR management in 2020. Thanks to rapid responses from the group-wide coronavirus team and clearly communicated common operating methods, Patria was highly successful in ensuring health security and effectively prevented the virus from spreading at its workplaces. One major change has been a widespread shift to remote working, which has required particular attention to be paid to supervisory work, personnel's ability to cope, and finding new ways of cooperating in a digital environment.



The impact of the pandemic on commercial aviation in 2020 also led to employee cooperation negotiations covering all personnel in the metal and composites unit of the Aerostructures business unit and in the Pilot Training unit. These negotiations resulted in full- or part-time layoffs and 12 redundancies. The adjustments were made in 2020 and early 2021.

Patria employs over 3 000 professionals in Finland and internationally. The percentage of the personnel in Finland is approximately 90%. Average personnel turnover at locations in Finland was 6.5 per cent in 2020, compared to 7.9 per cent in the previous year. Outgoing turnover saw a year-on-year fall from 6.4 to 6.1 per cent. During the year, Patria companies in Finland hired 143 new employees on permanent contracts.

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

» A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

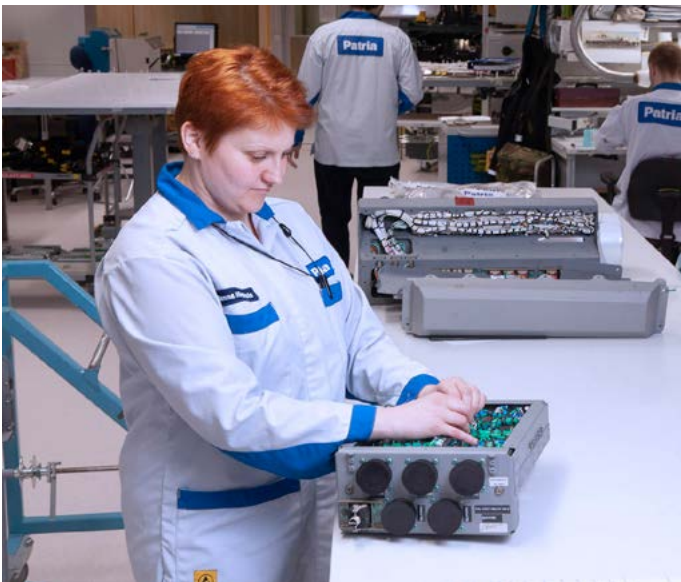
GRI INDEX

FINANCIAL

GOVERNANCE

A BOOST for work development

In spite of the exceptional circumstances, Patria made progress on several HR-related development projects during 2020. Planning in line with the company's new Horizon 2025 strategy was started in late 2020. The realisation of this strategy will bring not only new opportunities for developing work tasks and expertise, but also new networks and working methods in international operating environments. In line with its employer promise - *a workplace where you make the difference* - Patria continued to promote a participatory approach to work development to ensure that personnel can have their



say. This is part of a broader change in Patria's corporate culture, which is seeking closer dialogue and cooperation with personnel. BOOST is an internal operating method that creates a framework for how people act, work and solve problems at Patria.

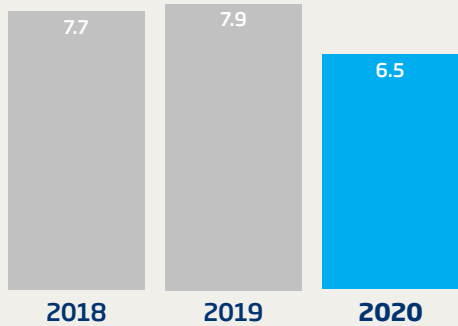
As part of this project, BOOSTing My Team coaching was arranged for more than 200 Patria supervisors as a distance learning programme in autumn 2020. The programme focuses on an interactive, participatory and coaching leadership style, and it has replaced Patria's annual STEP programme for new supervisors. Based on an impact study, the coaching received excellent scores from participants, who appreciated the chance to develop professionally and exchange ideas.

In late 2020, Patria also launched its annual group-level LEAP leadership training and the Pro Point development programme for experts. Due to the exceptional circumstances, the Pro Point programme could not be completed within the planned timeframe and will therefore continue in 2021. 25 people took part in the LEAP programme for future leaders, and about 15 experts took part in the Pro Point coaching, which focused on strengthening competence levels. Last year, it was the turn of production employees to receive expert training.

A change in development discussions

Patria's performance management model was completely revised during 2020. The MyPower approach emphasises each person's own ability and responsibility to take

Personnel turnover in Finland, %



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

on a larger role in managing their own performance. In the new process, employees make a detailed review of their own role with support from their supervisors, with respect to areas such as target attainment, developing personal resources and assessing performance. A new feedback tool was also introduced to support this.

As part of the general development of performance management, a new HR system called MyPeople was introduced in December 2020. This global system will enable more effective management of HR and employment data, and a target setting module will also be added in 2021 to record common objectives for development

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

» A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

According to the Patria People survey conducted in 2020, commitment, team spirit, and motivation for own work are strengths at Group level.

discussions. As part of the MyPower project, development and performance discussions will be revised in early 2021, so that several guided follow-up discussions will now be held instead of one annual discussion. Development and performance discussions were conducted according to the old model in 2020, with a documented attendance rate of 75.5%. The actual attendance rate is higher, as the change in management systems after the turn of the year led to inadequate documentation on the conclusion of discussions.

Paying attention to wellbeing and working capacity

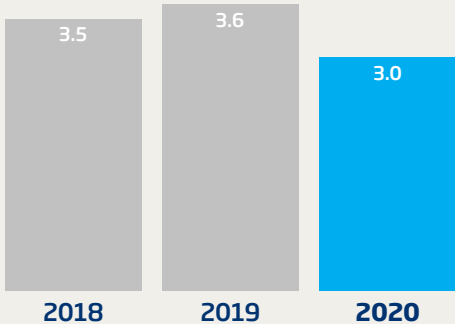
Wellbeing at work is one of the most important themes in Patria's responsibility programme, and its realisation is measured using the sickness absence percentage and the results of the job satisfaction survey. Sickness absences fell slightly in Finland in 2020, standing at an average of 3.0% compared to 3.6% in the previous year. The figures correspond to the industry average. The most common causes of sick leave at Patria are musculoskel-

etal disorders resulting from physical work. Preventive measures such as good ergonomics and, when necessary, professional rehabilitation are employed to ensure that personnel retain their working capacity all the way up until retirement.

In 2020, the accident frequency in Finland remained the same as in the previous year - 4.1 - which is good in comparison to the industry average. Patria's calculation includes all accidents at work that led to a minimum of four days' absence. Patria personnel actively participate in developing occupational safety by, for example, reporting safety observations.

A new model for supporting work capacity was introduced at the beginning of 2020. Its main objectives are to promote productivity and wellbeing at work, support personnel's working and functional capacity, and to manage sickness absences. Patria engaged in closer cooperation with various service providers, and new tools to support working capacity were introduced when a new partner took over as the company's occupational healthcare provider. This new partner centrally coordinates healthcare for all Patria locations in Finland. Existing support models for early intervention, working capacity management and returning to work have been supplemented with new tools, such as the Supervisor Compass. This tool automatically alerts supervisors when the limit for early intervention or continuous sick leave is met. Occupational healthcare also uses the Working Capacity Radar to preemptively record

Sick leave trend at Patria Group in Finland



potential risks to working capacity, so that problems can be addressed as early on as possible.

According to the Patria People survey conducted in 2020, commitment, team spirit, and motivation for own work are clear strengths at Group level. Areas for development related to decision-making culture, change implementation and accessing information from the perspective of a person's own work. The MyPower project and BOOST way of working both seek to respond to these challenges in their own way, with each playing an active role in decision-making and forging a culture of open discussion. From the beginning of 2021, each business unit will be responsible for listing and

promoting concrete measures to improve work within their units.

Performance bonus and profit-sharing scheme revised

Patria applies Technology Industries of Finland's collective agreements in Finland, and the employment contracts of 96.3 per cent of personnel fall within the scope of these agreements. The compensation paid to salaried and waged employees is determined by collective agreements. The compensation paid to senior salaried employees is agreed on individually, and job evaluation is performed using the International Position Evaluation (IPE) system. Successes and good performance are also rewarded through the performance bonus and profit-sharing scheme.

Patria is committed to respecting collective agreements and helping its employees to participate in planning and decision-making related to their own work and working environments. Thanks to this collaborative system, all disputes relating to collective agreements and employment legislation can be resolved in a controlled manner. Making local agreements has become an established practice at Patria.

As part of the MyPower project, a revision of the performance bonus and profit-sharing scheme was launched in 2020 and is scheduled for completion in early 2021. The new system covers all Patria personnel. The rewards paid to most employees via the performance bonus and profit-sharing scheme total 15 per cent of their annual earnings. Patria has a compensation fund pursuant to the Act on Personnel Funds in place, and approximately

20 per cent of Patria personnel have invested their bonuses and profit shares in the fund since 2015.

In addition to monetary compensation, Patria also offers opportunities for career development and growth through, for example, various educational opportunities. All personnel also have flexible working hours and the opportunity to do part-time work and take alternation or study leave.

Promoting equality and diversity

Patria strives to create a working environment that supports and values diversity, and is marked by a sense of trust and respect. All supervisors must actively and

systematically promote a leadership culture that is in line with Patria's values and Ethical Code. Personnel are treated and assessed in terms of the skills required by their work. As an employer, Patria is committed to treating all personnel equally and impartially. No form of harassment or discrimination is allowed.

As a baseline, every Patria employee should promote equality in their behaviour and actions. Everyone has the right and responsibility to intervene if any grievances are observed. Patria encourages personnel to report any suspected misconduct and offers a variety of channels for doing so. These reporting methods include an anonymous whistleblowing channel for Patria personnel.



ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

» A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

Personnel figures 2020

	2018	2019	2020
Personnel			
Personnel average	2,791	2,988	2,973
Finland	2,626	2,757	2,746
Sweden		109	111
Belgium ¹⁾		77	87
Estonia		38	35
Others			4
Blue-collar %		43	41
Blue-collars in Finland %	41	41	41
White-collars %		57	59
Salaried in Finland %	19	18	18
Senior salaried in Finland %	40	41	41
Proportion of women %		16	16
Proportion of women in Finland %	15	16	16
Proportion of women in the Board	2/8	2/7	2/8
Proportion of women in Group Management Team	3/9	3/10	2/10
Education in Finland²⁾			
Doctoral degree %			2
University degree %	17	18	19
College degree %	30	29	22
Vocational/upper secondary school %	51	51	55
Basic education %	2	2	2
Employment			
Average age		45.2	45.3
Average age in Finland	45.7	45.5	45.5

	2018	2019	2020
Average length of service, yrs		13	13.1
Average length of service in Finland, yrs	14.7	13.8	13.9
Personnel turnover in Finland, average turnover % ³⁾			
Finland	7.7	7.9	6.5
Sweden		24.7	26.6
Belgium		6.6	15.4
Estonia		31.6	14.3
Personnel turnover in Finland, leavers %			
Finland	8.9	6.4	6.1
Sweden		23.3	39.1
Belgium		5.5	6.2
Estonia		26.4	20.0
Permanent employees		95	94.3
Permanent employees in Finland %	95.3	94.8	94.6
Part-time employees %		2.5	5.5
Part-time employees in Finland %	2.2	3.4	5.4
Health and safety			
Absenteeism attributable to sickness %			
Finland	3.5	3.6	3.0
Sweden		3.6	3.4
Belgium		5.1	5.6
Estonia ⁴⁾		4.5	5.2
Frequency of accidents			
Finland ⁵⁾	15	4.1	4.1
Sweden			0.0
Belgium			0.0
Estonia			14.2

¹⁾ 2019 figure is not year average as Belgium became part of the Group in June/2019.

²⁾ Figures from international units not available. As of 2020 educational information have been available in the global HR system and divided in a different way.

³⁾ Calculation formula has been changed since 2019: ((started + terminated permanent employments)/2) / personnel in average

⁴⁾ 2019 figure covers period 1 June-12 December 2019.

⁵⁾ Calculation formula has been changed in 2019: now included all accidents causing absenteeism at least four days.

ENVIRONMENTAL RESPONSIBILITY

Developing environmental reporting is a priority

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

Patria has committed to take concrete actions to promote sustainable development. We seek to make energy and water consumption more efficient, and to have a positive impact on the recycling and responsible disposal of waste. In 2019, we invested heavily in enhancing the reporting process to ensure that the information is as accurate as possible and is not based on estimates. Patria's sustainability reporting has also been developed to better meet Global Reporting Initiative Standards (GRI). This work has continued through 2020.

The Environmental Work Group is in charge of Patria's environmental responsibility development. This group is tasked with furthering collaboration, sharing information

and experiences between various business areas, and planning and reporting on the Patria Group's environmental responsibility. An external expert organisation (Ecobio Ltd.) is responsible for the development and coordination of the Environmental Work Group and is seeking to enhance its reporting practices.

Patria reports environmental indicators for nine facilities in Finland (Tampere, Espoo, Helsinki, Hämeenlinna, Halli, Linnavuori, Pirkkala, Tikkakoski and Utti). The environmental indicators are collated using figures from the following business units: Aviation, Land, Systems and Aerostructures. In 2019, some of Aviation's operations were transferred from Pirkkala to Córdoba, Spain. The previous year's reporting took into account the fuel





Patria has defined targets for reducing its carbon footprint, and planned measures to reach these targets.

consumption of pilot training in Córdoba but this year other variables were considered, as well.

Compared to previous years, the biggest change in 2020 is that International Support Partnership (ISP) units in Belgium, Sweden, and Estonia were added to the reporting scope and combined with Patria's numbers for Finland. The report also presents environmental data for Patria's partially-owned subsidiary Millog, which operates in dozens of locations and garrisons around Finland.

Data from the previous years is not yet available for the new ISP business units. In the future, information from previous years will be added to the environmental reporting to better indicate the real changes.

Patria has also calculated its carbon footprint for 2020. The calculation criteria and results are presented in the

annual report. During 2020, Patria has defined targets for reducing its carbon footprint, and planned measures to reach these targets. In 2021, Patria will also calculate the greenhouse gas emissions of its value chain (scope 3) for 2020.

Patria's business units have objectives that are specific to each unit and site and that consider the special characteristics of their operations and environmental impact. The Patria Group also sets joint environmental objectives that are created together with the various business areas. The principles of environmental protection defined in Patria's environmental policy emphasise the identification and management of the environmental impact of products and services, and considers a life-cycle perspective whenever possible.

Environmental systems

Patria Group's most significant production facilities feature certified environmental systems that comply with the latest ISO 14 001:2015 standard. With the aid of the environmental management system, Patria is improving the management of the environmental impact and the level of environmental protection within the Patria Group. The partly-owned subsidiary Millog has certified environmental systems for all of its operations at each of its locations. Millog's operations were recertified in autumn 2019 and the renewed certificate will be valid until 2022.

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

» ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

Carbon footprint

Patria Group has conducted its carbon footprint calculation according to the standards and guidance described in the GHG protocol (version 2004, amendment 2013).

Patria Group has set the organisational boundaries under the control approach, and therefore accounts for 100 per cent of the GHG emissions from operations over which it has control. In addition, the operations of Millog and Estonia were included in the carbon footprint calculation. The calculation concerns operations in Finland, Sweden, Estonia, Belgium, and Spain.

Patria Group has set the operational boundaries to include scope 1 and scope 2 in the calculation but to exclude scope 3 for the time being. Scope 1 consists of direct GHG emissions that occur from sources that are owned or controlled by the company, such as company owned vehicles. Scope 2 accounts for GHG emissions from the generation of purchased electricity and heat consumed by the company. The indirect emissions from the value chain (scope 3) will be included later in 2021 to complete Patria's carbon footprint calculation. Calculations concern years 2018, 2019 and 2020. However, currently only the GHG emission calculation of 2020 covers all the Patria's locations and operations (ISP units included). For now, the calculations for years 2018 and 2019 only concern operations in Finland.

The Patria Group's carbon footprint for all the locations in 2020 was 20,001.9 tonnes of carbon dioxide equivalent (t CO₂e). The carbon footprint for operations in Finland was 18,762.4 t CO₂e in 2020, and in comparison to previous year's carbon footprint (21,271.12 t CO₂e), Patria generated 2,508.72 tonnes less greenhouse gas emissions than in previous year, if only operations in Finland are considered.

Scope 1 emissions are from fuel consumption. They covered approximately 16.1% of all Patria Group's emissions and amounted to 3,229.6t CO₂e. The majority of emissions (83.9%), 16,772.3 t CO₂e, came from purchased energy (scope 2), especially heat consumption.

Energy consumption

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

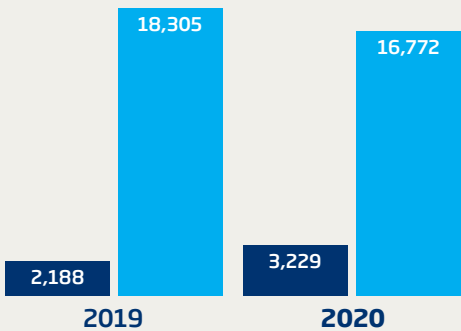
Thermal energy and electricity consumption

The weather-normalised thermal energy consumption of properties managed by Patria and Millog decreased by 5% in 2020. The thermal energy consumption of Patria's own operations decreased by 6% compared to previous years. Specific heat consumption, which defines energy

consumption in proportion to the number of heated building cubic metres, decreased in Patria's own operations by 8.7%.

In 2020, Patria and Millog's electricity consumption increased by about 3.7% compared to 2019. Electricity consumption of Patria's own operations rose by 9.8% which is mostly due to the ISP units' electricity consumption that is not included in previous years' calculations.

Patria's GHG emissions by scope 2019-2020 (t CO₂e)



■ Scope 1 total emissions
■ Scope 2 total emissions

All locations included in 2020 figures. Year 2019 figures include locations in Finland.

Specific electric energy consumption, which defines energy consumption in proportion to the number of electrified building cubic metres, decreased by 5.2% in Patria's own operations. Number for Millog could not be calculated as cubic meters in Millog's buildings was not known.

