

## Interim Report

**1 January - 30 September 2003**

- Net sales EUR 160.4 million
- Operating profit amounted to EUR 2.1 million
- Measures to improve cost efficiency continued
- Order stock increased to EUR 528.9 million



**PATRIA GROUP'S INTERIM REPORT**
**1 January - 30 September 2003**

- Net sales during the review period totalled EUR 160.4 million (EUR 156.3 million) and operating profit amounted to EUR 2.1 million (EUR -1.2 million).
- Order stock increased to EUR 528.9 million (EUR 426.1 million on 31 December 2002).
- On 1 July 2003, Patria signed the agreements forming part of the offset package with Poland, and after that the Polish Government officially approved the deal. Patria will supply Poland with 690 armoured Patria AMV wheeled vehicles.
- The French GROUPE SNPE and its subsidiary SNPE Energetic Materials as well as Patria and Saab AB, the owners of Nexplo Industries AB, concluded an agreement on 10 July 2003 to merge their propellant and explosives operations within a new company called EURENCO.
- Measures to improve cost efficiency were continued.

**Net sales, new orders and profitability**

The Group's net sales for January–September increased by 3% compared to the previous year, totalling EUR 160.4 million (EUR 156.3 million). Defence material and maintenance accounted for 74% (68%) and civilian products for 26% (32%) of net sales. Sales outside Finland accounted for 39% (53%) of net sales.

The value of new orders received by the Group during the review period was EUR 263.2 million (EUR 127.5 million). Defence material and maintenance accounted for 84%, and civilian products for 16% of the new orders. The most significant new order during the review period

**CONSOLIDATED INCOME STATEMENT, EUR million**

	1-9/2003	% 1-9/2002	% 1-12/2002	%
<b>Net Sales</b>	160.4	100.0	156.3	100.0
Operating expenses	-150.4		-149.6	-215.7
Depreciation	-7.9		-7.9	-9.8
<b>Operating profit</b>	2.1	1.3	-1.2	-0.8
Financial income and expenses	0.6		1.9	2.5
<b>Income before extraordinary items</b>	2.7	1.7	0.7	0.4
Extraordinary items	0.0		-4.2	-4.0
<b>Income before taxes</b>	2.7	1.7	-3.5	-2.2
Direct taxes	-2.1		0.0	-2.7
Minority interest	0.0		0.1	0.1
<b>Net income</b>	0.6	0.4	-3.4	-2.2
			2.9	1.3

**CONSOLIDATED BALANCE SHEET, EUR million**

<b>Assets</b>	30.9.2003	30.9.2002	31.12.2002
Fixed assets and other non-current assets	114.6	95.1	99.5
Inventories	89.8	70.0	61.7
Receivables	59.4	51.0	60.1
Marketable securities	71.7	78.1	83.2
Cash and bank balances	14.3	24.0	29.3
<b>Total Assets</b>	<b>349.8</b>	<b>318.2</b>	<b>333.8</b>
<b>Shareholders' equity and liabilities</b>			
Shareholders' equity	162.7	159.4	165.6
Minority interest	0.0	0.0	0.0
Provisions	8.0	8.4	8.2
Deferred tax liability	1.2	1.2	1.2
Long-term liabilities	26.4	8.1	13.4
Short-term liabilities	151.5	141.1	145.4
<b>Total Shareholders' equity and liabilities</b>	<b>349.8</b>	<b>318.2</b>	<b>333.8</b>
Equity ratio	64.8 %	72.8 %	68.5 %
Gearing	-36%	-59%	-59%
Net indebtedness, EUR million	-58.7	-93.7	-98.5

**COMMITMENTS AND CONTINGENT LIABILITIES, EUR million**

	30.9.2003	30.9.2002	31.12.2002
<b>Advance payments secured by mortgages</b>	0.0	0.0	0.0
Mortgages on an installation on the property of a third party	0.0	0.0	0.0
Mortgages on company assets	0.0	0.0	0.2
<b>Guarantees given on behalf of associated companies</b>	82.7	58.4	59.8
<b>Other own liabilities</b>			
Guarantees given on behalf of third parties *)	18.5	6.8	13.3
Repurchase obligations	1.6	1.9	1.8
<b>Leasing commitments</b>			
Payments due next year	3.0	3.4	2.9
Payments due in thereafter	3.4	14.3	7.1
<b>Derivative instruments</b>			
Forward foreign exchange contracts	104.9	112.0	105.8
of which covered contracts	3.3	6.5	3.2
Current value	4.0	3.1	4.0

\*) long term real estate agreement guarantees

The figures are unaudited.

was for Patria AMV armoured wheeled vehicles to be supplied to the Polish customer. The Finnish Defence Forces placed orders for the AMOS mortar system and Patria AMV 8x8 armoured wheeled vehicles and orders for observation equipment for infantry, observation and target-locating equipment for artillery, and optical target-indicating equipment for anti-aircraft defence. At the end of the review period the value of the Group's order stock was EUR 528.9 million (EUR 426.1 million at 31 December 2002).

