Patria

Financial Statements 2012

Table of Contents

PATRIA FINANCIAL STATEMENTS 2012

Board of Directors' Report

New orders and order stock

The value of new orders received during the Financial Period was EUR 432.4 million (EUR 456.3 million in 2011). Defence material and life cycle support accounted for 85% (86%) and civilian products for 15% (14%) of the new orders. At the end of December, the Group's order stock was EUR 1,229.9 million (EUR 1,626.5 million).

Net sales and profitability

The Group's net sales for the Financial Period increased 19.0% from 2011 and totalled EUR 736.1 million (EUR 618.4 million in 2011 and EUR 564.3 million in 2010). Defence material and maintenance accounted for 91% (90%) and civilian products for 9% (10%) of the net sales. Sales outside Finland for the Financial Period accounted for 59% (63%) of the net sales.

The Group's operating profit for the Financial Period was EUR 87.0 million, representing 11.8% of net sales (2011: EUR 60.3 million, 9.7%; 2010 EUR 10.5 million, 1.9%). The consolidated income before taxes for the Financial Period amounted to EUR 84.6 million (2011: EUR 57.6 million; 2010: EUR 7.2 million). The Group's return on equity for the Financial Period was 23.1% (2011: 17.7%; 2010: 1.7%).

Financing and ownership

The Group's equity ratio at the end of December was 47.7% (2011: 43.5%; 2010: 42.2%) and net gearing 7.8% (2011: 4.2%; 2010: 7.0%).

Consolidated liquid funds at the end of December amounted to EUR 44.7 million (EUR 62.0 million). The Group's interest-bearing liabilities totalled EUR 68.1 million (EUR 72.6 million) at the end of December. The interest-bearing liabilities included finance lease liabilities of EUR 24.8 million (EUR 26.3 million).

The company has one series of shares comprising of a total of 38,024,848 shares. The shareholders of Patria Oyj are the State of Finland with 73.2% stake and European Aeronautic Defence and Space Company EADS N.V. (EADS) with 26.8% stake.

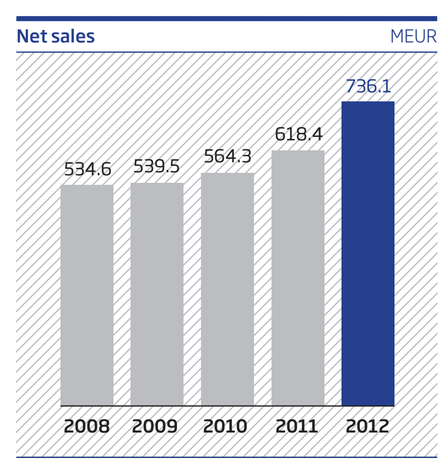
Changes in the Group's structure

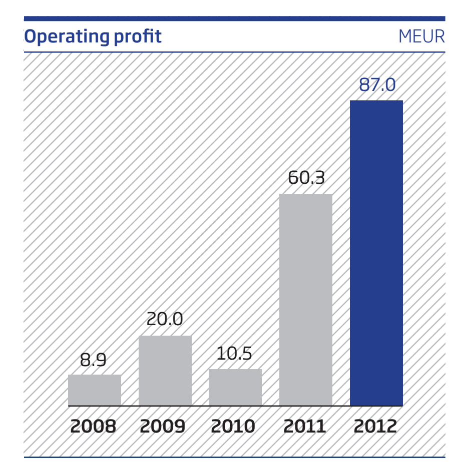
In January Millog Oy bought 57.2% of the shares in Oricopa Oy and thereby owns 100% of Oricopa Oy.

In June 2012 Patria Aerostructures Oy sold its stake of 19.9% of shares in Patricomp Oy to KMM Invest Oy.

Patria Praha s.r.o. was liquidated on 23 March 2012.

Patria Vammas Oy was merged with Patria Land Services Oy, and accordingly Patria Vammas Oy was dissolved on 30 November 2012.





Capital expenditures

The Group's gross investments for the Financial Period totalled EUR 25.8 million (EUR 24.1 million). In addition, a total of EUR 5.6 million (EUR 4.8 million) was spent on acquisitions.