Fuel consumption

In 2020, Patria and Millog's total fuel consumption increased by 34.4% compared to the previous year. Patria's consumption of light fuel oils rose by 43.2% but Millog's consumption fell by 34 per cent. Patria and Millog's consumption of motor gasoline decreased

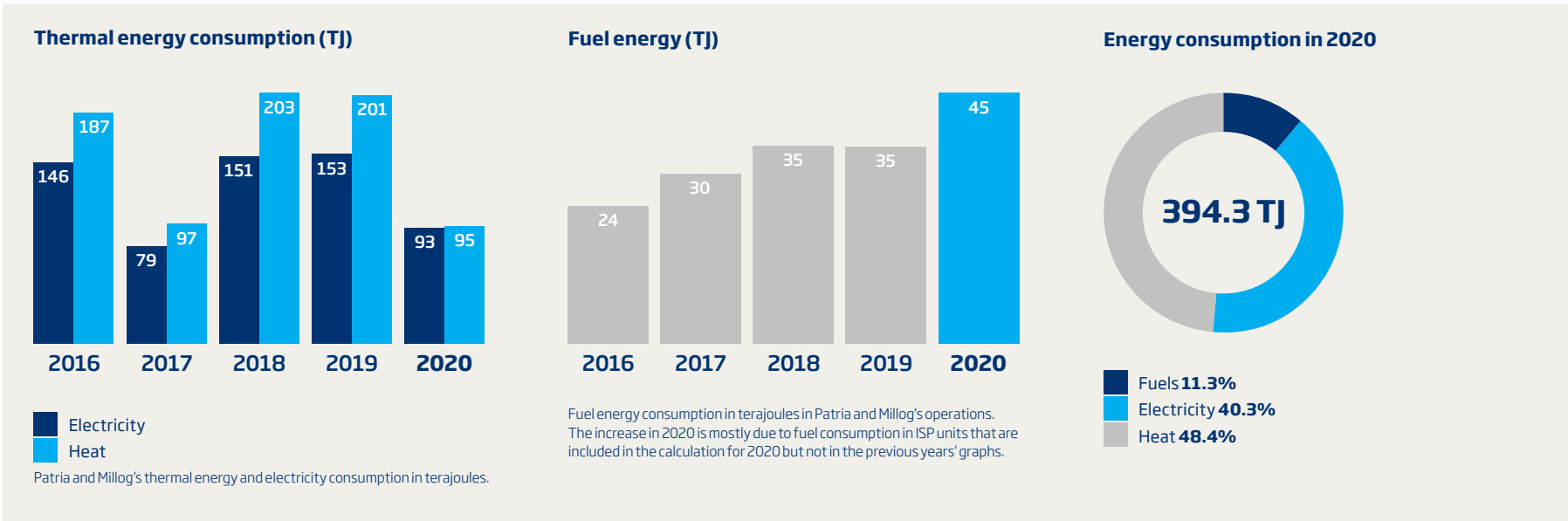
by 48.2%, while the consumption of diesel increased by 58.4%. Jet fuel consumption rose by 18.5% but aviation gasoline consumption fell by 97.1%. Fuel energy consumption in terajoules rose from 35 terajoules to 46.2 terajoules mainly because of ISP units' fuel consumption that was included in Patria's numbers for the first time. The fuel consumption for the year 2018 is updated as the fuel consumption unit concerning light fuel oil use in Linnavuori was corrected.

Estonia and Belgium use natural gas to produce heat. However, natural gas for heating is included in fuels as exact gas usage is known and calculating the amount of heat produced by the amount of gas would be an

estimation only. Gas usage is included in scope 1 in carbon footprint calculation.

The Finnish Defence Forces are responsible for monitoring the consumption of aviation gasoline and jet fuel used by their aircraft in military flight training and maintenance test flights. The fuel that has been consumed in Millog's maintenance runs is included in Patria's report. Millog's fuel consumption has been reported from 2018 onwards.

Patria's various operations consumed a total of about 394.3 terajoules of energy in 2020. Total energy consumption rose by 1.3% compared to the previous year.



ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

» ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

Total water consumption

Patria Group's total water consumption (household water and lake water) increased by 96.1% in 2020 compared to 2019. This is mostly due to the large amount of lake water used in Linnavuori, but also because of the inclusion of domestic water consumption of ISP units in Belgium, Sweden and Estonia (total 5,922 m³) in the report. In Belgium, rainwater is also used for sanitation and washing, but as collecting rainwater does not affect

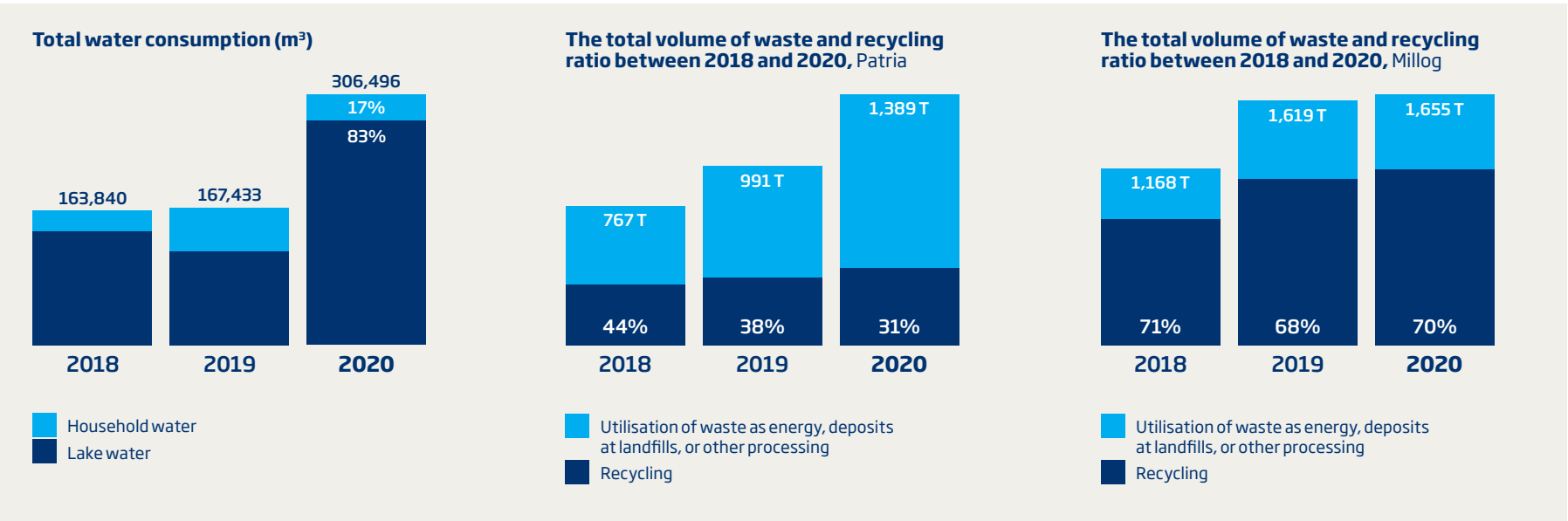
water reserves, it was excluded from the reporting.

The consumption of lake water in Linnavuori increased by 140%. Consumption always varies, depending on the number and types of engines being overhauled in different years. At the Linnavuori site, lake water is used to cool engines during test runs and to dry ovens and vacuum furnaces. The used cooling water is fed back into Lake Jokinen. Lake water accounted for 83% of total water consumption in 2020.

Waste

The Group's operations primarily generate common municipal waste, scrap metal, hazardous waste, and construction and industrial waste.

The total volume of waste generated by Patria in 2020 was approximately 1,389.1 tonnes, which represents a rise of about 40.2% compared to 2019. Patria's 2020 recycling ratio was 31% of its total waste volume, compared to 38% in the previous year. Waste generated



in ISP units' operations accounted for 389.4 tonnes, and as ISP units' waste is not included in previous years' numbers, waste from Patria's Finnish units increased only slightly compared to 2019.

Waste generated by Millog totalled 1,655.3 tonnes, which represents a rise of 2.2% compared to the previous year. For the year 2019, some updates were made, and the waste amounts increased by 13.4 tonnes for 2019. The total amount of waste remained about the same as in 2019. Millog's recycling rate rose slightly, from 68% in 2019 to 70% in 2020.

49% of Patria's waste consisted of common waste, that is, municipal waste, construction waste and scrap metal (total 681 tonnes). 51% of the waste was hazardous

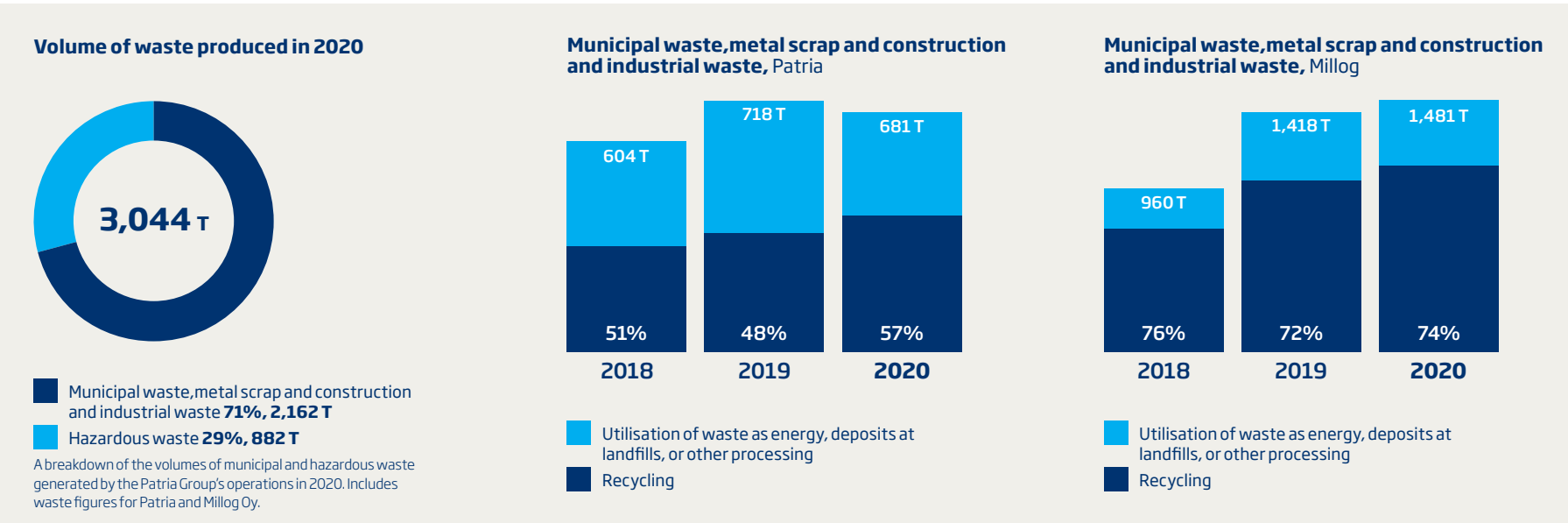
(708 t). Waste amounts have increased by 40.2% due to ISP units being included in the reporting for the first time. Common waste generated by ISP units was 41.3 tonnes, and hazardous waste 348 tonnes. Common waste includes energy waste, unsorted waste, paper, cardboard, sludge, waste wood, organic waste, common electrical and electronics scrap, construction waste, glass, plastic, brick and concrete waste, steel and aluminium scrap, and packaging metal. Hazardous waste principally consists of oily waste, wash water, sediment and other waste classified as hazardous.

Millog's common waste accounted for 89.5% (1,481 t) of Millog's total waste volume, and only 10.5% of it was hazardous waste (174 t). Common waste increased by

4.4% compared to 2019, but hazardous waste amounts decreased by 13.4%.

The Patria Group's waste volume totalled about 3,044 tonnes, including waste figures for Patria and Millog.

The Group seeks to raise awareness of waste utilisation and processing methods, and to promote waste recycling. In 2016, Patria began the systematic gathering of information on the utilisation and processing of waste. Information for 2014 and 2015 has also been gathered retroactively. Data collection methods were also revised during 2019. Waste data from Espoo (1-2 tonnes per annum) was retroactively added to reporting for the years 2016-2018.



ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

» ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

In February 2020, Linnavuori unit switched to carbon neutral waste management in terms of its community waste. The company behind community waste management (Lassila & Tikanoja Oyj) calculates its carbon footprint that is generated in waste management process and the calculated greenhouse gas emissions are compensated in Gold Standard certificated forestation projects. Only the emissions that cannot be avoided by optimizing energy and fuel use, for example, are compensated, and the company strives for low emissions during the whole waste management process.

The waste usage rate (treatment methods other than landfill) was about 75% and the recycling rate about 52% for Patria and Millog. Approximately 57% of Patria's own municipal waste was recycled, constituting an increase of nine percentage points compared to 2019. The recycling rate for Millog's municipal waste increased by two percentage points, from 72% in 2019 to 74% in 2020. Municipal waste volumes decreased in Patria's operations even though ISP units were added to the calculations. Millog's municipal waste volume increased slightly.

Approximately 13% of Patria Group's hazardous waste was recycled, constituting a decrease of 10 percentage points compared to 2019. Patria's hazardous waste volumes rose noticeably compared to the previous year (+ 408 tonnes) and the recycling rate fell by five percentage points. This is mostly due to large amounts of hazardous waste in ISP Belgium. Hazardous waste produced by Millog decreased 27 tonnes compared to 2019 and the recycling rate stayed the same as in 2019.



ANNUAL REVIEW

BUSINESS UNITS

**PATRIA'S CORPORATE
RESPONSIBILITY**

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

» **GRI INDEX**

FINANCIAL

GOVERNANCE

GRI index

Patria's report is based on the Global Reporting Initiative's GRI Standards for sustainability reporting, the Core option. The reporting period is the calendar year, 1 January–31 December 2020, and the report is published annually.

This report provides information on the most material sustainability topics for Patria. The report takes into consideration the stakeholder views and operations' impact on the society. Our corporate responsibility report has not been externally verified.

GRI STANDARD NUMBERS	GRI DISCLOSURE	PAGE NUMBER	ADDITIONAL INFORMATION
General disclosures			
102-1-102-7	Basic information about the company	Annual Review p 3, 7 Finance and governance p 10	
102-8	Information on employees and other workers	Responsibility p 27	
102-9	Supply chain	Responsibility p 19	
102-10	Significant changes to the organization and its supply chain	Annual Review p 8-9	
102-11	Precautionary Principle or approach	Finance and Governance p 41-42	
102-12	External initiatives	Responsibility p 3	
102-13	Membership of associations	Responsibility p 3	
102-14	Statement from senior decision-maker	Responsibility p 3	
102-15	Key impacts, risks, and opportunities	Annual review p 11-12, p 14-15 Sustainability p 4-9 Finance and governance p 41-42	
102-16	Values, principles, standards, and norms of behavior	Annual review p 4, p 10, p 15-17	
102-17	Mechanisms for advice and concerns about ethics	Responsibility p 18	
102-18	Governance structure	Finance and governance p 37-39	
102-19	Delegating authority	Finance and governance p 37-39, p 43-45	
102-20; 102-32	Executive-level responsibility for economic, environmental, and social topics, Highest governance body's role in sustainability reporting	Finance and governance p 39 Responsibility p 4-5	
102-24	Nominating and selecting the highest governance body	Finance and governance p 37-39	
102-26	Role of highest governance body in setting purpose, values, and strategy	Finance and governance p 37-39	
102-40-102-44	Stakeholder engagement	Responsibility p 10-14, 26	
102-46	Defining report content and topic Boundaries		Report content covers entire Group unless otherwise advised
102-47	List of material topics	Responsibility p 8-9	
102-48-102-49	Restatements of information, Changes in reporting		
102-50-102-53	Reporting period, cycle, contact point	Finance and Governance p 46	1.1.-31.12.2020
102-55	GRI-index	Responsibility p 36-37	
102-56	External assurance		The report has not been externally assured

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

» **GRI INDEX**

FINANCIAL

GOVERNANCE

GRI STANDARD NUMBERS	GRI DISCLOSURE	PAGE NUMBER	ADDITIONAL INFORMATION
Economic			
201-1	Direct economic value generated and distributed	Annual review p 7 Finance and governance p 2	
201-3	Defined benefit plan obligations and other retirement plans	Responsibility p 26 Finance and governance p 18-19	
205-1	Operations assessed for risks related to corruption	Finance and governance p 41-42	
205-2	Communication and training about anti-corruption policies and procedures	Responsibility 17-18	
205-3	Confirmed incidents of corruption and actions taken	Responsibility p 4, 10, 13, 17-18	
207-1-207-2, 207-4	Tax reporting	Responsibility p 22	
Environmental			
302-1	Energy consumption within the organization	Responsibility p 30-31	
302-4	Reduction of energy consumption	Responsibility p 30-31	
303-3	Water withdrawal by source	Responsibility p 32	
305-1	Direct (Scope 1) GHG emissions	Responsibility p 30	
305-2	Energy indirect (Scope 2) GHG emissions	Responsibility p 30	
305-3	Other indirect (Scope 3) GHG emissions		Not reported, will be calculated in 2021
306-2	Waste by type and disposal method	Responsibility p 32-34	
Social			
401-1	New employee hires and employee turnover	Responsibility p 23-24	
403-4	Worker participation, consultation, and communication on occupational health and safety	Responsibility p 24	
403-9	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Responsibility p 25, 27	
403-10	Work-related ill health	Responsibility p 25, 27	
404-2	Programs for upgrading employee skills and transition assistance programs	Responsibility p 26	
405-1	Diversity of governance bodies and employees	Responsibility p 27	
406-1	Incidents of discrimination and corrective actions taken	Responsibility p 17-18	Process of ethical conduct defined.
412-2	Employee training on human rights policies or procedures	Responsibility p 15	
415-1	Political contributions		See Code of Conduct.

ANNUAL REVIEW

BUSINESS UNITS

PATRIA’S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

» FINANCIAL

BOARD OF DIRECTORS’ REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

FINANCIAL AND GOVERNANCE

FINANCIAL

75 Board of Directors’ Report

Consolidated Financial Statements (IFRS)

79 Consolidated balance sheet

80 Consolidated income statement

81 Consolidated cash flow statement

82 Consolidated Statement of Changes in Equity

83 Notes to the Consolidated Financial Statements

Financial Statements of the Parent company (FAS)

101 Balance Sheet, Parent company

102 Income Statement, Parent company

102 Cash Flow Statement, Parent company

103 Notes to the Financial Statements, Parent company

GOVERNANCE

110 Corporate governance

113 Industrial participation

114 Risk Management

116 Board of Directors

117 Consultative Committee

118 Group Management Team



ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

» BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

Board of Directors' Report

NEW ORDERS AND ORDER STOCK

The value of new orders received during the financial period was EUR 1,400.2 million (EUR 432.4 million in 2019). Millog's updated Strategic Partnership Agreement with the Finnish Defence Forces for 2021–2028 had a significant impact on the value of new orders. Defence material and life cycle support accounted for 97% (89%) and civilian products for 3% (11%) of the new orders. At the end of December, the Group's order stock was EUR 1,508.2 million (EUR 649.2 million).