The Group's operating profit increased to EUR 2.1 million (EUR -1.2 million). The operating profit includes the Group's share of EUR 0.6 million (EUR 0.4 million) of its associated companies' income. The consolidated income before extraordinary items was EUR 2.7 million (EUR 0.7 million). Extraordinary items for the corresponding period in 2002 totalled EUR -4.2 million and mainly comprised divested businesses.

The Group's income improved as a result of the cost-saving measures started during the previous year and improvements to its operational efficiency. The market environment of the Group's Business Units with operations in air traffic remained uncertain, which resulted in a low production capacity utilisation rate and unsatisfactory economic development in these Business Units.

## Investments

The Group's gross investments, excluding acquisitions, totalled EUR 10.6 million (EUR 9.6 million). A total of EUR 2.3 million (EUR 0.2 million) was spent on the acquisition of shares in Group companies and joint ventures. Moreover, assets acquired through finance leasing contracts totalling EUR 13.7 million (EUR 9.2 million), were capitalised and included in fixed assets during the review period.

## NET SALES

	1-9/2003	1-9/2002	1-12/2002
EUR million			
Land Systems	74.6	66.8	103.9
Aviation	49.8	42.2	61.9
New Technologies	15.6	15.5	24.7
Civil Products and Services	25.1	37.6	49.5
Others and intragroup	-4.7	-5.8	-7.5
<b>Total</b>	<b>160.4</b>	<b>156.3</b>	<b>232.5</b>

## OPERATING PROFIT

	1-9/2003	1-9/2002	1-12/2002
EUR million			
Land Systems	7.5	9.2	15.9
Aviation	2.9	1.4	3.9
New Technologies	0.3	-2.0	0.1
Civil Products and Services	-7.7	-8.6	-10.7
Others	-0.9	-1.2	-2.2
<b>Total</b>	<b>2.1</b>	<b>-1.2</b>	<b>7.0</b>

## PERSONNEL

	30.9.2003	30.9.2002	31.12.2002
AT END OF PERIOD			
Land Systems	614	567	574
Aviation	721	709	707
New Technologies	214	233	210
Civil Products and Services	453	501	496
Patria Industries Plc	16	17	17
<b>Total</b>	<b>2 018</b>	<b>2 027</b>	<b>2 004</b>

## NET SALES

BY MARKET AREA	1-9/2003		1-9/2002		1-12/2002	
EUR million						
Finland	97.6	61%	73.8	47%	122.4	53%
Rest of Europe	54.8	34%	69.1	44%	93.0	40%
Other countries	8.0	5%	13.4	9%	17.1	7%
<b>Total</b>	<b>160.4</b>	<b>100%</b>	<b>156.3</b>	<b>100%</b>	<b>232.5</b>	<b>100%</b>
Net sales outside Finland		39%		53%		47%

## NET SALES

BY PRODUCT SEGMENT	1-9/2003		1-9/2002		1-12/2002	
EUR million						
Civilian products	42.2	26%	50.1	32%	67.6	29%
Defence materiel and maintenance	118.2	74%	106.2	68%	164.9	71%
<b>Total</b>	<b>160.4</b>	<b>100%</b>	<b>156.3</b>	<b>100%</b>	<b>232.5</b>	<b>100%</b>

## Research and development

The Group's expenditure on research and development during the review period amounted to EUR 21.4 million (EUR 14.4 million), representing 13% (9%) of net sales.

The most significant development areas included the technologies and the business concept supporting the Airbus A380 project of the Aerospace Structures Busi-

ness Unit, the new generation armoured wheeled vehicles (Patria AMV) by the Vehicles Business Unit and the new generation mortar system (AMOS) by the Weapon Systems Business Unit.

## Personnel

During the review period the Group employed an average of 2 036 (2 268) persons. At the end

of the review period the personnel totalled 2 018 (2 027).

### Financing

The Group's financial standing at the end of the review period was good. Its equity ratio was 64.8% (72.8%) and its gearing -36% (-59%).

Consolidated liquid funds at the end of the review period amounted to EUR 86 million (EUR 102.1 million) and the Group's unused credit lines to EUR 16.1 million (EUR 10.4 million). The Group's interest-bearing liabilities at the end of the review period totalled EUR 4.8 million (EUR 0.7 million).

### Restructuring of Group and measures taken to improve cost efficiency

During the review period, measures to gain synergy benefits from the Group's Business Areas and Business Units were continued in, for example, the areas of procurement and information technology. Measures were also continued to optimise costs and improve efficiency and the working capital turnover rate, e.g., by comprehensive development of supply management.

Adapting Patria's capacity to the prevailing market situation has led to employee negotiations in the Aerospace Structures Division pursuant to the Cooperation within Undertakings Act. Negotiations conducted to date have mainly resulted in lay-offs.

The French GROUPE SNPE and its subsidiary SNPE Energetic Materials as well as Patria and Saab AB, the owners of Nexplo Industries AB, concluded an agreement on 10 July 2003 to merge their propellant and explosives operations within a new company called EURENCO. SNPE will own 60.2% and Patria

and Saab each 19.9% of the new company. EURENCO will commence operations in early 2004.