Research and development

The Group's expenditure on research and development for the Financial Period amounted to EUR 28.4 million (EUR 25.7 million), representing 3.9% (4.2%) of the net sales. The most significant research and development areas included armoured wheeled vehicles, turret systems, ammunition, composite structures for aircraft, aeronautical research, communications, situational awareness, electronic intelligence systems, space applications and optronics.

Personnel

During the Financial Period the Group employed an average of 3,587 (2011: 3,430; 2010: 3,397) persons. At the end of December the personnel totalled 3,565 (2011: 3,477; 2010: 3,357).

The salaries and wages of Patria Group's employees are determined on the basis of local collective and individual agreements as well as employee performance and job evaluations. Basic salaries and wages are complemented by performance-based compensation systems. In 2012, the total amount of salaries and wages paid was EUR 180.2 million (2011: EUR 161.5 million; 2010: EUR 153.5 million).

Key events during year 2012

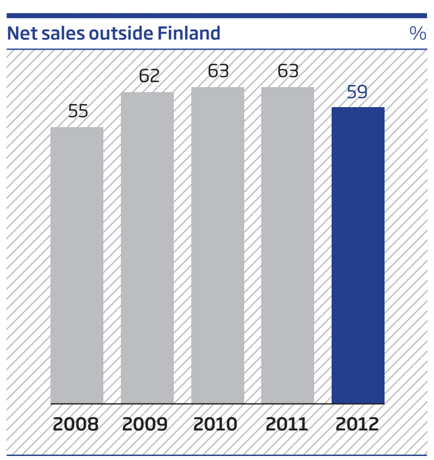
In February 2012 Patria and Volvo Group signed an exclusive teaming agreement to study and offer new concepts and partnerships related to comprehensive life-cycle support services for the Swedish Armed Forces' possibly upcoming needs.

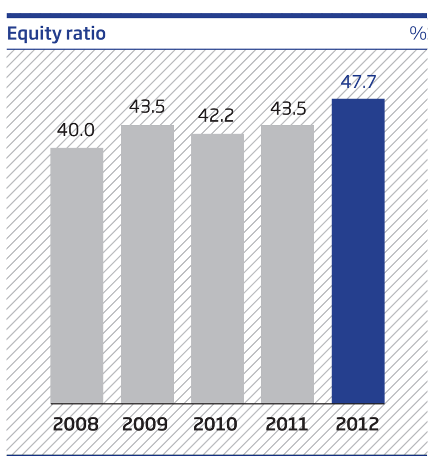
In June 2012 Patria and ĐURO ĐAKOVIĆ Holding d.d. (DDH) signed a Frame Agreement confirming their joint efforts in sales of Patria AMV vehicles to third countries that are selected case-by-case. DDH will be the prime contractor and will also have a significant role in the production of vehicles. The operative contract on delivery of armoured wheeled vehicles to the Ministry of Defence of the Republic of Croatia is in full serial production at ĐURO ĐAKOVIĆ Specijalna vozila d.d. (DDSV), a subsidiary of DDH which has been provided with the needed technology by Patria. DDSV has delivered over 70 Patria AMV vehicles made in Croatia to the end-customer.

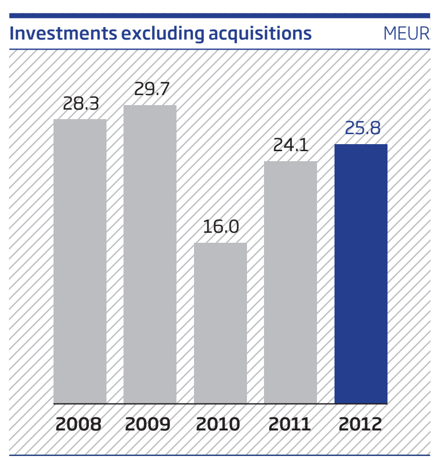
In September 2012 The Ministry of Defense of the Republic of Slovenia, Rotis Plus d.o.o. and Patria signed a Settlement Agreement governing the AMV vehicle supply contract and the related offset agreement signed in 2006. The settlement includes a change of the fleet size to consist of the 30 vehicles that had already been delivered and closing down the rest of the project. With this settlement the original offset agreement is also deemed fulfilled. Patria will take over the life cycle support for the delivered vehicles from Rotis Plus. With this contractual arrangement Patria settled amicably, fully and finally all the disputes related to the supply agreement. The settlement agreement does not have any impact on the pending litigation. The settlement contract did not have a material financial effect on the 2012 financial statements and consequently also the substantial financial risks related to the vehicle delivery project were removed.