NET SALES AND PROFITABILITY

The Group's net sales for the financial period totalled EUR 534.1 million (EUR 507.5 million in 2019 and EUR 476.1 million in 2018). Defence material and maintenance accounted for 93% (92%) and civilian products for 7% (8%) of the net sales. Sales outside Finland for the financial period accounted for 25% (26%) of the net sales.

The Group's operating profit for the financial period was EUR 40.3 million, representing 7.5% of net sales (2019: EUR 7.8 million, 1.5%; 2018: EUR 35.9 million, 7.5%). The consolidated income before taxes for the financial period amounted to EUR 36.7 million (2019: EUR 3.9 million; 2018: EUR 33.7 million). The Group's return on equity for the financial period was 13.8% (2019: 1.8%; 2018: 11.8%).

Patria Group's financial performance exceeded its key targets and profitability for the financial year 2020 was at a strong level, in spite of COVID-19. The impact of the pandemic was moderate on Group level but civil pilot training and commercial aircraft parts manufacturing business suffered from decreased demand. During the financial period the Squadron 2000 project continued. Patria had also an active role as strategic partner of the Finnish Defence Forces in assisting in the HX Fighter Program.

FINANCING AND OWNERSHIP

The Group's equity ratio at the end of December was 38.8% (2019: 39.1%; 2018: 54.4%) and net gearing 72.1% (2019: 70.8%; 2018: 26.8%).

Consolidated liquid funds at the end of December amounted to EUR 37.5 million (EUR 35.9 million). The Group's interest-bearing liabilities totalled EUR 217.7 million (EUR 204.6 million) at the end of December. The interest-bearing liabilities included finance lease liabilities of EUR 97.7 million (EUR 88.0 million).

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

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

CAPITAL EXPENDITURE AND ACQUISITIONS

The Group's capital expenditure excluding leases for the financial period totalled EUR 6.8 million (EUR 12.1 million). Capital expenditure was mainly related to facilities and equipment, IT and production. In addition, a total of EUR 8.0 million (EUR 19.8 million) was spent on acquisitions.

Millog Oy signed a contract in December 2019 for the purchase of the entire share capital of Virve Tuotteet ja Palvelut Oy from Erillisverkot Group. Ownership was transferred to Millog Oy on 2 January 2020 and Virve Tuotteet ja Palvelut Oy continued to operate as an independent subsidiary under Millog's ownership. The business activities of Virve Tuotteet ja Palvelut Oy include the sale and maintenance of terminal equipment for terrestrial trunked radio (TETRA) networks. The company was founded in 2007 and has 8 employees. Its net sales for the previous financial period totalled EUR 5.5 million.

In February Patria and Latvian SIA Unitruck established a jointly owned company in Latvia. The new company, SIA Defence Partnership Latvia, owned by Patria by 70% and Unitruck by 30%, will provide maintenance, repair, overhaul, system integration services and logistical operations to the Latvian National Armed Forces. The new company is located in Cesis, Latvia.

In February Patria ISP Oy acquired 100% of shares of Milrem Latvia SIA and Milrem Lithuania UAB from Milrem LCM OÜ. The acquired companies were named Patria Latvia SIA and Patria Lithuania UAB.

Patria Helicopters AS was sold to Kongsberg Aviation Maintenance Services AS (KAMS) on 1 July 2020. Patria owns 49.9% of the shares of KAMS. Patria Helicopters AS has 27 employees and a one-stop shop for maintenance, repair and overhaul services specialised in the maintenance of helicopters in Bardufoss, Norway. The target for the helicopter maintenance consolidation was better customer support and improved efficiency.

In October Millog Oy acquired 100% of the shares of Oy Western Shipyard Ltd from APX Metalli Ltd. Western Shipyard's business includes docking and repairs of ships and floating structures. The company's net sales in the previous financial period was EUR 16.3 million and it has 34 employees.

Patria Engines Holding Oy was merged into Patria ISP Oy on 31 October 2020.

RESEARCH AND DEVELOPMENT

The Group's expenditure on research and development for the financial period amounted to EUR 10.0 million (EUR 8.7 million), representing 1.9% (1.7%) of the net sales. The most significant research and development areas included new technologies, materials and systems related to mobility and aviation, as well as technologies related to sensor products and electronic warfare systems.

PERSONNEL

During the financial period the Group employed an average of 3,003 (2019: 2,988; 2018: 2,791) persons. At the end of December, the personnel totalled 2,973 (2019: 3,055; 2018: 2,816).

The salaries and wages of Patria Group's employees are determined on the basis of collective and individual agreements as well as employee performance and job evaluations. Basic salaries and wages are complemented by performance-based compensation systems. All Patria employees are part of a yearly bonus plan. During 2020 the yearly bonus plan was renewed. The new yearly bonus plan was approved by the Board of Directors and will be introduced from the beginning of 2021. In 2020, the total amount of salaries and wages paid was EUR 162.4 million (2019: EUR 154.1 million; 2018: EUR 140.1 million).

The objective of the personnel strategy is to help the Business Units to meet their business targets and to ensure future competitiveness by developing personnel and their competences. In Patria, special emphasis is given to employee well-being as well as safe and healthy working environment. Employee well-being is measured against e.g. sickness absence rates and frequency of work-related accidents.

Patria People personnel survey was conducted in 2020. The aim was to identify the strengths and areas of development as well as develop a more inclusive workplace culture. 83.4 per cent of all personnel responded to the survey. The survey's overall result indicated positive development and People Power Index was 64.8 compared to 61.3 in 2018. The most essential strengths and areas of development across the group were identified. According to the survey, clear strengths at group level include commitment, group spirit and motivation for one's work and the issues to be developed relate to information from the perspective of one's work, the culture of decision making and the implementation of changes.

Patria has three group-level development programmes. The long-term development programme for future management resources was run in a new format. The programme aims to meet Patria's internationalising business and the requirements of change leadership. In 2020 the programme meant for supervisors was focused on the supervisors' ability to coach their team members, to involve them and to set clear and motivating targets. The programme especially meant for

ANNUAL REVIEW
BUSINESS UNITS
PATRIA'S CORPORATE RESPONSIBILITY
PATRIA AS PART OF SOCIETY
A RESPONSIBLE EMPLOYER
ENVIRONMENTAL RESPONSIBILITY
GRI INDEX
FINANCIAL
» BOARD OF DIRECTORS' REPORT
CONSOLIDATED FINANCIAL STATEMENTS (IFRS)
CONSOLIDATED BALANCE SHEET
CONSOLIDATED INCOME STATEMENT
CONSOLIDATED CASH FLOW STATEMENT
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)
BALANCE SHEET, PARENT COMPANY
INCOME STATEMENT, PARENT COMPANY
CASH FLOW STATEMENT, PARENT COMPANY
NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY
GOVERNANCE

experts focused to increase the experts' competence level as a critical factor in business development, and also to create a more customer-focused way of working.

COVID-19 pandemic had a significant impact on commercial aviation. This has a continued negative impact on the demand of civil aviation components and civil pilot training, and therefore Patria had employee cooperation negotiations in its Aerostructures and Pilot Training units.

Employee cooperation negotiations in Aerostructures business unit's composite and metal operations concerned the Business unit's personnel in Finland, in Halli, Jämsä and in Tampere. The negotiations resulted in shortening the working week and the factory was closed during summertime. Additionally, the negotiations led to redundancy of 12 persons and there were variable indefinite and fixed period lay-offs during year 2020. Part of the lay-offs were implemented during early 2021.

Employee cooperation negotiations in Patria's Pilot Training unit concerned the entire personnel of the unit. Negotiations resulted in full-time and part-time lay-offs and the lay-offs lasted two months in average.

KEY EVENTS DURING YEAR 2020

Mid-Life Upgrade work of the Hamina-class missile boats continued, and of the four missile boats to be repaired, two were turned over for Finnish Naval Forces during 2020. Patria acts as the prime contractor, designer and the prime system integrator, and all the new capabilities will be in use of the Finnish Navy during 2022.

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

As part of a Finnish-Latvian development program, Patria 6x6 armoured vehicle was chosen as the vehicle platform for sustained army mobility enhancement. Estonia joined the program in April. In October, Finland and Latvia together with Patria signed a research and development (R&D) agreement for a common armoured vehicle system, which is a next step in this collaborative programme after the countries last spring signed a joint technical arrangement. The purpose of the R&D agreement is to develop a common armoured vehicle system, based on the Patria 6x6 vehicle and developed to meet the common requirements of the countries. The agreement also allows for the development of other new vehicle variants and system features later.

In October Patria and the U.S. Army entered into an agreement for a feasibility study of Patria Nemo 120 mm mortar system. The testing complements ongoing cooperation between Patria and the U.S. Army on a Cooperative Research and Development Agreement (CRADA) announced in May. The study consists of several tests and demonstrations in the U.S. and Finland. Through these events Patria and the Army are testing Patria Nemo 120 mm turreted mortar system performance with U.S. ammunition and against U.S. requirements.

In October Patria's armoured combat vehicle AMV^{XP} was selected for the second phase of Bulgarian vehicle acquisition program based on a tender phase. The final decision on the actual acquisition will be made after field tests and negotiations.

Senop Oy entered into an agreement with the Finnish Defence Force to supply night vision devices. The procurement is based on a Letter of Intent signed in May 2019 and Senop will deliver the systems by the end of 2021.

Patria signed a five-year agreement with Qatar Airways to train their new pilots. The training will be based on Multi-Crew Pilot License (MPL) program, which was tailored by Patria for Qatar Airways.

In November Patria and SIA EMJ Metāls, a Latvian owned company specialized in sheet metal processing, signed an agreement for vehicle parts manufacturing in Latvia. The agreement is related to the research and development (R&D) agreement for a common armoured vehicle system signed in October by Finland, Latvia and Patria.

In December Patria delivered Patria AMV 8x8 System Platform vehicle to Saab based on a contract signed in June of the same year. The contract includes vehicle, training and maintenance services. The vehicle will be used as a test and development platform for the latest generation of Saab vehicle electronics and video systems, but also for demonstration and marketing purposes.

Millog and the Finnish Defence Force's Logistics Department signed an updated Strategic Partnership Agreement. The total value of the services during the pricing period 2021–2028 is approximately EUR 1.4 to 1.6 billion. The domestic employment effect of the contract will be about 10,000 to 11,000 person-years.

Patria AMVXP 8x8 vehicles were sent to Japan for test purposes. These vehicles are part of the Japanese Ground Self-Defense Force's project operating under the Japanese Ministry of Defense. Patria has been selected as one of the competitors for the new 8x8 Wheeled Armored Personnel Carriers (WAPCs) project. The project has progressed to the test phase after which the Japanese Ministry of Defense will evaluate the vehicles.

Patria fulfilled its offset and industrial participation obligations in Croatia related to Patria AMV 8x8 delivery program when Patria's offset performance was approved by the Croatian Ministry of Economy and Sustainable Development in December 2020.

ADMINISTRATION

Patria Oyj's Annual General Meeting held in Helsinki on 3 April 2020 adopted the Consolidated Financial Statements for the financial period that ended on 31st December 2019. It was also decided to discharge the members of the Board of Directors and the President and CEO from liability for the financial period of 2019. Furthermore, the Annual General Meeting decided, according to the Board of Directors' proposal, to distribute a dividend of EUR 0.50 per share, totally EUR 13,920,944.50.

Panu Routila, Master of Science (Economics) was appointed as Chairman of the Board of Directors as of 4 February 2020. Until then, Petri Vihervuori, Senior Financial Adviser at the Prime Minister's Ownership Steering Department, acted as an interim Chairman of the Board. He continued as a member of the Board of Directors.

Harald Aarø, Executive Vice President, Space and Surveillance, Kongsberg Defence & Aerospace; Eirik Lie, Executive Vice President, Kongsberg and President, Kongsberg Defence & Aerospace; Päivi Marttila, CEO, Sievi Capital plc; Jarle Næss, Senior Vice President, Business Development, Kongsberg Defence & Aerospace; Ari Puheloinen, General (ret.) and Gyrid Skalleberg Ingerø, Group Executive Vice President and Chief Financial Officer, Kongsberg continued as members of the Board of Directors.

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

The Nomination and Compensation Committee consisted, during the financial period, of Panu Routila, Chairman (as of 4 February 2020), Harald Aarø, Jarle Næss and Ari Puheloinen. The Nomination and Compensation Committee prepares the compensation structures of the company management and compensation and benefits programs as well as decides on the most important management nominations.

The Audit Committee consisted, during the financial period, of Päivi Marttila, Chairman, Eirik Lie, Gyrid Skalleberg Ingerø and Petri Vihervuori. The Audit Committee supervises and monitors execution and organisation of internal controls within the Patria Group, risk management and financial reporting as well as preparation of the financial statements. In addition to this the Audit Committee is responsible for supervising and monitoring of Compliance and Ethics issues and related activities within Patria. Regarding other duties of the Board, no specific sharing of such duties has been agreed upon by the Board.

Jussi Saramo, Member of Parliament (Left Alliance), continued as the Chairman of Patria Oyj's Consultative Committee and Janne Sankelo, Member of Parliament (National Coalition Party) continued as the Vice Chairman. Hannu Hoskonen, Member of Parliament (Center Party); Petri Huru, Member of Parliament (Finns Party); Riitta Mäkinen, Member of Parliament

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

» BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

(Social Democratic Party); Under-Secretary of State Petri Peltonen at the Ministry of Employment and the Economy; Chief of Defence Command, Lieutenant General, Eero Pyötsiä and Patria's personnel representatives Jussi Karimäki, Equipment Assembler, Patria; Ilkka Kokko, Systems Engineer, Patria, Juha Kuusi, System Specialist, Patria and Jari Metsälä, Manager, Product Design, Patria continued as members of the Consultative Committee.

The Extraordinary General Meeting of Shareholders held in October 2020 appointed Jari Myllykoski, Member of Parliament (Left Alliance), as the new Chairman of the Patria Consultative Committee to replace Jussi Saramo, Member of Parliament, when Saramo took over as Minister of Education for the spring term 2021.

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

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

Esa Rautalinko, Master of Science (Economics) continued as President and CEO of Patria Group.

RISKS AND UNCERTAINTIES

Patria has a risk management and internal control policy, approved by the Board of Directors, which specifies the related tasks, objectives, components, responsibilities and authorities. The Board provides the ultimate oversight and direction for risk management and internal control and has allocated main responsibility for these actions to the Audit Committee appointed by the Board. The primary responsibility for risk management and internal control lies with the business units and Patria's Group functions in their area of responsibility. The President and CEO of Patria is responsible for the proper functioning and monitoring of risk management and internal control. Patria's Group functions provide guidelines for risk management and internal control and perform monitoring on different levels. Patria's Internal Audit function as well as internal and external auditors evaluate the effectiveness of Patria's risk management and internal control. In addition, Patria's customers perform various audits and control activities to ensure compliance by Patria with the customer requirements.

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

The international defence industry is subject to continuous change. Acquisitions and mergers are taking place, new operators are emerging, the complexity of customer requirements and utilization of new technologies is increasing, and competition is intensifying. Patria responds to the competition by improving the anticipation and understanding of customer needs and their changes, along with developing and commercializing new competitive products, services and solutions. The export of defence material is subject to an export or transfer license, which in Finland is granted by the Ministry of Defence or, when certain conditions are met, the government. The conditions in the potential destination country may prevent the granting of an export license, or the conditions in a country to which an export license has been granted may change in such a way that the license will be cancelled temporarily or permanently.

Due to the nature of certain segments of Patria's business, individual sales and delivery projects can be very large in relation to the Group's annual net sales. They may include product development, require extensive subcontracting and cooperation with third parties, and have durations of several years. Moreover, the contents of deliveries and the forms of industrial cooperation implemented together with partners can be complex in nature. The risks involved in such projects are typically versatile and significant, requiring thorough assessment and management. The management of projects and project risks is constantly being developed and enhanced.

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility is the foundation of Patria's profitable and sustainable business and continuance thereof. Patria's operations are based on and governed by laws, regulations, international agreements and Patria's own policies. The corporate social responsibility (CSR) report is an integral part of Patria's Annual Report 2020.

In Patria, Group Management Team is responsible for steering of the activities concerning Company Social Responsibility, and this increases transparency and dialogue within the group. Steering and monitoring of ethics and compliance related matters is clearly specified in the Board of Director's Audit Committee's charter. In 2020 the Board of Directors, the Audit Committee and the Group Management Team received regular reports on activities and issues relating to Corporate Social Responsibility. Cooperation concerning ethics and compliance related issues as well as best practices between Patria and Kongsberg continued.

Ethical conduct is an implicit foundation for Patria's operations and decision making. It ensures the company's stakeholders' confidence in the company's operations. During the financial period ethical conduct continued to be developed according to the 18-month rolling plan. In 2020 it was decided to arrange two-tier ethics and compliance-training for all Patria personnel every other year. In 2021 the training consists of a basic training for blue-collars and an extensive training for the management and white-collars. In addition, Patria continued training on Global Data Protection Regulation (GDPR) and Trade compliance project with Kongsberg.

Patria uses an anonymous survey to analyse personnel's perception of whether there has been or could be any corruption or other serious unethical conduct. The next survey will take place in 2021.

Patria offers internal and external whistle-blowing channels enabling also anonymous reporting. In 2020 a new SpeakUp channel enabling anonymous reporting and dialogue was introduced. All the reports from different channels have been investigated according to the processes. Statistics and nature of issues concerning the reports received via these reporting channels were regularly reported to the Audit Committee.

The CSR essential themes were updated in 2020 based on an international stakeholder survey. Environmental actions against climate change were brought as a new theme and other themes' content remained the same.

In Patria environmental aspects, impacts and risks are considered in all business planning, operations and management. All Patria's major operational locations are ISO 14001 certified. Patria calculated its carbon footprint for 2020. In addition, targets for reducing the carbon footprint and measures to reach these targets were defined.

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

Patria continued to provide Tampere University of Technology with financial support for the aviation technology education. Patria also continued to promote welfare of children and youth with locally selected donations. The group also supports the restoration of the VL Myrsky, the only Finnish fighter aircraft having entered into serial production.

EVENTS AFTER THE FINANCIAL PERIOD

Transparency International published Defence Companies Anti-Corruption Index results in February 2021 according to which Patria was ranked in the second-highest category B.

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

» BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

OUTLOOK

With focus on its new growth strategy, Patria continues to strengthen further its operational effectiveness and financial performance. Patria's reliable and cost-effective lifecycle support services and top-notch products have a key role also in the future to maintain the required performance of customers' fleets in all conditions.

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

Patria 6x6 vehicle programme with Finland and Latvia proceeds as planned, and Patria expects the program leading to actual vehicle system procurements during 2021. It is also foreseen that the programme will be of interest to other countries wishing to improve mobility of their armed forces.