The new company's net sales are expected to exceed EUR 100 million, and it will have 850 employees. Based in Paris, the company will have subsidiaries operating in France, Finland, Sweden and Belgium.

Patria has acquired 50% of the shares in Pilot Factory and the entire share capital of Heli-Support AB in Sweden.

### Business Area Review

**The Land Systems Business Area** focuses on the marketing, product development and manufacture of armoured wheeled vehicles and heavy weaponry, their integration into weapon systems and their life cycle support services. The Vehicles and Weapon Systems Business Units that form the Business Area operate in close cooperation with the Finnish Defence Forces. Other customers are the defence forces of several foreign countries. Patria is a leading supplier of armoured wheeled vehicles in Europe.

The Business Area's net sales during the review period totalled EUR 74.6 million (EUR 66.8 million). Operating profit decreased from EUR 9.2 million to EUR 7.5 million. Profitability fell as the focus in vehicle deliveries was on upcoming projects, and there were some delays in Weapon System's projects.

The value of new orders received in January–September was EUR 161.4 million. The most significant new orders were the Patria AMV armoured modular vehicles to Polish Land Forces and the AMOS mortar system to be supplied to the Finnish customer. The value of the order stock increased, totalling EUR 348.1 million at the end of the review period (EUR 261.3 million at 31 December 2002).

The first vehicle to Polish Land Forces will be produced by the end of the year and delivered in

May 2004. The project consists of the delivery of altogether 690 vehicles over the period 2004–2013.

In Hämeenlinna the building of a modern new assembly factory has been started for the Vehicles Business Unit's future customer projects.

**The Aviation Business Area** focuses on the life cycle support services of military aircraft and helicopters as well as their systems. The services include assembly, maintenance, repair and modifications as well as development of new systems. The operations cover frame, engine and avionics. The Business Area's most important customers are the Finnish Air Force, helicopter operators and the aviation industry both in Finland and abroad. The Aviation Business Area has operating units in Finland and Sweden.

This Business Area's net sales in January–September totalled EUR 49.8 million (EUR 42.2 million). The operating profit was EUR 2.9 million (EUR 1.4 million), representing 6% (3%) of net sales. The Business Area's net sales increased and its profitability improved compared to the same period in the previous year. Net sales were increased by the acquisitions made during the first quarter. The operating profit increased mainly due to the growth in the business volume of the Engines Business Unit's operations, but also due to the cost savings achieved by the Business Area's other Business Units.

At the end of the review period the value of the order stock totalled EUR 103.7 million (EUR 104.1 million at 31 December 2002).

**The New Technologies Business Area** focuses on defence systems, space technology and wireless telecommunications applications. The Business Area has total responsibility for the supply of various integrated defence systems to the Finnish Defence Forces. Other customers include

European space companies, the European Space Agency (ESA) and leading telecommunication companies with whom the Business Area operates as the preferred product development partner.

The Business Area's net sales in January–September totalled EUR 15.6 million (EUR 15.5 million). Operating profit improved, amounting to EUR 0.3 million (EUR -2.0 million). At the end of the review period the order stock totalled EUR 47.1 million (EUR 31.5 million at 31 December 2002). During the review period an agreement was signed with the Finnish Defence Forces on the supply of observation and target-locating equipment for infantry and optical target-indicating equipment for anti-aircraft defence between 2003 and 2005.

The Business Area continues to suffer from the recession in the European space industry and the deferment of decisions on starting up new projects. Despite this, the Business Area's Space Electronics Business Unit has significantly improved its operating profit compared to the same period in the previous year.

**The Civil Products and Services Business Area** focuses on the design and manufacture of demanding composite structures for aviation and space industries. The Business Area also develops and manufactures airport snow removal equipment and airport cargo handling equipment that improve the efficiency of operations at airports. The Business Units are Aerospace Structures, Mobile and Contract Manufacturing.

The Business Area's net sales in January–September totalled EUR 25.1 million (EUR 37.6 million), down 33% on the previous year. The operating profit was EUR -7.7 million (EUR -8.6 million), representing -31% (-23%) of net sales. The recession in the Business Area's most important customer countries, and a decline in the volume of air traffic in particular, continued to reflect negatively on the Business Area's Business Units and their opportunities to improve their operating profits.

Airbus A380 spoiler manufacturing has been launched in new facilities for composite structure manufacturing in Jämsä, Finland. The first deliveries will take place spring 2004.

The Business Area's order stock at the end of the review period totalled EUR 33.9 million (EUR 32.9 million at 31 December 2002).

The Business Area has continued to take measures to adapt the costs structure, as economic uncertainty continues to prevail in the Business Area's market.

#### **Important events after the review period**

In accordance with its internationalisation strategy, Patria has established a subsidiary in the Czech Republic and is in the process of establishing a subsidiary in Poland.

#### **Outlook**

Despite the economic uncertainty factors that prevail in the markets of some of the Business Units, the Group's net sales during the current year are expected to increase from the previous year's level. As a result of the cost-saving measures and improvement of operational efficiency, also the consolidated operating profit is expected to improve compared to the previous year.

Helsinki, 31 October 2003

Patria Industries Plc

Board of Directors