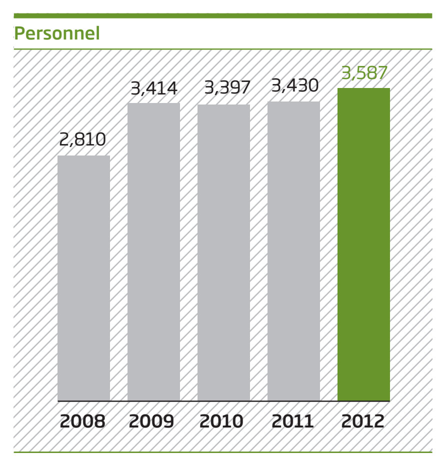
In autumn 2012 Patria and Insta completed successfully the first Unmanned Aerial System (UAS) test flights of the Multi Purpose Networking Data Link (MPNDL). Carried out in connection with the test flight campaign led by Cassidian (group company of EADS), the tests were the first time MPNDL has flown on-board an unmanned system.

In November 2012 YIT and Patria signed an agreement on the transfer of the maintenance and service business related to Patria's production facilities. The business was outsourced to YIT Kiinteistötekniikka Oy. As part of the transaction, 20 employees of Patria transferred to YIT Kiinteistötekniikka Oy as existing employees on 15 November 2012. In accordance with the agreement, YIT is comprehensively responsible for maintaining Patria's properties and improving their energy efficiency. The properties are located in Halli in Jämsä, Tikkakoski in Jyväskylä, Sastamala, Hämeenlinna, Linnavuori in Nokia, Utti, Tampere, Espoo and Helsinki. The total area of the properties is about 175,000 square metres.









Administration

Patria Oyj's Annual General Meeting was held in Helsinki on 11 April 2012. The meeting adopted the Financial Statements and the Consolidated Financial Statements for the financial period ended 31 December 2011. It was also decided to discharge the members of the Board of Directors and the President from liability for the financial period of 2011. Furthermore, the Annual General Meeting decided, according to the Board of Directors' proposal, to distribute a dividend of EUR 0.27 per share, totally EUR 10,266,708.96.

Christer Granskog, MSc (Eng.) was elected to continue as the Chairman of the Board of Directors of Patria Oyj, and Kirsi Komi, LL.M., was elected as the Vice Chairman. Arto Honkaniemi, Senior Financial Counsellor, Prime Minister's Office, Ownership Steering Department and Jussi Itävuori, Executive Vice President, Human Resources and Member of the EADS Executive Committee, EADS were re-elected as members of the Board of Directors. Vice President, Controlling & Finance Support Peter Härtle, Cassidian, EADS and Lieutenant General retired Kari Rimpi were elected as new members of the Board of Directors.

The Annual General Meeting also appointed the Consultative Committee. Raimo Vistbacka, LL.M., was elected the Chairman and Thomas Blomqvist, M.P., was elected as the Vice Chairman. Jari Grönlund, Quality Technician, Patria, Ilkka Jokioja, Laboratory Chief Engineer, Patria, Jussi Karimäki, Equipment Assembler, Patria, Juha Kuusi, System Specialist, Patria, Seppo Kääriäinen, M.P., Petri Peltonen, Director General, Department of Enterprise and Innovation, Ministry of Employment and the Economy, Tuula Peltonen, M.P., Juha Rannikko, Vice Admiral, Chief of Defence Command Finland and Kari Tolvanen, M.P. were appointed as members of the Consultative Committee.