BOARD OF DIRECTORS' PROPOSAL FOR PROFIT DISTRIBUTION

The parent company's non-restricted equity on December 31, 2020 is EUR 217,370,360.97 of which the net loss for the financial period is EUR on 2,207,945.22.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.60 per share be paid on the shares owned by the State of Finland and Kongsberg Defence & Aerospace AS. Under the proposal, the total amount of dividends will be EUR 16,705,133.40. The Board of Directors further proposes that the remaining non-restricted equity, EUR 200,665,227.57 be retained and carried forward.

ANNUAL GENERAL MEETING 2021

The Annual General Meeting of Patria Oyj will be held on 8 April 2021 in Helsinki, Finland.

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

» CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

Consolidated Financial Statements (IFRS)

Consolidated balance sheet

MEUR	Note	31/12/2020	31/12/2019
Assets			
Non-current assets			
Intangible assets	11		
Intangible rights		2.9	3.2
Goodwill	8, 11	26.5	26.2
Advance payments		0.0	0.1
Tangible assets	11		
Land and water		3.4	3.2
Buildings and constructions		115.9	117.8
Machinery and equipment		25.0	25.9
Other tangible assets		0.5	0.3
Advance payments and construction in progress		0.8	2.1
Investments in joint ventures	12	190.1	174.1
Other shares	13, 16	0.2	0.2
Deferred tax assets	10	10.6	8.2
Other receivables		12.4	6.0
Long-term receivables from joint ventures	12	0.4	0.4
Total Non-current assets		388.7	367.5
Current assets			
Inventories	14		
Raw materials and supplies		46.9	41.8
Work in progress		39.7	43.1
Finished goods		2.8	2.8
Advance payments		1.8	2.6
Receivables			
Accounts receivable	2	125.6	101.9
Receivables from joint ventures	12	0.0	0.0
Other receivables		1.5	1.8
Prepaid expenses and accrued income	14	49.1	52.1
Derivative financial instruments	2	0.7	0.2
Current tax asset		0.3	1.6
Cash and cash equivalents		37.5	35.9
Total Current assets		306.0	283.9
Total Assets		694.7	651.4

MEUR	Note	31/12/2020	31/12/2019
Shareholders' equity and liabilities			
Shareholders' equity	18		
Share capital		38.0	38.0
Fair value reserve	17	0.3	-0.0
Invested non-restricted equity fund		164.1	164.1
Translation differences		-1.7	-2.8
Retained earnings		-11.2	11.4
Net income for the period		33.6	4.5
Equity attributable to shareholders of parent company		223.1	215.2
Non-controlling interests		26.8	23.2
Total Shareholders' equity		249.9	238.4
Non-current liabilities			
Deferred tax liability	10	1.5	1.3
Pension provisions	7	7.3	8.2
Provisions	19	12.8	17.7
Interest-bearing liabilities	2	115.2	76.5
Other liabilities		1.6	0.0
Total Non-current liabilities		138.3	103.7
Current liabilities			
Interest-bearing liabilities	2	102.5	128.1
Advance payments		88.1	60.1
Accounts payable		40.6	53.9
Other current liabilities		18.5	17.4
Accruals and deferred income	15	55.8	49.2
Derivative financial instruments	2	1.0	0.4
Current tax liability		0.0	0.0
Total Current liabilities		306.4	309.2
Total Shareholders' equity and liabilities		694.7	651.4

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

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

» **CONSOLIDATED INCOME STATEMENT**

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

Consolidated income statement

MEUR	Note	1-12/2020	%	1-12/2019	%
Net sales	4	534.1		507.5	
Other operating income	5	11.4		3.6	
Share of joint ventures result		27.0		14.4	
Change in inventories of finished goods and work in progress		-3.9		7.3	
Production for own use		0.2		3.2	
Raw materials and supplies		-125.9		-133.2	
Change in inventories of raw materials		-3.7		-10.1	
Services purchased		-107.5		-99.5	
Employee benefit expenses	7	-194.7		-186.8	
Depreciation, amortization and impairments	8	-29.5		-25.7	
Other operating expenses	5	-67.3		-72.8	
Operating profit		40.3	7.5%	7.8	1.5%
Financial income and expenses	9				
Interest and other financial income		0.4		0.2	
Interest and other financial expenses		-4.1		-4.3	
Exchange gains and losses		0.1		0.2	
Income before taxes		36.7	6.9%	3.9	0.8%
Income taxes	10	-3.0		0.6	
Profit for the period		33.6	6.3%	4.5	0.9%
Net income attributable to non-controlling interests		6.5		4.9	
Net income attributable to equity shareholders		27.2		-0.4	
Profit for the period		33.6	6.3%	4.5	0.9%

Consolidated statement of comprehensive income

MEUR	1-12/2020	%	1-12/2019	%
Profit for the period	33.6		4.5	
Other comprehensive income				
Items that may be reclassified to profit or loss in subsequent periods				
Cash flow hedges	0.3		-0.1	
Change of translation difference	1.0		-0.6	
Items that will not be reclassified to profit or loss in subsequent periods				
Actuarial gains/losses on defined benefit plans	1.4		-1.0	
Share of comprehensive income in joint ventures	-1.8		-0.5	
Total comprehensive income	34.6	6.5%	2.2	0.4%
Total comprehensive income attributable to non-controlling interests	7.0		4.5	
Total comprehensive income attributable to equity shareholders	27.6		-2.3	
Total comprehensive income	34.6	6.5%	2.2	0.4%

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

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

» CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

Consolidated cash flow statement

MEUR	Note	1-12/2020	1-12/2019
Net income for the period		33.6	4.5
Depreciation, amortization and impairments	8	29.5	25.7
Capital gains/losses		-1.1	-0.1
Other adjustments			
Share of result in joint ventures		-26.9	-14.4
Dividends received from joint ventures		4.5	6.2
Other adjustments		-4.8	0.1
Financing items		3.6	4.1
Taxes	10	3.0	-0.6
Change in receivables		-16.3	-0.8
Change in payables		15.9	8.5
Change in inventories		-0.7	-5.3
Cash flow from operations		40.4	28.0
Interest received		0.4	0.2
Interest paid		-3.6	-3.8
Dividends received		0.0	0.0
Other financial items		-0.3	-0.4
Income taxes paid		-3.6	-0.2
Cash flow from operating activities		33.3	23.8
Acquisitions, net of cash		-7.8	-15.8
Other capital expenditures		-6.8	-14.8
Divested business operations		1.0	0.0
Sale of other fixed assets and other changes		1.5	0.1
Cash flow from investing activities		-12.1	-30.5
Borrowings of long-term loans		0.0	9.9
Change in short-term financing		9.9	50.9
Change in other loans		-12.9	-9.4
Dividends paid to equity shareholders		-13.9	-13.9
Dividends paid to non-controlling interests		-2.9	-2.6
Other changes		0.3	-0.4
Cash flow from financing activities		-19.5	34.5
Change in liquid funds	2	1.7	27.8
Change		1.7	27.8
Liquid funds at the beginning of the period		35.9	8.1
Liquid funds at the end of the period		37.5	35.9
Exchange rate difference		0.0	-0.0

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

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

» CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

Consolidated Statement of Changes in Equity

MEUR	Note	Share capital	Invested non-restricted equity fund	Fair value reserve	Translation differences	Retained earnings	Equity attributable to shareholders of parent company	Non-controlling interests	Total Shareholders' equity
Opening balance		38.0	164.1	-0.0	-2.8	15.9	215.2	23.2	238.4
Dividends paid						-13.9	-13.9		-13.9
Other comprehensive income	10								
Cash flow hedges				0.3			0.3		0.3
Change of translation difference					1.0		1.0		1.0
Actuarial gains/losses on defined benefit plans						1.4	1.4		1.4
Share of comprehensive income in joint ventures						-1.8	-1.8		-1.8
Non-controlling interests						-6.5	-6.5	3.6	-2.9
Exchange rate difference						-6.1	-6.1		-6.1
Corrections to previous year's bookings*						-0.1	-0.1		-0.1
Net income for the period						33.6	33.6		33.6
31 Dec 2020		38.0	164.1	0.3	-1.7	22.4	223.1	26.8	249.9

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

* IAS 8 corrections for previous periods.

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

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

» **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

Notes to the Consolidated Financial Statements

1. Accounting principles for the consolidated financial statements

DESCRIPTION OF BUSINESSES

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

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

Patria Oyj ("the Company") is a Finnish public limited company organised under the laws of the Republic of Finland and with its registered address at Kaivokatu 10 A, 00100 Helsinki. Copies of the financial statements are available from Patria Group's headquarters, Kaivokatu 10 A, FI-00100 Helsinki and www.patriagroup.com.

BASIS OF PREPARATION

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

USE OF ESTIMATES AND JUDGEMENTS

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

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

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

PRINCIPLES OF CONSOLIDATION

Subsidiaries

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

Acquired and established companies are accounted for using the purchase method of accounting. Accordingly, the purchase price and the acquired company's identifiable assets, liabilities and contingent liabilities are measured at fair value on the date of acquisition. In the acquisition of additional interest, where the Group already has control, the non-controlling interest is measured either at fair value or at the non-controlling interests' proportionate share of the identifiable net assets. The difference between the purchase price, possible equity belonging to the non-controlling interests and the acquired

company's net identifiable assets, liabilities and contingent liabilities measured at fair value is goodwill. Goodwill is tested for impairment at least annually. The purchase price includes the consideration paid, measured at fair value. The consideration does not include transaction costs, which are recognised in the statement of income. The transaction costs are expensed in the same financial period in which they occur, except the costs resulting from issued debt or equity instruments.

Any contingent consideration (additional purchase price) related to the combination of businesses is measured at fair value on the date of acquisition. It is classified either as a liability or equity. Contingent consideration classified as a liability is measured at fair value on the last day of each financial period, and the resulting loss or gain is recognised through profit or loss. Contingent consideration classified as equity is not remeasured.

For the acquisitions which occurred before 1 January 2010, the accounting principles valid at the time of the acquisition have been applied.

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

Associated companies and joint ventures

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

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

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

FOREIGN CURRENCY TRANSACTIONS

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

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

» **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

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

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

FINANCIAL INSTRUMENTS

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

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

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

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

Derivatives under hedge accounting are measured at fair value through other comprehensive income. The changes in the fair values of derivatives that are designated as hedging instruments but are not accounted for according to the principles of cash flow hedge accounting are recognized based on their nature either in the operative income or costs, or as financial income or expenses.

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

The Group applies hedge accounting under IFRS 9 while hedging estimated future cash flows with foreign currency derivatives and the loan portfolio with interest rate derivatives (cash flow hedging). Foreign exchange spots are defined as derivatives when those consider cash flow hedging. Interest component of the foreign exchange forward contract is recognised in financial income or expense in the income statement. Fair value (spot-spot) changes of derivatives, which are assigned to hedge forecast transactions (cash flow hedging), are recognised in other comprehensive income to the extent that the hedge is effective. The ineffective portion of the hedging instrument is recognised immediately in the income statement. Such accumulated fair value changes are released from equity to income statement in the period when the hedged cash flow affects income. The main reason for the hedge inefficiency is the timing difference between the derivative maturity date and the expected date of hedged foreign exchange future cash flows. Hedge accounting is not applied to derivatives hedging balance sheet items.

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

IMPAIRMENT OF FINANCIAL ASSETS

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy

or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

Trade receivables and non-current receivables do not have significant risk for credit losses due to the customer base. Mitigation against credit risk is done by including risk reducing terms to sales agreements and requesting guarantees when needed. The group has not recognised material credit losses in the past. The group is continuously evaluating the credit loss risk and the possible changes e.g. in the customer base may result to recognition of the loss allowance provision.

NET SALES AND REVENUE RECOGNITION

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

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

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

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

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

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

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

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

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

» **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

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

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

At the end of 2019, Patria had no costs to obtain or fulfil contracts capitalized under IFRS 15.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as they are incurred. Capitalised unaccomplished development costs are subject to regular impairment assessments of recoverability based on anticipated future revenues. Unamortised capitalised development costs determined to be in excess of their recoverable amounts are expensed immediately.

INCOME TAXES

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

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

PROPERTY, PLANTS AND EQUIPMENT

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

The assessed economic lives are as follows:

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

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

GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

Acquired intangible assets are measured at their historical cost, less depreciation. With the exception of goodwill, the assets are depreciated over their economic life, normally three to twenty years, using the straight-line depreciation method.

GRANTS RECEIVED

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

IMPAIRMENTS

Property, plant and equipment and other non-current assets, including goodwill and intangible assets, are reviewed for potential impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Goodwill is in all cases tested annually. For the purposes of assessing impairment, assets are grouped at the lowest cash generating unit level. An impairment loss is the amount by which the carrying amount of the assets exceeds the recoverable amount.

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

LEASES

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

Patria applies optional exemptions for short-term and low-value leases. Expenses related to these contracts will be recognized on a straight-line basis over the lease term.

EMPLOYEE BENEFITS

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

INVENTORIES

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

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

ACCOUNTS RECEIVABLE

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

ANNUAL REVIEW

BUSINESS UNITS

Patria’s Corporate Responsibility

Patria as part of Society

A Responsible Employer

Environmental Responsibility

GRI Index

Financial

Board of Directors’ Report

Consolidated Financial Statements (IFRS)

Consolidated Balance Sheet

Consolidated Income Statement

Consolidated Cash Flow Statement

Consolidated Statement of Changes in Equity

» Notes to the Consolidated Financial Statements

Financial Statements of the Parent Company (FAS)

Balance Sheet, Parent Company

Income Statement, Parent Company

Cash Flow Statement, Parent Company

Notes to the Financial Statements, Parent Company

Governance

Cash and Cash Equivalents

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

Provisions

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

Dividends

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

Segment Reporting

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

IFRS 16 Leases

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

The group did not have sale and leaseback transactions during the financial year 2020.

Application of new and amended IFRS standards and IFRIC interpretations

Patria has adopted the new standards and interpretations that took effect during the financial period and are relevant to its operations. The IFRS standards, IFRIC interpretations and amendments thereto that took effect in 2020 did not have a material impact on the result or the financial position of the Group or on the presentation of the financial statements.

2. Financial risk management

Main principals of financial risk management

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

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

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

Currency Risks

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

Patria applies hedge accounting according to IFRS 9 while hedging estimated future cash flows with foreign currency derivatives (cash flow hedging). Fair value changes of derivatives, which are assigned to hedge forecast transactions, are recognised in other comprehensive income (fair value reserve) to the extent that the hedge is effective. The ineffective portion of the hedging instrument is recognised immediately into financial items in the income statement. Such accumulated fair value changes are released into income statement in the period when the hedged cash flow affects income. The main source of ineffectiveness is the difference in the maturities of the hedged item and the hedging instrument. Hedge accounting is not applied to derivatives hedging balance sheet items.

Hedged item and hedging instrument are considered to have economic relationship if critical terms of hedging instrument and hedged item match. If economic relationship exists, it is expected that changes in fair value or cash flows of the hedging instrument offset changes in fair value or cash flows from the hedged item. The same currency is used for the hedging instrument as the hedged item has, therefore they have an economic relationship.

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

The change in fair value of derivatives to which hedge accounting is applied is recorded directly in the fair value reserve in equity. The change in fair value is expected to be offset by time as the opposite changes in the values of highly probable future forecasted cash flows materialise.

The next table presents the net exposures as well as the effects based on the sensitivity analysis on result before the taxes and shareholders’ equity, assuming that euro would have strengthened or weakened against the currency in question on the balance sheet date. The sensitivity is calculated for a five per cent exchange rate change.

The most significant currency exposures (net sales, purchases and loans) on 31 December 2020 were in the Swedish krona (SEK), and United States dollar (USD).

IFRS 7 Sensitivity Analysis - Sensitivity to Exchange Rate Fluctuations 2020

1,000 EUR	SEK	USD
Net exposure - Balance sheet items	748	833
Euro strengthens / weakens 5% - Effect on income before taxes	-36 / 39	-40 / 44
Net exposure - Derivatives under hedge accounting	0	-11 658
Euro strengthens / weakens 5% - Effect on equity	0 / 0	550 / -608

IFRS 7 Sensitivity Analysis - Sensitivity to Exchange Rate Fluctuations 2019

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

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

» **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

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

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

EFFECTS OF HEDGE ACCOUNTING ON THE FINANCIAL POSITION 2020

	MEUR 31/12/2020
Forward foreign exchange contracts - EURUSD	
Fair Value	0.1
Nominal Value	16.3
Expected time for the impact on P&L	January 2021 - December 2022
Hedge Ratio	1:1
Change in spot value of outstanding hedging instruments	0.1
Change in value of hedged item used to determine hedge effectiveness	-0.1
Weighted average hedged rate (including forward points)	1.2039
Forward foreign exchange contracts - EURSEK	
	31/12/2020
Fair Value	0.1
Nominal Value	-1.5
Expected time for the impact on P&L	January 2021 - July 2023
Hedge Ratio	1:1
Change in spot value of outstanding hedging instruments	-0.2
Change in value of hedged item used to determine hedge effectiveness	0.2
Weighted average hedged rate (including forward points)	10.6975

Forward foreign exchange contracts designated as cash flow hedges	31/12/2020
Derivative financial assets	0.4
Derivative financial liabilities	-0.3

EFFECTS OF HEDGE ACCOUNTING ON THE FINANCIAL POSITION 2019

	MEUR 31/12/2019
Forward foreign exchange contracts - EURUSD	
Fair Value	0.0
Nominal Value	15.9
Expected time for the impact on P&L	January 2020 - February 2023
Hedge Ratio	1:1
Change in spot value of outstanding hedging instruments	-0.0
Change in value of hedged item used to determine hedge effectiveness	0.0
Weighted average hedged rate (including forward points)	1.1324
Forward foreign exchange contracts - EURSEK	
	31/12/2019
Fair Value	0.1
Nominal Value	5.7
Expected time for the impact on P&L	January 2020 - October 2022
Hedge Ratio	1:1
Change in spot value of outstanding hedging instruments	0.1
Change in value of hedged item used to determine hedge effectiveness	-0.1
Weighted average hedged rate (including forward points)	10.7192

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

DERIVATIVE INSTRUMENTS

2020 MEUR	Nominal value	Positive fair values	Negative fair values	Net fair value
Derivative financial instruments designated as cash flow hedges				
Forward foreign exchange contracts	32.7	0.4	-0.3	0.1
Buy	5.9	0.1	-0.2	-0.1
Sell	26.8	0.3	-0.1	0.2
Cash flow hedge	32.7	0.4	-0.3	0.1
Non-hedge accounting derivative financial instruments				
Forward foreign exchange contracts	31.1	0.3	-0.7	-0.4
Buy	3.4	0.1	-0.0	0.0
Sell	27.7	0.3	-0.7	-0.4
Non-hedging	31.1	0.3	-0.7	-0.4
Total	63.8	0.7	-1.0	-0.3
MEUR				
	2021	2022	2023	2024
Derivative financial assets	0.6	0.1	0.0	0.0
Derivative financial liabilities	-1.0	-0.0	0.0	0.0

2019 MEUR	Nominal value	Positive fair values	Negative fair values	Net fair value
Derivative financial instruments designated as cash flow hedges				
Forward foreign exchange contracts	23.2	0.2	-0.1	0.1
Buy	9.1	0.0	-0.1	-0.1
Sell	14.0	0.2	-0.0	0.2
Cash flow hedge	23.2	0.2	-0.1	0.1
Non-hedge accounting derivative financial instruments				
Forward foreign exchange contracts	30.4	0.0	-0.4	-0.4
Buy	3.5	0.0	-0.0	-0.0
Sell	26.9	0.0	-0.4	-0.4
Non-hedging	30.4	0.0	-0.4	-0.4
Total	53.5	0.2	-0.4	-0.2
MEUR				
	2020	2021	2022	2023
Derivative financial assets	0.1	0.0	0.0	0.0
Derivative financial liabilities	-0.4	-0.0	-0.0	0.0

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

OFFSETTING OF FINANCIAL INSTRUMENTS

2020 MEUR	Gross amounts in balance sheet	Financial instruments - Related amounts not set off in the balance sheet	Net amount
Derivative financial assets	0.7	-0.5	0.2
Derivative financial liabilities	1.0	-0.5	0.5

2019 MEUR			
Derivative financial assets	0.2	-0.2	0.0
Derivative financial liabilities	0.4	-0.2	0.2

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

INTEREST RATE RISK

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

On 31 December 2020, the average interest fixing term of the liabilities was 2.8 years (3.1) and that of the receivables one day.

INTEREST FIXING PERIODS

MEUR	0-6 mths	6-12 mths	12-24 mths	24-36 mths	Later	Total
Lease liabilities	1.0	0.4	0.4		96.0	97.7
Loans from financial institutions	110.0					110.0
Other interest-bearing liabilities	10.0					10.0
Interest-bearing receivables	-37.5					-37.5
Total 2020	83.5	0.4	0.4	0.0	96.0	180.2
Lease liabilities	1.2	0.1	0.6	0.6	85.4	88.0
Loans from financial institutions	30.2					30.2
Other interest-bearing liabilities	86.4					86.4
Interest-bearing receivables	-35.9					-35.9
Total 2019	81.9	0.1	0.6	0.6	85.4	168.7

On 31 December 2020, Group's interest-bearing liabilities totalled EUR 217.7 million (204.6) out of which EUR 106.8 million (173.0) was fixed rate and EUR 110.9 million (31.6) was floating rate. Interest-bearing receivables were EUR 37.5 million (35.9) out of which EUR 37.5 million (35.9) was floating rate.

A sensitivity analysis in accordance with IFRS 7 and assuming a one percentage point increase in interest rates and the interest-bearing liabilities and receivables in the balance sheet as of 31 December 2020, would lead to an increase in annual net interest expenses of EUR 734 thousand (43). A corresponding decrease in interest rates would result in an equal effect of opposite sign. The Group didn't have any open interest derivatives (0.0) on 31 December 2020.

LIQUIDITY AND REFINANCING RISKS

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

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

On 31 December 2020 the average maturity of the Group's interest-bearing liabilities was 2.9 years (3.2). The values on the following maturity distribution table are undiscounted.

MATURITY DISTRIBUTION OF FINANCIAL INSTRUMENTS

MEUR	2021	2022	2023	2024	2025	2026 -	Total
Lease liabilities	12.5	12.0	11.9	11.6	11.4	38.3	97.7
Loans from financial institutions	80.0	30.0	0.0	0.0	0.0	0.0	110.0
Other interest-bearing liabilities	10.0	0.0	0.0	0.0	0.0	0.0	10.0
Derivative financial liabilities	1.0	0.0	0.0	0.0	0.0	0.0	1.0
Derivative financial assets	-0.6	-0.1	0.0	0.0	0.0	0.0	-0.7
Interest payments	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Total 2020	103.0	42.0	11.9	11.6	11.4	38.3	218.1

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

As a part of its liquidity reserves on 31 December 2020, Patria had the following unused financial reserves: committed credit and overdraft facilities totalling EUR 45.5 million (45.5) and commercial paper program totalling EUR 90.0 million (20.0).

NET DEBT

MEUR	2020	2019
Loans from financial institutions	30.0	0.0
Lease liabilities	85.2	76.5
Non-current interest-bearing liabilities	115.2	76.5
Loans from financial institutions	80.0	30.2
Issued commercial papers	10.0	79.9
Other interest-bearing loans	0.0	6.5
Lease liabilities	12.5	11.5
Current interest-bearing liabilities	102.5	128.1
Interest-bearing liabilities total	217.7	204.6
Cash and cash equivalents	37.5	35.9
Net debt	180.2	168.7

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

CHANGE IN NET DEBT

MEUR	Loans from financial institutions	Commercial papers	Other interest-bearing loans	Lease liabilities	Cash and cash equivalents	Total
Carrying value, at 1 January 2020	-30.2	-79.9	-6.5	-88.0	35.9	-168.7
Change in net debt, cash:						
Change in non-current loans	-30.0					-30.0
Change in current liabilities	-49.9	69.9				20.1
Change in cash and cash equivalents					1.7	1.7
Cash flows total	-79.8	69.9	0.0	0.0	1.7	-8.2
Change in net debt, non-cash:						
Termination of other interest-bearing loans			6.5			6.5
Increases of lease liabilities				-10.9		-10.9
Repayments of lease liabilities				1.3		1.3
Foreign exchange adjustments				-0.0	-0.0	-0.1
Non-cash movements, total	0.0	0.0	6.5	-9.7	0.0	-3.2
Carrying value, at 31 December 2020	-110.0	-10.0	0.0	-97.7	37.5	-180.2

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

Related to Lease liabilities Patria has recharge contracts regarding the next 8 years and EUR 7.3 million is booked in Other receivables.

CREDIT AND COUNTERPARTY RISKS

Patria is not exposed to significant credit risk due to the structure of customer base. Credit risks are mainly managed by agreeing in sales contracts on terms and conditions, which reduce these risks. Credit insurance may be used on a case-by-case basis. The group is continuously evaluating the credit loss risk and the possible changes e.g. in the customer base may result to recognition of the loss allowance provision.

Credit risk related to investing liquid funds is managed by defining the acceptable counterparties with good credit rating as well as the maximum allowed exposure by counterparty. The Group does not have material loan receivables. The maximum risk of sales receivables and investments is the full nominal value of those contracts.

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

ACCOUNTS RECEIVABLE BY AGE

MEUR	2020	2019
Undue accounts receivables	93.2	62.9
Accounts receivables 1–30 days overdue	6.3	4.0
Accounts receivables 31–60 days overdue	0.9	4.7
Accounts receivables more than 60 days overdue	25.1	30.4
Total	125.6	101.9

OPERATIONAL RISKS OF THE TREASURY FUNCTIONS

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

OTHER MARKET RISKS

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

CAPITAL MANAGEMENT

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

INSURANCES

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

3. Acquisitions and divestments

Millog Oy signed a contract in December 2019 for the purchase of the entire share capital of Virve Tuotteet ja Palvelut Oy from Erillisverkot Group. Ownership was transferred to Millog Oy on 2 January 2020 and Virve Tuotteet ja Palvelut Oy continued to operate as an independent subsidiary under Millog's ownership. The business activities of Virve Tuotteet ja Palvelut Oy include the sale and maintenance of terminal equipment for terrestrial trunked radio (TETRA) networks. The company was founded in 2007. Its net sales for the previous financial period totalled EUR 5.5 million. The company has 8 employees.

In February Patria and SIA Unitruck established a jointly owned company in Latvia. The new company, SIA Defence Partnership Latvia, owned by Patria 70% and Unitruck 30%, will provide maintenance, repair, overhaul, system integration services and logistical operations to the Latvian National Armed Forces. The new company is located in Cesis, Latvia.

In February Patria ISP Oy acquired 100% of shares of Milrem Latvia SIA and Milrem Lithuania UAB from Milrem LCM OÜ. The acquired companies were named Patria Latvia SIA and Patria Lithuania UAB.

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

» **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

Patria Helicopters AS was sold to Kongsberg Aviation Maintenance Services (KAMS) on 1 July 2020. Patria owns 49,9% of the shares of KAMS. Patria Helicopters AS has 27 employees and a one-stop shop for maintenance, repair and overhaul services specialised in the maintenance of helicopters in Bardufoss, Norway.

In October Millog Oy acquired 100% of the shares of Oy Western Shipyard Ltd from APX Metalli Ltd. Western Shipyard's business includes docking and repairs of ships and floating structures. Company's net sales in the previous financial period was EUR 16.3 million and has 34 employees.

The following table summarise the amounts for the acquisition cost paid, the cash flow from the acquisition and the amounts of the acquired assets and liabilities recognised at the acquisition date. Goodwill related to the acquisition of Virve Tuotteet Palvelut Oy and Oy Western Shipyard Ltd includes new market share, business and technical expertise as well as expected synergies.

ASSETS AND LIABILITIES

MEUR	2020	2019
Acquisition cost transferred	8.0	22.7
Acquisition cost paid in cash	8.0	22.7
Cash flow from the acquisitions		
Acquisition cost paid in cash	8.0	19.8
Cash and cash equivalents of the acquired companies	-0.7	-4.0
Cash flow from the acquisitions	7.3	15.8
Assets and liabilities of the acquired businesses		
Intangible assets	0.7	1.4
Tangible assets	0.3	6.9
Inventories	0.9	18.8
Accounts receivables and other assets	4.6	11.3
Cash and cash equivalents	0.7	4.2
Total assets	7.1	42.7
Interest-bearing loans	0.4	0.6
Other liabilities	3.3	19.4
Total liabilities	3.7	20.1
Net assets	3.3	22.7
Patria's share of net assets	3.3	22.7
Goodwill	4.6	0.0

4. Disaggregation of revenue

MEUR	2020	2019
Products	105.5	128.7
Services	428.6	378.8
Total	534.1	507.5
Performance obligation satisfied at a point in time	397.0	383.4
Performance obligation satisfied over time	137.1	124.1
Total	534.1	507.5

5. Other operating income and expenses

OTHER OPERATING INCOME

MEUR	2020	2019
Rental income	1.6	1.4
Capital gain on sale of fixed assets	1.2	0.1
Other operating income	1.8	1.9
Grants received*	6.8	0.1
Total	11.4	3.6

* Group was contractually exempt from the repayment of the R&D loan and the loan has been treated as grants received. Expenses related to the grants received have been expensed in previous years and there are no future expenditure arising from the obligation.

OTHER OPERATING EXPENSES

MEUR	2020	2019
Research and development	-0.2	-0.1
Rents	-12.3	-11.7
Losses on sale of fixed assets	-0.1	0.0
Travel expenses	-4.2	-9.2
Real estate expenses	-19.2	-18.7
Other operating expenses*	-31.2	-33.1
Total	-67.3	-72.8

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

PRINCIPAL INDEPENDENT AUDITOR'S FEES AND SERVICES

MEUR	2020	2019
Audit fees	-0.3	-0.3
Other audit related fees	-0.1	-0.0
Other services	-0.4	-0.1
Total	-0.8	-0.4

6. Research and development expenses

MEUR	2020	2019
Research and development expenses, total	-10.0	-8.7
Research and development costs expensed during financial period	-6.3	-7.6

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

7. Employee benefit expenses

MEUR	2020	2019
Salaries and fees paid to Members of Board, Consultative Committee and President and CEO	-0.7	-0.4
Other wages and salaries	-161.8	-153.7
Pension and pension insurance expenses	-22.1	-24.8
Other employer costs	-10.1	-7.9
Total	-194.7	-186.8

COMPENSATION TO BOARD OF DIRECTORS AND ATTENDANCE AT MEETINGS

	Attendance at meetings			
1,000 EUR	2020	Board	Audit Committee	Nomination and Compensation Committee
Board members 31 December 2020				
Panu Routila, Chairman ¹	37	8/8		4/4
Petri Vihervuori, Chairman ²	27	9/9	4/4	
Harald Aarø	0	9/9		4/4
Eirik Lie	0	9/9	4/4	
Päivi Marttila	26	9/9	4/4	
Jarle Næss	26	9/9		4/4
Ari Puheloinen	26	9/9		4/4
Gyrid Skalleberg Ingerø	0	8/9	4/4	
Total	142			

¹ Starting 4 February 2020

² Until 4 February 2020

	Attendance at meetings			
1,000 EUR	2019	Board	Audit Committee	Nomination and Compensation Committee
Board members 31 December 2019				
Petri Vihervuori, Chairman ¹	47	11/11	4/4	3/3
Esa Rautalinko, Chairman ²	17	4/4		1/1
Harald Aarø	0	11/11		3/4
Eirik Lie	0	11/11	3/4	
Päivi Marttila	27	11/11	4/4	
Jarle Næss	27	11/11		4/4
Ari Puheloinen	36	11/11		4/4
Gyrid Skalleberg Ingerø	0	9/11	3/4	
Total	153			

¹ Starting 29 May 2019

² Until 29 May 2019

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

COMPENSATION TO CONSULTATIVE COMMITTEE AND ATTENDANCE AT MEETINGS

1,000 EUR	2020	Attendance at meetings
Consultative Committee members 1 January - 31 December 2020		
Jari Myllykoski, Chairman ¹	0	0/0
Jussi Saramo, Chairman ²	2	3/3
Janne Sankelo, Vice Chairman	1	2/3
Hannu Hoskonen	1	2/3
Petri Huru	2	3/3
Riitta Mäkinen	1	2/3
Petri Peltonen	2	3/3
Eero Pyötsiä	2	3/3
Total	10	

¹ Starting 2 October 2020

² Until 2 October 2020

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

1,000 EUR	2019	Attendance at meetings
Consultative Committee members 1 January - 31 December 2019		
Jussi Saramo, Chairman ¹	1	1/1
Sinuhe Wallinheimo, Chairman ²	3	4/4
Janne Sankelo, Vice Chairman ¹	1	1/1
Markus Mustajärvi, Vice Chairman ²	2	3/4
Hannu Hoskonen ¹	1	1/1
Petri Huru ¹	1	1/1
Riitta Mäkinen ¹	1	1/1
Mika Kari ²	2	4/4
Timo Kivinen ⁴	2	3/3
Petri Peltonen	2	4/5
Eero Pyötsiä ³	1	1/2
Mikko Savola ²	2	4/4
Raimo Vistbacka ²	2	4/4
Total	18	

¹ Starting 2 October 2019

² Until 2 October 2019

³ Starting 26 August 2019

⁴ Until 26 August 2019

ANNUAL REPORT 2020

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

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

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

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

COMPENSATION TO PRESIDENT AND CEO AND MANAGEMENT

Esa Rautalinko was appointed as President and CEO of Patria Group and he started in this position on 1 July 2019. Salaries, fees and benefits paid to the President and CEO Esa Rautalinko during 2020 totalled EUR 520,667.26 (EUR 222,000.00) consisting of

- base salary of EUR 457,320.00 (EUR 222,000.00) (including salary of EUR 457,080.00 (221,880.00) and benefits of EUR 240.00 (120.00).
- yearly bonus for the earning period 2019 was EUR 54,489.46 (23.4% of pro rata base salary of year 2019 and 39.0% of the maximum bonus payout, which is 60% of pro rata base salary of year 2019) and
- EUR 8,857.80 based on years 2017–2019 long-term incentive plan.

The yearly bonus to be paid to the CEO Esa Rautalinko in 2021 for the earning period 2020 is EUR 279,720.00 (60.0% of base salary of year 2020 and 100.0% of the maximum bonus payout, which is 60% of base salary of year 2020).

The retirement age for the President and CEO of the parent company follows the statutory pension rules. The President and CEO has no additional retirement arrangement. The President and CEO's contract of employment may be terminated with 6 months' notice by either the President and CEO or the Company. In case the Company gives notice to the President and CEO, the company shall pay, in addition to the 6 months' salary for the notice period, an additional compensation corresponding to the amount of 6 months' salary.

The President and CEO is assisted in Group management by the Group management team, which included in addition to the President and CEO 10 members until 13 September 2020 and 9 members as of 13 September 2020 (as of 1 January and until 30 June 2019 9 members and as of 1 July 2019 10). The salaries, fees and benefits paid to the members of the Group management team (excluding the President and CEO) totalled EUR 1,987,758.60 (EUR 2,023,746.48).

The remuneration of the President and CEO and the other members of the Board of Management for 2020 were based on a fixed monthly salary (including fringe benefits) and a performance-based compensation. Annual performance-based compensation plan can provide a bonus corresponding to a maximum of 50% annual salary, except for the CEO where the maximum is 60% of annual salary in case of exceptionally good performance. The remunerations are agreed using the 'one above' principle, and the remuneration of the CEO is agreed by the Board of Directors.

During the financial period the members of the Board of Management of Patria as well as eight other key personnel have been participants in at least one of the three separate three-year performance-based Long-Term Incentive Plans i.e. for the years 2018–2020, 2019–2021 and 2020–2022. In addition, bonuses were paid based on the 2015–2017, 2016–2018 and 2017–2019 incentive plans during the financial period. Incentive plans have been set up by the Board of Directors in accordance with the respective Finnish State ownership policy.

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

The remunerations will be paid to the participants during three financial periods after each program has ended. The outcome of the 2017–2019 plan was 38.0% of the highest potential remuneration and will be paid to the participants in three instalments during the years 2020, 2021 and 2022 subject to the terms of the plan. (The outcome of the 2016–2018 plan was 25.0% of the highest potential remuneration and will be paid to the participants in three instalments during the years 2019, 2020 and 2021 subject to the terms of the plan.) The Group has made a relating cost provision in the balance sheet totalling EUR 1,149,143 (EUR 544,460).

All Patria employees are part of a yearly bonus plan. The plan can provide a bonus corresponding to a maximum of 15% to 25% annual salary depending on the employee's organisational standing.

PENSION OBLIGATIONS

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

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

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

» **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

EXPENSES OF EMPLOYMENT BENEFITS

MEUR	2020	2019
Pension expenses - Defined contribution plans	-21.6	-24.6
Pension expenses - Defined benefit plans	-0.5	-0.2
Total	-22.1	-24.8

EXPENSE RECOGNISED IN PROFIT OR LOSS

MEUR	2020	2019
Service cost	-0.5	-0.2
Net interest	-0.1	-0.1
Expense recognised in profit or loss	-0.6	-0.3

STATEMENT OF FINANCIAL POSITION

MEUR	2020	2019
Defined benefit obligation	21.0	22.1
Fair value of plan assets	-13.7	-13.9
Funded status	7.3	8.2
Liability in the balance sheet	7.3	8.2

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

MEUR	2020	2019
Opening defined benefit obligation	22.1	13.2
Addition of defined benefit obligation	0.0	7.0
Current service cost	0.5	0.2
Interest cost	0.2	0.3
Benefits paid	-1.4	-1.2
Actuarial gain(-) / loss (+)	-0.4	2.5
Closing defined benefit obligation	21.0	22.1

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

MEUR	2020	2019
Opening fair value of plan assets	13.9	9.1
Addition of fair value of plan assets	0.0	4.1
Interest income	0.1	0.2
Contribution paid	0.2	0.1
Benefits paid	-1.4	-1.2
Actuarial gain(+) / loss (-)	0.9	1.4
Closing fair value of plan assets	13.7	13.9

EXPECTED CONTRIBUTION PAID IN THE NEXT FISCAL PERIOD: EXPECTED CONTRIBUTION

MEUR	Estimate 2021	2020	2019
Expected contribution	0.0	0.0	0.1

CHANGES IN OTHER COMPREHENSIVE INCOME

MEUR	2020	2019
Recognised remeasurements in other comprehensive income 1.1.	0.4	1.5
Actuarial gain(+) or loss(-) on obligation	0.4	-2.5
Actuarial gain(+) or loss(-) on plan assets	0.9	1.4
Recognised remeasurements in other comprehensive income 31.12.	1.7	0.4

PLAN ASSETS

MEUR	2020	2019
Qualifying insurance policies	100%	100%

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

SENSITIVITY ANALYSIS

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

SENSITIVITY ANALYSIS OF ACTUARIAL ASSUMPTIONS AS OF 31.12.2020 MILLOG OY

MEUR	Change in defined benefit obligation	Change in plan assets	Change in defined benefit obligation, %	Change in plan assets, %
Change in discount rate, +0.5 percentage point	-1.2	-0.8	-8%	-8%
Change in salary increase, +0.5 percentage point	0.0	0.0	0%	0%
Change in mortality, + 1 year in life expectancy	0.5	0.3	3%	3%
Change in benefit increase, +0.5 percentage point	1.0	0.0	7%	0%
Change in Insurance Company's bonus index, +0.5 percentage point	0.0	0.9	0%	9%

Census data used in this valuation is as follows:

	2020	2019
Number of actives	69	83
Number of pensioners	299	259
Number of deferred	635	721
Average age actives (years)	50	51
Average remaining service time	10	9
Average serving time	8	7

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

Belgium Engine Center SRL

MEUR	Change in defined benefit obligation	Variation
Discount Rate + 0.5%	-0.5	-7%
Salary Increase + 0.5%	0.8	12%
Inflation + 0.5%	0.4	6%

Census data used in this valuation is as follows:	2020	2019
Number of actives	87	87
Number of pensioners	15	23
Number of deferred	62	62
Average age actives (years)	45	45
Average remaining service time	14	14
Average serving time	17	17

8. Depreciation and impairments

DEPRECIATION ACCORDING TO PLAN AND IMPAIRMENTS

MEUR	2020	2019
Intangible rights	-0.9	-0.9
Buildings and constructions	-5.5	-5.4
Buildings and constructions, IFRS 16	-9.7	-9.9
Land and water, IFRS 16	-0.1	-0.1
Machinery and equipment	-7.9	-6.9
Machinery and equipment, IFRS 16	-1.0	-0.8
Other tangible assets	-0.0	-0.0
Impairment losses, non-current assets	-4.4	-1.6
Total	-29.5	-25.7

IMPAIRMENT TESTS

The recoverable amount of a cash generating unit is determined based on value-in-use calculations. The tested cash generating units were Land, Aviation, International Support Partnerships -business unit's Baltics segment, Systems and Millog.

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

Discount rate is the weighted average pre-tax cost of capital (WACC) as defined for Patria. The components of WACC are risk-free yield rate, market risk premium, industry specific beta, cost of debt, average capital structure of the industry and a premium for asset specific risk. The WACC used in the calculations was 10.8% p.a. in 2020 (10.8%).

In 2020, the impairment testing result showed that the "value in use" in ISP Baltics and Aviation cash generating units were less than the book value of the tested assets, and thus an impairment of goodwill (valued at fair value) EUR 4.3 million was recognized in 2020. In 2019 ISP Norway, ISP Baltics and Aerostructures cash generating units were less than the book value of the tested assets, and thus an impairment of goodwill (valued at fair value) EUR 1.6 million was recognized in 2019.

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

GOODWILL BY BUSINESS UNIT

MEUR	2020	2019
Land	8.9	8.9
Aviation	4.0	4.8
ISP, Baltics	0.0	3.5
Systems	1.7	1.7
Millog	11.8	7.2
Total	26.5	26.2
1 Jan	26.2	28.0
Additions	4.6	0.0
Impairment	-4.4	-1.6
Translation differences	0.0	-0.2
31 Dec	26.5	26.2

9. Financial income and expenses

MEUR	2020	2019
Interest income		
Deposits and investments	0.1	0.0
Other	0.4	0.1
Other financial income	0.0	0.0
Interest expenses		
Interest-bearing liabilities	-1.1	-1.2
Leases	-2.6	-2.6
Other financial expense	-0.5	-0.5
Exchange rate difference		
Foreign exchange derivatives, non-hedge accounted	0.7	0.1
Other	-0.6	0.1
Total	-3.6	-3.9

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

» **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

AGGREGATE FOREIGN EXCHANGE GAINS AND LOSSES INCLUDED IN CONSOLIDATED INCOME STATEMENT

MEUR	2020	2019
Net sales	0.0	-0.0
Expenses	-0.2	-0.1
Financial income and expenses	0.1	0.2
Total	-0.1	0.1

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

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

MEUR	2020	2019
Foreign exchange rate derivative contracts under hedge accounting	0.3	0.0
Non-hedge accounted foreign exchange rate derivative contracts	0.3	0.0
Total	0.6	0.0

10. Income taxes

MEUR	2020	2019
Income taxes	-5.3	-4.1
Income taxes previous period	0.1	0.1
Change in deferred tax receivable	2.3	4.5
Change in deferred tax liability	-0.2	0.1
Total	-3.0	0.6

TAXES RELATED TO OTHER COMPREHENSIVE INCOME

2020 MEUR	Before-tax amount	Tax	Net-of-tax amount
Cash flow hedges	0.4	-0.1	0.3
Change of translation difference	1.0	-	1.0
Actuarial gains/losses on defined benefit plans	1.3	0.1	1.4
Share of comprehensive income in joint ventures	-2.3	0.5	-1.8
Total	0.4	0.5	0.9

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

DIFFERENCES BETWEEN INCOME TAX EXPENSE CALCULATED AT STATUTORY RATES COMPARED TO THE INCOME STATEMENT (TAX RATE IN FINLAND 2020: 20%, 2019: 20%)

MEUR	2020	2019
Income tax expense at statutory rate	-7.3	-1.1
Effect of statutory tax rates of foreign companies	-0.1	-0.1
Untaxed income	0.2	0.1
Non-deductible expenses	-1.4	-0.0
Utilization of confirmed losses	0.2	-0.1
Fiscal losses of the period	0.0	-1.1
Effect of associated company result	5.4	2.9
Effect of statutory tax rate change on deferred taxes	0.0	-0.0
Returns from previous tax years	0.1	0.1
Other items	-0.1	0.1
Income taxes	-3.0	0.6

RECONCILIATION OF DEFERRED TAX RECEIVABLES

MEUR	2020	2019
Fixed assets depreciation differences	0.5	0.5
Untaxed reserves	1.7	2.7
Fair value of derivative financial instruments	0.0	0.0
Tax losses carried forward	8.2	4.9
Other temporary differences	0.3	0.2
	10.6	8.2
1 Jan	8.2	2.9
Translation difference	0.0	0.0
Income statement	2.3	4.5
Fair value of derivative financial instruments	-0.0	0.0
Acquired companies	0.0	0.7
Equity	0.1	0.0
31 Dec	10.6	8.2

RECONCILIATION OF DEFERRED TAX LIABILITIES

MEUR	2020	2019
Fixed assets depreciation differences	1.4	1.3
Fair value of derivative financial instruments	0.1	0.0
	1.5	1.3
1 Jan	1.3	1.4
Income statement	0.2	-0.1
Fair value of derivative financial instruments	0.1	-0.0
31 Dec	1.5	1.3

The tax losses, for which no deferred tax assets are recognized due to the uncertainty of the utilization of the losses, amounted to EUR 32.3 million in the year of 2020 (EUR 29.5 million). These losses do not expire.

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

11. Intangible and tangible assets

INTANGIBLE ASSETS

MEUR	Goodwill	Development expenses	Intangible rights	Advance payments	Total
Acquisition cost 1 Jan 2020	33.9	12.3	21.2	0.1	67.4
Translation differences	0.1	0.0	0.0	0.0	0.1
Reclassifications	0.0	0.0	0.0	-0.1	-0.1
Companies acquired	0.0	0.0	0.0	0.0	0.0
Additions	0.0	0.0	0.6	0.0	0.6
Acquisition cost 31 Dec 2020	34.0	12.3	21.8	0.0	68.0
Accumulated amortization and impairment losses 1 Jan 2020	-7.6	-12.3	-18.0	0.0	-37.9
Translation differences	-0.1	0.0	0.0	0.0	-0.1
Reclassifications	0.0	0.0	0.0	-0.0	-0.0
Companies acquired	4.6	0.0	0.0	0.0	4.6
Amortization for the period incl. exchange rate diff. in P&L	0.0	0.0	-0.9	0.0	-0.9
Impairment	-4.4	0.0	0.0	0.0	-4.4
Accumulated amortization and impairment losses 31 Dec 2020	-7.5	-12.3	-18.9	-0.0	-38.6
Net book value at 31 Dec 2020	26.5	0.0	2.9	0.0	29.4
Acquisition cost 1 Jan 2019	33.9	12.3	19.4	0.2	65.8
Translation differences	-0.0	0.0	0.0	0.0	-0.0
Reclassifications	0.0	0.0	0.5	-0.3	0.2
Companies acquired	0.0	0.0	2.5	0.0	2.5
Scrapping	0.0	0.0	-1.8	0.0	-1.8
Additions	0.0	0.0	0.5	0.2	0.8
Acquisition cost 31 Dec 2019	33.9	12.3	21.2	0.1	67.4
Accumulated amortization and impairment losses 1 Jan 2019	-5.9	-12.3	-17.8	0.0	-35.9
Translation differences	0.0	0.0	0.0	0.0	0.0
Reclassifications	0.0	0.0	0.0	0.0	0.0
Companies acquired	0.0	0.0	-1.1	0.0	-1.1
Scrapping	0.0	0.0	1.8	0.0	1.8
Amortization for the period incl. exchange rate diff. in P&L	-0.2	0.0	-0.9	0.0	-1.1
Impairment	-1.6	0.0	0.0	0.0	-1.6
Accumulated amortization and impairment losses 31 Dec 2019	-7.6	-12.3	-18.0	0.0	-37.9
Net book value at 31 Dec 2019	26.2	0.0	3.2	0.1	29.5

TANGIBLE ASSETS

MEUR	Land and water	Buildings and constructions	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost 1 Jan 2020	3.2	213.2	119.7	1.8	3.3	341.2
Translation differences	0.0	0.4	0.1	-0.0	-0.0	0.5
Reclassifications	0.0	0.3	2.3	0.3	-3.3	-0.4
Companies acquired	0.0	1.6	0.8	0.0	0.4	2.8
Scrapping	0.0	0.0	-0.0	0.0	0.0	-0.0
Additions	0.5	12.7	5.3	0.0	2.7	21.1
Disposals	-0.1	-0.4	-1.9	0.0	-1.0	-3.4
Acquisition cost 31 Dec 2020	3.6	227.8	126.4	2.1	2.0	361.8
Accumulated depreciation and impairment losses 1 Jan 2020	-0.1	-95.5	-93.8	-1.5	-1.2	-192.0
Translation differences	0.0	-0.3	-0.1	0.0	0.0	-0.5
Reclassifications	0.0	-0.0	0.2	-0.0	0.0	0.2
Companies acquired	0.0	-0.9	-0.3	0.0	0.0	-1.2
Scrapping	0.0	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	1.5	0.0	0.0	1.5
Depreciation for the period incl. exchange rate diff. in P&L	-0.1	-15.2	-8.9	-0.0	0.0	-24.3
Accumulated depreciation and impairment losses 31 Dec 2020	-0.2	-111.9	-101.4	-1.6	-1.2	-216.2
Net book value at 31 Dec 2020	3.4	115.9	25.0	0.5	0.8	145.6
Acquisition cost 1 Jan 2019	2.2	125.9	96.1	1.8	2.0	228.0
Adoption of IFRS 16 standard	0.7	75.5	1.3	0.0	0.0	77.5
Translation differences	0.0	-0.2	-0.1	0.0	0.0	-0.2
Reclassifications	0.1	1.9	6.4	0.0	-6.4	2.0
Companies acquired	0.3	7.8	12.2	0.0	1.8	22.1
Scrapping	0.0	-0.6	-1.4	-0.0	0.0	-2.0
Additions	0.0	3.2	5.3	0.0	6.7	15.1
Disposals	0.0	-0.3	-0.1	0.0	-0.8	-1.3
Acquisition cost 31 Dec 2019	3.2	213.2	119.7	1.8	3.3	341.2
Accumulated depreciation and impairment losses 1 Jan 2019	0.0	-75.2	-75.7	-1.5	-1.2	-153.6
Translation differences	0.0	0.1	0.1	0.0	0.0	0.2
Reclassifications	0.0	-1.5	0.1	-0.0	-0.0	-1.4
Companies acquired	0.0	-4.1	-11.3	0.0	0.0	-15.4
Scrapping	0.0	0.6	1.4	0.0	0.0	2.0
Disposals	0.0	0.0	-0.7	0.0	0.0	-0.7
Depreciation for the period incl. exchange rate diff. in P&L	-0.1	-15.4	-7.7	-0.0	0.0	-23.2
Accumulated depreciation and impairment losses 31 Dec 2019	-0.1	-95.5	-93.8	-1.5	-1.2	-192.0
Net book value at 31 Dec 2019	3.2	117.8	25.9	0.3	2.1	149.2

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

TANGIBLE ASSETS INCLUDE CAPITALIZED FINANCE LEASES AS FOLLOWS

MEUR	Buildings and constructions	Machinery and equipment	Land and water	Total
Acquisition cost 1 Jan 2020	111.7	1.8	0.7	114.2
Disposals	-0.4	-0.1	-0.1	-0.6
Additions	12.0	2.0	0.5	14.5
Acquisition cost 31 Dec 2020	123.3	3.7	1.1	128.1
Accumulated depreciation and impairment losses 1 Jan 2020	-27.3	-0.8	-0.1	-28.2
Disposals and other changes	0.0	-0.0	0.0	0.0
Depreciation for the period	-10.9	-1.0	-0.1	-12.1
Accumulated depreciation and impairment losses 31 Dec 2020	-38.2	-1.9	-0.2	-40.2
Net book value at 31 Dec 2020	85.1	1.8	0.9	87.9
Acquisition cost 31 Dec 2019	111.7	1.8	0.7	114.2
Additions	-27.3	-0.8	-0.1	-28.2
Net book value at 31 Dec 2019	84.4	0.9	0.7	86.0

12. Investments in joint ventures

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

2019

EUR million	Domicile	Ownership %	Assets	Liabilities	Net sales	Profit/Loss
Nammo AS	Raufoss, Norway	50.0	631.5	350.0	515.1	19.5

SHARES IN JOINT VENTURES

MEUR	2020	2019
1 Jan	174.1	164.5
Share of results in joint ventures	27.0	14.4
Share of comprehensive income in joint ventures	-1.8	-0.5
Acquisitions	0.0	0.1
Dividend income	-4.5	-6.2
Exchange rate differences and other changes	-4.6	1.7
31 Dec	190.1	174.1

BUSINESS OPERATIONS WITH JOINT VENTURES

MEUR	2020	2019
Sales to joint ventures	0.0	0.0

RECEIVABLES AND LIABILITIES, JOINT VENTURES

MEUR	2020	2019
Subordinated loan receivable	0.4	0.4
Accounts receivables	0.0	0.0

13. Other shares

MEUR	2020	2019
Book value	0.2	0.2

Other shares consists of shares which has no observable market data available.

14. Current assets

INVENTORIES

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

RECEIVABLES

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

PREPAID EXPENSES AND ACCRUED INCOME

MEUR	2020	2019
Contract assets	44.1	48.8
Other items	5.0	3.3
Total	49.1	52.1

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

CONTRACT BALANCES

MEUR	2020	2019
Trade receivables	125.6	101.9
Contract assets	44.1	48.8
Contract liabilities		
Advances received, other	35.5	31.5
Advances received, over time	52.6	28.6
Revenue recognised in the financial period that was included in the contract liability on 1 January	4.7	2.7
Remaining performance obligations from projects and contracts under execution	225.3	269.4

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

» NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

15. Accruals and deferred income

MEUR	2020	2019
Accrued wages, salaries and social security costs	44.8	39.2
Other items	10.9	10.0
Total	55.8	49.2

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

16. Financial assets valued as fair value

MEUR	Shares	Total
1 Jan 2020	0.2	0.2
Additions	0.0	0.0
31 Dec 2020	0.2	0.2
1 Jan 2019	0.2	0.2
Exchange rate differences and other changes	0.0	0.0
31 Dec 2019	0.2	0.2

17. Financial instruments

FAIR VALUE RESERVE INCLUDING FORWARD CONTRACTS

MEUR	2020	2019
Fair value	0.3	-0.0
Deferred taxes	-0.1	0.0
Fair value reserve 31 Dec	0.3	-0.0
Fair value changes recognized in equity	0.6	-0.1
Fair value changes recognized in income statement	-0.2	-0.0
Deferred taxes	-0.1	0.0
Change	0.3	-0.1
Fair value	-0.0	0.1
Deferred taxes	0.0	-0.0
Fair value reserve 1 Jan	-0.0	0.1

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

2020 MEUR	At fair value through other comprehensive income Level 2	At fair value through income statement Level 2	Measured at amortised cost	Book value	Note
Non-current financial assets					
Long-term receivables from joint ventures			0.4	0.4	12
Other shares		0.2		0.2	13
Current financial assets					
Accounts receivable			125.6	125.6	2
Receivables from joint ventures			0.0	0.0	12
Derivative financial instruments	0.4	0.3		0.7	2
Cash and bank balances			37.5	37.5	
Carrying amount by category	0.4	0.5	163.5	164.4	
Non-current financial liabilities					
Interest-bearing liabilities			115.2	115.2	2
Current financial liabilities					
Interest-bearing liabilities			102.5	102.5	2
Accounts payable			40.6	40.6	
Derivative financial instruments	0.3	0.7		1.0	2
Carrying amount by category	0.3	0.7	258.3	259.3	

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

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

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

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

18. Shareholders' equity

Share Capital: Patria Oyj share capital on 31 December 2020 stood at EUR 38,024,848.00. All issued shares have been paid up in full.

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

OTHER FUNDS

Invested unrestricted equity reserve: Patria Oyj was established in 2010 and the assets were credited to the reserve of invested unrestricted equity. There were no changes in invested unrestricted equity reserve in 2020, and the fund stood at EUR 164,1 million on 31 December 2020.

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

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

DISTRIBUTABLE FUNDS

The parent company's non-restricted equity on December 31, 2020 is EUR 217,370,360.97 of which the net loss for the financial period is EUR 2,207,945.22.

DIVIDEND PER SHARE

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.60 (2019: EUR 0.50) per share be paid on the shares owned by the State of Finland and Kongsberg Defence & Aerospace AS. Under the proposal, the total amount of dividends will be EUR 16,705,133.40 (2019: EUR 13,920,944.50). The Board of Directors further proposes that the remaining non-restricted equity, EUR 200,665,227.57 (2019: EUR 219,578,306.19) be retained and carried forward.

The dividends paid for 2020 will be decided at the Annual General Meeting on 8 April 2021. This dividend payable is not reflected in these financial statements.

19. Provisions

MEUR	2020	2019
Warranty provision	8.3	9.6
Other provision	4.5	8.1
Total	12.8	17.7

During the warranty period the claimed faults will be corrected at Patria's expense. The warranty provisions amounted to EUR 8.3 million (EUR 9.6 million) at the end of 2020. Provisions are based on best estimates on the balance sheet date. The provision for warranties covers the expenses due to the repair or replacement of products during their warranty period. The warranty liability is based on historical realised warranty costs and best estimates on the balance sheet date. The usual warranty period is two to four years. Other provisions include various items, such as those related to defects in quality, litigations and offset obligations.

20. Commitments and contingent liabilities

MEUR	2020	2019
Guarantees given on behalf of others	4.4	4.2
Guarantees given on behalf of associate companies	14.3	0.0
Other own contingent liabilities	6.2	8.1
Total	25.0	12.3

21. Related party transactions

PATRIA OYJ'S SUBSIDIARIES ARE AS FOLLOWS:

Subsidiaries	Domicile	Ownership %
Patria Aviation Oy	Jämsä, Finland	100.0
Patria Aerostructures Oy	Jämsä, Finland	100.0
Patricomp Oy	Jämsä, Finland	100.0
Patria Pilot Training Oy	Helsinki, Finland	100.0
Patria Svenska AB	Sigtuna, Sweden	100.0
Patria Helicopters AB	Sigtuna, Sweden	100.0
Patria ISP Oy	Helsinki, Finland	100.0
Patria Belgium Engine Center SRL	Herstal, Belgium	100.0
Patria Latvia SIA	Riga, Latvia	100.0
SIA Defence Partnership Latvia	Cesis, Latvia	70.0
Patria Lithuania UAB	Vilnius, Lithuania	100.0
Patria Land Oy	Helsinki, Finland	100.0
Patria Land Middle East Limited	Abu Dhabi, United Arab Emirates	100.0
Patria Land Sverige AB	Stockholm, Sweden	100.0
Patria Land Systems SA (Pty) Ltd	Pretoria, South Africa	100.0
Patria Polska Sp. z o.o.	Warsaw, Poland	100.0
Millog Oy	Tampere, Finland	61.8
Oricopa Kiinteistöt Oy	Orivesi, Finland	100.0
Senop Oy	Kangasala, Finland	100.0
Virve Tuotteet ja Palvelut Oy	Espoo, Finland	100.0
Oy Western Shipyard Ltd	Salo, Finland	100.0
Milworks OÜ	Tallinn, Estonia	60.0

NET SALES AND PURCHASES BETWEEN THE GROUP COMPANIES

MEUR	2020	2019
Total	46.2	42.3

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

» **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

The policy of internal transfer pricing is to use market prices.

Information concerning business operations between the Group and its associated companies is included in Note 12.

Management's employment benefits are included in Note 7.

Key management consists of the members of the Board of Directors, CEO and other members of the Group management team. There was no outstanding loans receivable from key management on 31 December 2020. Members of the Group management and their immediate circle have not had any essential business relations with the Group companies.

22. Disputes and litigations

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

23. Events after the balance sheet date

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

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

» BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

Financial Statements of the Parent company (FAS)

Balance Sheet, Parent company

ASSETS

MEUR	Note	31/12/2020	31/12/2019
Assets			
Intangible assets	8		
Intangible rights		0.4	0.6
Other long-term expenditures		0.0	0.1
Tangible assets	8		
Machinery and equipment		0.6	0.9
Other tangible assets		0.0	0.0
Advance payments and construction in progress		0.0	0.0
Investments			
Shares in group companies	9	122.8	123.3
Receivables from group companies	10	5.4	0.7
Shares in associated and joint venture companies	9	191.7	191.7
Receivables from associated and joint venture companies	10	0.4	0.4
Total Non-current assets		321.3	317.6
Inventories			
Raw materials and supplies		0.1	0.1
Receivables			
Receivables from group companies	10	104.4	114.0
Other receivables		0.0	0.0
Prepaid expenses and accrued income	10	2.0	2.3
Cash and bank balances		21.7	25.5
Total Current Assets		128.3	141.9
Total Assets		449.5	459.5

SHAREHOLDERS' EQUITY AND LIABILITIES

MEUR	Note	31/12/2020	31/12/2019
Shareholders' equity and liabilities	11		
Share capital		38.0	38.0
Other funds			
Reserve for invested unrestricted equity		164.1	164.1
Retained earnings		55.5	64.7
Net income for the period		-2.2	4.8
Total Shareholders' equity		255.4	271.5
Loans from financial institutions	12	30.0	0.0
Total Non-current liabilities		30.0	0.0
Other loans	12	10.0	79.9
Loans from financial institutions	12	80.0	30.0
Accounts payable		2.6	1.9
Liabilities to group companies	12	65.9	71.3
Other current liabilities		0.5	1.7
Accruals and deferred income	12	5.2	3.2
Total Current liabilities		164.2	188.0
Total Shareholders' equity and liabilities		449.5	459.5

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

» **INCOME STATEMENT, PARENT COMPANY**

» **CASH FLOW STATEMENT, PARENT COMPANY**

NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

Income Statement, Parent company

MEUR	Note	1-12/2020	%	1-12/2019	%
Net sales	2	20.0		23.4	
Other operating income	3	2.5		1.7	
Materials and services					
Raw materials and supplies					
Purchases during the financial period		-0.5		-1.4	
Change in inventories		-0.0		-0.0	
Personnel expenses	4	-9.5		-8.0	
Depreciation and value adjustments	5	-0.9		-1.0	
Other operating expenses	3	-19.9		-20.8	
Operating profit		-8.2	-41.2%	-6.2	-26.5%
Financial income and expenses	6				
Dividend income from group companies		9.3		10.5	
Dividend income from associated and joint venture companies		0.0		0.0	
Interest and other financial income		1.4		2.5	
Impairment on investments from non-curr assets		-3.2		0.0	
Interest and other financial expenses		-1.4		-2.1	
Exchange gains and losses		-0.0		0.1	
Income before appropriations and taxes		-2.2	-11.0%	4.8	20.3%
Income taxes	7	0.0		0.0	
Net income		-2.2	-11.0%	4.8	20.3%

Cash Flow Statement, Parent company

MEUR	1-12/2020	1-12/2019
Income before appropriations and taxes	-2.2	4.8
Depreciation	0.9	1.0
Financing items	-6.0	-10.9
Other changes	-0.0	0.1
Change in receivables	8.8	-6.4
Change in inventories	0.0	0.0
Change in liabilities	0.4	2.5
Cash flow from operations before financial items and taxes	1.9	-9.0
Interests paid	-1.1	-1.9
Other financial items	-0.2	-0.1
Dividends received	9.3	10.5
Interests received	1.4	2.5
Paid taxes	1.3	3.5
Cash flow from operating activities	12.5	5.4
Purchase of tangible and intangible assets	-0.4	-0.5
Granted loans	-7.4	-1.2
Repayments from loans	0.2	1.3
Proceeds from sale of investments	0.0	0.0
Cash flow from investing activities	-7.5	-0.4
Change in short-term loans	10.1	60.9
Repayment of long-term loans	0.0	-0.2
Change in short-term receivables and liabilities	-4.8	-38.8
Dividends paid	-13.9	-13.9
Paid and received group contributions	0.0	8.7
Cash flow from financing activities	-8.7	16.7
Change in liquid funds	-3.8	21.8
Liquid funds 1 Jan	25.5	3.7
Liquid funds 31 Dec	21.7	25.5
Change in liquid funds	-3.8	21.8

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

» **NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY**

GOVERNANCE

Notes to the Financial Statements, Parent company

1. Accounting principles, Parent company

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

REVENUE RECOGNITION

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

USE OF ESTIMATES

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

FIXED ASSETS AND DEPRECIATION

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

The assessed economic lives are as follows:

- Machinery and equipment 3 to 15 years
- Other intangible assets 3 to 5 years

Other tangible assets are not subject to depreciation.

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

FINANCIAL ASSETS

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

FOREIGN CURRENCY TRANSACTIONS

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

DERIVATIVE INSTRUMENTS

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

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

GRANTS RECEIVED

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

INCOME TAXES

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

INVENTORIES

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

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

PROVISIONS

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

EMPLOYEE BENEFITS

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

RESEARCH AND DEVELOPMENT COSTS

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

LEASING

All leasing payments have been expensed in the income statement.

APPROPRIATIONS

Appropriations include group contributions.

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

» **NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY**

GOVERNANCE

2. Net sales

NET SALES BY MARKET AREA

MEUR	2020	2019
Finland	19.9	23.3
Other Europe	0.1	0.0
Total	20.0	23.4

NET SALES BY PRODUCT SEGMENT

MEUR	2020	2019
Civilian products	20.0	23.4
Total	20.0	23.4

REVENUE RECOGNITION

MEUR	2020	2019
Delivery based net sales	20.0	23.4
Total net sales	20.0	23.4

3. Other operating income and expenses

OTHER OPERATING INCOME

MEUR	2020	2019
Rental income	1.8	1.7
Other operating income	0.6	0.0
Total	2.5	1.7

OTHER OPERATING EXPENSES

MEUR	2020	2019
Research and development	-0.0	-0.0
Rents	-2.6	-2.6
Real estate expenses	-2.1	-2.2
Travel expenses	-0.1	-0.5
Sales and marketing expenses	-0.4	-1.4
Other operating expenses	-14.6	-14.2
Total	-19.9	-20.8

PRINCIPAL INDEPENDENT AUDITOR'S FEES AND SERVICES

MEUR	2020	2019
Audit fees	-0.1	-0.1
Other audit related fees	-0.0	-0.0
Other services	-0.4	-0.0
Total	-0.5	-0.1

4. Employee benefits and average number of personnel

MEUR	2020	2019
Salaries and fees paid to members of Board of Directors, Consultative Committee and President and CEO	-0.7	-0.4
Other wages and salaries	-7.4	-6.3
Pension and pension insurance costs	-1.2	-1.1
Other indirect personnel expenses	-0.2	-0.2
Total	-9.5	-8.0
Number of personnel, average		
Salaried staff	86	86
Total	86	86

5. Depreciation

MEUR	2020	2019
Depreciation on Intangible rights	-0.3	-0.4
Depreciation on other Intangible rights	-0.0	-0.0
Depreciation on machinery and equipment	-0.5	-0.6
Total	-0.9	-1.0

6. Financial income and expenses

FINANCIAL INCOME

MEUR	2020	2019
Dividend income, group	9.3	10.5
Dividend income, other	0.0	0.0
Interest income, group	1.2	2.4
Interest income, other	0.2	0.1
Total	10.7	13.0

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

» **NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY**

GOVERNANCE

FINANCIAL EXPENSES

MEUR	2020	2019
Interest expenses, group	-0.2	-1.2
Interest expenses, other	-1.0	-0.8
Impairment on investments from non-curr assets	-3.2	0.0
Other financial expenses, other	-0.2	-0.1
Total	-4.6	-2.1

Due to the weakened financial performance and future outlook an impairment on capital loan receivable from Patria Pilot Training Oy and group company shares of Milworks OU was recognised during the financial period.

MEUR	2020	2019
Exchange gains and losses	-0.0	0.1
Total	-0.0	0.1

7. Direct taxes

MEUR	2020	2019
Income tax from continuing operations	0.0	0.0
Income tax from appropriations	0.0	0.0
Total	0.0	0.0

MEUR	2020	2019
Income taxes	0.0	0.0
Income taxes previous period	0.0	0.0
Total	0.0	0.0

8. Intangible and tangible assets

INTANGIBLE ASSETS

MEUR	Intangible rights	Other long-term expenditures	Total
Acquisition cost 1 Jan 2020	6.9	0.2	7.0
Reclassifications	-0.0	0.0	-0.0
Additions	0.1	0.0	0.1
Acquisition cost 31 Dec 2020	7.0	0.2	7.1
Accumulated amortization and impairment losses 1 Jan 2020	-6.3	-0.1	-6.4
Reclassifications	0.0	0.0	0.0
Amortization for the period incl. exchange rate diff. in P&L	-0.3	-0.0	-0.4
Accumulated amortization and impairment losses 31 Dec 2020	-6.6	-0.1	-6.7
Net book value at 31 Dec 2020	0.4	0.0	0.4

MEUR	Intangible rights	Other long-term expenditures	Total
Acquisition cost 1 Jan 2019	6.5	0.2	6.6
Additions	0.4	0.0	0.4
Acquisition cost 31 Dec 2019	6.9	0.2	7.0
Accumulated amortization and impairment losses 1 Jan 2019	-5,8	-0,1	-5,9
Amortization for the period incl. exchange rate diff. in P&L	-0,4	-0,0	-0,5
Accumulated amortization and impairment losses 31 Dec 2019	-6,3	-0,1	-6,4
Net book value at 31 Dec 2019	0,6	0,1	0,6

TANGIBLE ASSETS

MEUR	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost 1 Jan 2020	4.7	0.0	0.0	4.7
Additions	0.2	0.0	0.0	0.3
Acquisition cost 31 Dec 2020	4.9	0.0	0.0	5.0
Accumulated depreciation and impairment losses 1 Jan 2020	-3.8	0.0	0.0	-3.8
Depreciation for the period incl. exchange rate diff. in P&L	-0.5	0.0	0.0	-0.5
Accumulated depreciation and impairment losses 31 Dec 2020	-4.3	0.0	0.0	-4.3
Net book value at 31 Dec 2020	0.6	0.0	0.0	0.7

Acquisition cost 1 Jan 2019	4.6	0.0	0.0	4.6
Additions	0.1	0.0	0.0	0.1
Disposals	0.0	0.0	0.0	0.0
Acquisition cost 31 Dec 2019	4.7	0.0	0.0	4.7

Accumulated depreciation and impairment losses 1 Jan 2019	-3.3	0.0	0.0	-3.3
Disposals	0.0	0.0	0.0	0.0
Depreciation for the period incl. exchange rate diff. in P&L	-0.6	0.0	0.0	-0.6
Accumulated depreciation and impairment losses 31 Dec 2019	-3.8	0.0	0.0	-3.8
Net book value at 31 Dec 2019	0.9	0.0	0.0	0.9

9. Investments

SHARES IN SUBSIDIARIES

MEUR	2020	2019
1 Jan	123.3	123.3
Disposals	0.0	-0.0
Write-downs	-0.5	0.0
Total 31 Dec	122.8	123.3

SHARES IN JOINT VENTURES

MEUR	2020	2019
1 Jan	191.7	191.7
Total 31 Dec	191.7	191.7

10. Current receivables

NON-CURRENT RECEIVABLES FROM GROUP COMPANIES

MEUR	2020	2019
Loan receivable	5.4	0.7
Total	5.4	0.7

CURRENT RECEIVABLES FROM GROUP COMPANIES

MEUR	2020	2019
Accounts receivable	0.6	14.8
Loan receivable	0.5	0.7
Other receivables	98.8	98.4
Derivative financial receivables	0.3	0.1
Accruals and deferred income	4.2	0.0
Total	104.4	114.0

CURRENT RECEIVABLES FROM ASSOCIATED COMPANIES

MEUR	2020	2019
Subordinated loan	0.4	0.4
Total	0.4	0.4

PREPAID EXPENSES AND ACCRUED INCOME

MEUR	2020	2019
Taxes	0.0	1.3
Derivative financial receivables	0.7	0.2
Other receivables	1.3	0.9
Total	2.0	2.3

11. Shareholders' equity

CHANGES IN SHAREHOLDERS' EQUITY

MEUR	2020	2019
Share capital 1 Jan	38.0	38.0
Share capital 31 Dec	38.0	38.0

MEUR	2020	2019
Invested non-restricted equity fund 1 Jan	164.1	164.1
Invested non-restricted equity fund 31 Dec	164.1	164.1

Retained earnings 1 Jan	69.4	78.6
Distribution of dividends	-13.9	-13.9
Retained earnings 31 Dec	55.5	64.7
Net income	-2.2	4.8
Total shareholders' equity 31 Dec	255.4	271.5

Distributable funds		
Invested non-restricted equity fund 31 Dec	164.1	164.1
Retained earnings 31 Dec	55.5	64.7
Net income	-2.2	4.8
Distributable funds	217.4	233.5

12. Current liabilities

MATURITY OF INTEREST-BEARING LIABILITIES

MEUR	2021	2022	2023	2024	2025-	Total
Loans from financial institutions	80.0	30.0	0.0	0.0	0.0	110.0
Liabilities, group account	63.9	0.0	0.0	0.0	0.0	63.9
Other interest-bearing liabilities	10.0	0.0	0.0	0.0	0.0	10.0
Total 2020	153.9	30.0	0.0	0.0	0.0	183.9

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

INTEREST-BEARING LIABILITIES

MEUR	2020	2019
Loans from financial institutions	110.0	30.0
Other loans	10.0	79.9
Total	120.0	109.9

CURRENT LIABILITIES TO GROUP COMPANIES

MEUR	2020	2019
Accounts payable	0,7	0,3
Other liabilities	64,4	70,9
Derivative financial liabilities	0,7	0,2
Accruals and deferred income	0,0	0,0
Total	65,9	71,3

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

» NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY

GOVERNANCE

ACCRUALS AND DEFERRED INCOME

MEUR	2020	2019
Accruals related to wages and salaries	3.6	2.2
Derivative financial liabilities	1.0	0.4
Other liabilities	0.6	0.6
Total	5.2	3.2

13. Financial Instruments and derivative contracts

DERIVATIVE INSTRUMENTS

2020 MEUR	Nominal value	Positive fair values	Negative fair values	Net fair value
Non-hedge accounting derivative financial instruments				
Forward foreign exchange contracts	88.3	1.0	-1.7	-0.7
Buy	36.3	0.2	-1.0	-0.8
Sell	51.9	0.9	-0.8	0.1
Non-hedging	88.3	1.0	-1.7	-0.7
Total	88.3	1.0	-1.7	-0.7

MEUR	2021	2022	2023	2024
Derivative financial assets	0.9	0.1	0.0	0.0
Derivative financial liabilities	-1.6	-0.1	0.0	0.0

2019 MEUR	Nominal value	Positive fair values	Negative fair values	Net fair value
Non-hedge accounting derivative financial instruments				
Forward foreign exchange contracts	81.3	0.3	-0.6	-0.4
Buy	29.2	0.1	-0.1	0.0
Sell	52.1	0.1	-0.5	-0.4
Non-hedging	81.3	0.3	-0.6	-0.4
Total	81.3	0.3	-0.6	-0.4

MEUR	2020	2021	2022	2023
Derivative financial assets	0.2	0.0	0.0	0.0
Derivative financial liabilities	-0.6	-0.0	-0.0	0.0

OFFSETTING OF FINANCIAL INSTRUMENTS

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

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

2020 MEUR	At fair value through income statement Level 2	Measured at amortized cost	Book value
Non-current financial assets			
Long-term receivables from group companies		8.1	8.1

2020 MEUR	At fair value through income statement Level 2	Measured at amortized cost	Book value
Long-term receivables from joint ventures		0.4	0.4
Current financial assets			
Accounts receivables from group companies		0.6	0.6
Other receivables		0.0	0.0
Other receivables from group companies	0.3	99.3	99.6
Derivative financial instruments	0.7		0.7
Cash and bank balances		21.7	21.7
Carrying amount by category	1.0	130.0	131.0
Non-current financial liabilities			
Interest-bearing liabilities		30.0	30.0
Current financial liabilities			
Interest-bearing liabilities		90.0	90.0
Accounts payable		2.6	2.6
Accounts payable to group companies		0.7	0.7
Other current liabilities to group companies	0.7	64.4	65.1
Other current liabilities		0.5	0.5
Derivative financial instruments	1.0		1.0
Carrying amount by category	1.7	188.2	190.0

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

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

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

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF THE PARENT COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

» **NOTES TO THE FINANCIAL STATEMENTS, PARENT COMPANY**

GOVERNANCE

CURRENCY RISKS

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

Hedge accounting is not applied to derivatives hedging balance sheet items. Patria Oyj's own derivative instruments are only hedging balance sheet items.

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

The next table presents the net exposures as well as the effects based on the sensitivity analysis on result before the taxes assuming that euro would have strengthened or weakened against the currency in question on the balance sheet date. The sensitivity is calculated for a five percent exchange rate change.

The most significant currency exposures on 31 December 2020 were in the Swedish krona (SEK).

IFRS 7 SENSITIVITY ANALYSIS - SENSITIVITY TO EXCHANGE RATE FLUCTUATIONS 2020

1,000 EUR	SEK
Net exposure - Balance sheet items	-913
Euro strengthens / weakens 5% - Effect on income before taxes	43 / -48
Net exposure - Derivatives under hedge accounting	0
Euro strengthens / weakens 5% - Effect on equity	0 / 0

IFRS 7 SENSITIVITY ANALYSIS - SENSITIVITY TO EXCHANGE RATE FLUCTUATIONS 2019

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

INTEREST RATE RISK

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

On 31 December 2020, the average interest fixing term of the liabilities was 0.61 (0.12) years and that of the receivables one day (one day).

On 31 December 2020, company's interest-bearing liabilities totalled EUR 183.9 million (178.3) out of which EUR 173.9 million (98.4) was floating rate and EUR 10.0 million (79.9) was fixed rate. EUR 63.9 million (68.4) of the floating rate liabilities were from group account. Interest-bearing receivables were EUR 121.0 million (124.6) out of which EUR 120.5 million (123.9) were floating rate and EUR 0.5 million (0.7) was fixed rate. EUR 98.8 million (98.4) of the interest-bearing receivables were receivables from group account.

14. Commitments and contingent liabilities

COMMITMENTS AND CONTINGENT LIABILITIES

MEUR	2020	2019
Guarantees given on behalf of group companies	56.2	70.3
Guarantees given on behalf of others	0.3	0.4
Other own contingent liabilities	2.4	3.6
Total	58.9	74.3

LEASING COMMITMENTS

MEUR	2020	2019
Payments due next year	3.5	3.1
1-5 years	12.8	10.9
Payments due in thereafter	6.9	9.0
Total	23.1	23.0

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE
RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

BOARD OF DIRECTORS' REPORT

CONSOLIDATED FINANCIAL
STATEMENTS (IFRS)

CONSOLIDATED BALANCE SHEET

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF
CHANGES IN EQUITYNOTES TO THE CONSOLIDATED FINANCIAL
STATEMENTSFINANCIAL STATEMENTS OF THE PARENT
COMPANY (FAS)

BALANCE SHEET, PARENT COMPANY

INCOME STATEMENT, PARENT COMPANY

CASH FLOW STATEMENT, PARENT COMPANY

» [NOTES TO THE FINANCIAL STATEMENTS,
PARENT COMPANY](#)

GOVERNANCE

Board of Directors' proposal for profit distribution

The parent company's non-restricted equity on December 31, 2020 is EUR 217,370,360.97 of which the net loss for the financial period is EUR on 2,207,945.22.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.60 per share be paid on the shares owned by the State of Finland and Kongsberg Defence & Aerospace AS. Under the proposal, the total amount of dividends will be EUR 16,705,133.40. The Board of Directors further proposes that the remaining non-restricted equity, EUR 200,665,227.57 be retained and carried forward.

Helsinki, 10 March 2021

Panu Routila
Chairman

Harald Aarø

Eirik Lie

Päivi Marttila

Jarle Næss

Ari Puheloinen

Gyrid Skalleberg Ingerø

Petri Vihervuori

Esa Rautalinko
President and CEO

AUDITOR'S STATEMENT

A report has been given today on the audit performed.

Helsinki, 10 March 2021

PricewaterhouseCoopers Oy
Authorised Public AccountantsJukka Karinen
Authorised Public Accountant

CORPORATE GOVERNANCE

Applicable regulations, guidelines and recommendations

Patria Oyj's ("Patria") corporate governance complies with the Limited Liability Companies Act, Auditing Act, Accounting Act and any other binding legislation.

For example, the Limited Liability Companies Act specifies the company's governing bodies, their roles and responsibilities, and the relationships between governing bodies. The Limited Liability Companies Act is also important for shareholders' rights, as it contains regulations on the rights granted by shares and the exercising of those rights. It also contains the company's main corporate governance principles.

Patria also complies with other principles and recommendations for good governance that are applicable to companies that are majority-owned by the State. Although Patria is not a listed company, it complies with the applicable sections of the Securities Market Association's Finnish Corporate Governance Code 2020, to the extent that compliance with the Code's recommendations is appropriate for ensuring good governance, and taking into account the company's ownership structure and/

or special characteristics or line of business. The most significant deviations from the Code concern Patria's process for appointing members of the Board of Directors and members' independence. This stems from the company's ownership base and other special characteristics.

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

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

Group organisation and administrative system

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

Governing bodies

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

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

Patria's Board of Directors consists of the Board members elected by the General Meeting. The Board of Directors handles Patria's corporate governance and the appropriate organisation of its operations.

Patria's operative business is managed by the CEO, who is appointed by the Board of Directors. The CEO handles the daily management of the company and Patria Group in accordance with the guidelines and instructions issued by the Board of Directors. The CEO is supported by the Group Management Team.

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

Consultative committee

According to its Articles of Association, Patria Oyj must have a Consultative Committee appointed by the General Meeting. Patria's Articles of Association further state that the Board of Directors must consult the Consultative Committee on matters that concern any marked curtailment or expansion of operations or any vital changes to the company's organisation, or which are otherwise of great importance to the line of business that the company is engaged in, either in Finland or internationally. The Consultative Committee consists of a chair, a vice-chair, and a maximum of ten other members. The Consultative Committee had 11 members during the financial year and convened three times in 2020.

Composition, selection procedure and operation of the Board of Directors

According to Patria's Articles of Association, the Board of Directors should consist of a chair, a vice-chair, and a minimum of three and a maximum of seven other members. During the

financial year, the Board of Directors consisted of seven members until 4th of February 2020 and eight members after that.

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

The Board convened eight times in 2020, and also made two decisions without actually convening.

Principal duties of the Board of Directors and distribution of duties

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

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

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

The Board confirms the Group's ethical values and operational principles, and monitors compliance with these values and principles. The Board also approves the general setup of the Group's organisational and operational structure. Its task is

to promote the interests of both the Group and its stakeholders. The Board has appointed an Audit Committee and a Nomination and Compensation Committee.

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

Nomination and Compensation Committee

The Nomination and Compensation Committee consists of four members who do not belong to the company's operative management. These members have the experience and expertise required by the Committee's tasks. The Nomination and Compensation Committee prepares the Group's and management's payroll structures, along with any bonus and incentive systems. It also approves key appointments. The Nomination and Compensation Committee convened four times during 2020. The Board confirms the Group's ethical values and operational principles, and monitors compliance with these values and principles.

Audit Committee

The Audit Committee consists of four members who do not belong to the company's operative management. These members have the experience and expertise required by the Committee's tasks. The Audit Committee supervises and monitors matters such as the implementation of the Group's internal controls, risk management and financial reporting. It is also tasked with supervising the Group's financial reporting, the drawing up of its Financial Statements, and matters related to compliance and ethics. The Audit Committee convened four times during 2020.

The company's President & CEO and group management

Patria's President & CEO is responsible for managing the business

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

» **CORPORATE GOVERNANCE**

INDUSTRIAL PARTICIPATION

RISK MANAGEMENT

BOARD OF DIRECTORS

CONSULTATIVE COMMITTEE

GROUP MANAGEMENT TEAM

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

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

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

Compensation

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

Monitoring and controls

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

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

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

ANNUAL REVIEW

BUSINESS UNITS

PATRIA'S CORPORATE
RESPONSIBILITY

PATRIA AS PART OF SOCIETY

A RESPONSIBLE EMPLOYER

ENVIRONMENTAL RESPONSIBILITY

GRI INDEX

FINANCIAL

GOVERNANCE

CORPORATE GOVERNANCE

» INDUSTRIAL PARTICIPATION

RISK MANAGEMENT

BOARD OF DIRECTORS

CONSULTATIVE COMMITTEE

GROUP MANAGEMENT TEAM

Industrial Participation

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

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

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

Furthermore, Patria may decide to participate in industrial participation arrangements where participation is in the business interest of Patria Group as a whole, where the value of industrial participation engagements is proportionate to the value of the main agreements or transaction, and provided that such

activities are steered and monitored by executive management with clear accountability.

Industrial participation arrangements and activities comply with the regulations and practices of the countries in question. These industrial participation arrangements may also include externally created industrial participation activities as well as actions on behalf of other entities having industrial participation liabilities when this is possible under applicable rules and policies. Mutual abatements or swaps of industrial participations are also possible, where performed under applicable regulations and with consent of relevant authorities and agreements.

Patria's industrial participation obligations are duly reported to management, board of directors and Audit Committee nominated by Board of Directors of Patria Oyj.

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

- Applicable laws, regulations and international treaties allow industrial participation arrangements and the arrangement is in compliance with the laws and regulations.
- The arrangements are in compliance with Patria Group's ethical and compliance policies and guidelines related to industrial participation and Patria Ethical Code of Conduct and related policies and guidelines.

- The arrangement is acceptable and subject to applicable integrity due diligence on any and all business partners and vendors related to such industrial participation arrangements and transactions, with special focus on ensuring anti-corruption and anti-bribery.
- Patria conducts a thorough legal analysis of the applicable industrial participation regulations in the specific country in question to mitigate legal risks and to ensure compliance of Patria's industrial participation activities.
- All the relevant financial and non-financial risks are assessed and mitigated.

Performance of industrial participation obligations of Patria:

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

Risk Management

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

Risk management framework

Patria has a risk management and internal control policy, approved by the Board of Directors, which specifies the related tasks, objectives, components, responsibilities and authorities. The Board provides the ultimate oversight and direction for risk management and internal control and has allocated main responsibility for these actions to the Audit Committee appointed by the Board.

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

The President and CEO of Patria is responsible for the proper functioning and monitoring of risk management and internal control. Patria's Group functions provide guidelines for risk management and internal control and perform monitoring on different levels. Patria's Internal Audit function and various external auditors evaluate the effectiveness of Patria's risk management and internal control. In addition, Patria's customers perform various audits and control activities to ensure compliance by Patria with the customer requirements.

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

Internal Audit

Patria has an Internal Audit function outsourced to an independent operator, which evaluates and contributes to ensuring the efficiency and feasibility of Patria's operations, risk

management and internal control, external and internal reporting and compliance with the applicable legislation, regulations and guidelines.

The Audit Committee confirms the internal audit plan annually. In addition, the Audit Committee and the Board may, from time to time, instruct the Internal Audit function to perform specific audits or other control actions. The findings of the Internal Audit function are regularly reported to the Audit Committee and to the management of Patria.

Main risks and opportunities

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

Change in the defence industry and export licences

The international defence industry is subject to continuous change. Acquisitions and mergers are taking place, new operators are emerging, the complexity of customer requirements and utilization of new technologies is increasing, and competition is intensifying. Patria responds to the

competition by improving the anticipation and understanding of customer needs and their changes, along with developing and commercializing new competitive products, services and solutions. The export of defence material is subject to an export or transfer license, which in Finland is granted by the Ministry of Defence or, when certain conditions are met, the government. The conditions in the potential destination country may prevent the granting of an export license, or the conditions in a country to which an export license has been granted may change in such a way that the license will be cancelled temporarily or permanently.

Strategic partnerships

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

Quality and cost effectiveness of processes

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

Sales and delivery projects

Due to the nature of certain segments of Patria's business, individual sales and delivery projects can be very large in relation to the Group's annual net sales. They may include product development, require extensive subcontracting and cooperation with third parties, and have durations of several years. Moreover, the contents of deliveries and the forms of industrial cooperation

implemented together with partners can be complex in nature. The risks involved in such projects are typically versatile and significant, requiring thorough assessment and management.

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

Safeguarding and developing competencies and expertise

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

Compliance

Patria is committed to ethical conduct, compliance with the laws and regulations of the countries in which it operates, and adherence to its agreements and commitments. Patria invests considerable effort in ensuring the ethics and compliance of operations through communications, guidelines and processes for ethical conduct, as well as regular training. As Patria's operating environment is complex and Patria operates in many countries and under different jurisdictions and complex regulations, violations may occur despite Patria's good intentions and efforts to ensure ethical operations. Violations may result in financial losses and damage to Patria's reputation. Patria's ethical principles have been detailed in the Patria Ethical Code of Conduct guideline, which defines the ethical principles applied to Patria and all of its employees and directors. Adherence to ethical guidelines is monitored internally and non-conformities are investigated and dealt with. Patria's business partners and

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

Information and cyber security

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

Other security and accident risks

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

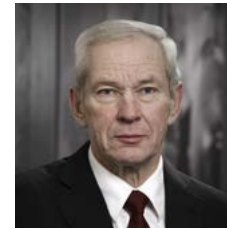
Board of Directors

31.12.2020



Panu Routila

Chairman
Since February 2020



Ari Puheloinen

General, ret.
Since 2016



Jarle Næss

Senior Vice President Business
Development, Kongsberg Defence &
Aerospace
Since 2018



Petri Vihervuori

Senior Financial Adviser, the Ownership
Steering Department in the Prime
Minister's Office, State representative
Since 2018



Päivi Marttila

CEO, Sievi Capital plc
Since 2016



Eirik Lie

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



Gyrid Skalleberg Ingerø

Executive Vice President and Chief
Financial Officer, KONGSBERG
Since 2018



Harald Aarø

Executive Vice President,
Space and Surveillance,
Kongsberg Defence & Aerospace
Since 2016

Consultative Committee

31.12.2020

According to the Articles of Association, Patria Oyj must have a Consultative Committee appointed by the Finnish Parliament and 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 organisation, and on issues which are otherwise of material importance to the industry that the company is engaged in, either in Finland or internationally.

Jari Myllykoski

Chairman
Member of Parliament
Since November 2020

Janne Sankelo

Vice Chairman
Member of Parliament
Since October 2019

Riitta Mäkinen

Member
Member of Parliament
Since October 2019

Eero Pyötsiä

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

Petri Huru

Member
Member of Parliament
Since October 2019

Petri Peltonen

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

Hannu Hoskonen

Member
Member of Parliament
Since October 2019

Jari Metsälä

Member
Manager, Product Design, Patria
Since March 2019

Jussi Karimäki

Member
Equipment Assembler, Patria
Since 2009

Juha Kuusi

Member
System Specialist, Patria
Since 2011

Ilkka Kokko

Member
System Engineer, Patria
Since 2019

Group Management Team

31.12.2020



Esa Rautalinko

b. 1962
President and CEO
Since 2019



Jussi Järvinen

b. 1979
President, Land
Since 2013



Birgitta Selonen

b. 1964
Chief Communications Officer
Since 2010



Ville Jaakonsalo

b. 1971
Chief Financial Officer
Since 2010



Martti Wallin

b. 1963
President, Aviation
Since 1989



Pasi Niinikoski

b. 1961
Chief Business Development Officer
Since 2006



Jonas Geust

b. 1970
President, Systems
Since 2018



Petri Hepola

b. 1965
Chief Program Officer, HX
Since 2002



Jukka Holkeri

b. 1962
President, International Support
Partnerships
Since 1988



Leena Olkkonen

b. 1962
Chief Human Resources Officer
Since 2017

Patria 100

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