Ernst & Young Oy, Authorised Public Accountants, was appointed to continue as Auditor with Mr Harri Pärssinen, APA, as the partner in charge.

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

PATRIA FINANCIAL STATEMENTS 2012

PATRIA FINANCIAL STATEMENTS 2012

Mr. Heikki Allonen, M.Sc (Eng), continued as President and CEO of Patria Group throughout the financial year.

Risks and uncertainties

Patria complies with a risk management policy approved by the Board of Directors that defines, in addition to the objectives and general practices, the tasks and responsibilities related to risk management. Risk management activities cover strategic, operational and financial risks.

Patria develops, offers and delivers technically advanced products, solutions and services to its customers. Main part of the Group's sales is to defence sector – armed forces, ministries, state-owned companies and major publicly listed companies in the defence industry. The operating environment has remained challenging and this may result in some customers reducing, postponing or abandoning their planned procurements or requesting changes to existing contracts.

Owing to the nature of Patria's business, individual sales contracts may be large in relation to the annual net sales of the Group. They may entail product development, require extensive subcontracting and partnering and result in deliveries taking place during several years. In addition, the delivery content and the industrial set-up with the partners involved may be complex. Risks and uncertainties related to such contracts and projects, throughout their lifetime, are typically versatile and material, which requires careful assessment and management. Methods and resources to identify, assess, follow-up and manage risks and uncertainties related to ongoing and new projects have been and are being further strengthened and developed. In certain delivery projects there are risks which, if materialised, may have an adverse impact on the Group's net sales and profitability.

In May 2008 the National Bureau of Investigation of Finland announced its pre-trial investigations concerning former Patria Vehicles Oy's (currently Patria Land Services Oy) vehicle deal in Slovenia (2006) and former Patria Vammas Oy's (currently Patria Land Services Oy) howitzer deal in Egypt (1999) due to suspected bribery and other malpractices. In 2009 the pre-trial investigation report in the Egyptian case was submitted to the relevant parties for final comments and transferred further to the state prosecutor. In June 2010 the state prosecutor pressed the charges for corporate criminal liability for Patria Land & Armament Oy (currently Patria Land Services Oy) in pursuance of the charges pressed against the subsidiary's former manager and three other officials for aggravated bribery and aggrevated accounting offence. In June 2011 the Pirkanmaa District Court dismissed the charges against Patria Land Services Oy and subsequently no corporate fines were imposed on the company. The accused four former Patria employees were sentenced to conditional imprisonment related to accounting offence, aggravated accounting offence or aiding and abetting therein. All parties appealed against the verdict and the court proceedings continued with preparatory hearings in the Appeal Court of Turku in November in 2012 and with court proceedings during the first half of 2013.

During the Financial Period the final comments to the pre-trial investigation report in the Slovenian vehicle program case were submitted to the National Bureau of Investigation of Finland, which completed its investigation and handed the matter over to the State Prosecutor. The State Prosecutor pressed the charges in December 2012 against five former or current Patria employees and Patria Land Services Oy for alleged aggravated bribery and industrial espionage. The court proceedings are expected to start during the first half of 2013. During the Financial Period the National Bureau of Investigation also started the pre-trial investigations of the armoured vehicle deal in Croatia in 2007 between Patria Vehicles Oy (currently Patria Land Services Oy) and Croatian state as they had indicated earlier.

During the Financial Period Patria Pilot Training Oy, a 100% owned Patria Group company, and three employees were charged for 3 involuntary manslaughter and occupational safety offence related to flight accident in Taipalsaari in 2008. In the accident three persons died, the flight instructor and two flight students. The court dismissed fully the charges on 15 February 2013.

During the Financial Period Patria furthermore initiated arbitration proceedings in Poland against the Polish State in a dispute related to an offset obligations and issuance of a bank guarantee related to agreements signed in 2003 concerning supply of armoured vehicles, offset obligations and manufacturing licence in Poland.

Corporate social responsibility

Patria issued its first corporate social responsibility (CSR) report in 2012 as part of the Annual Report. Patria has steering group

for the corporate social responsibility which consists of members including Group's top management. During the Financial Period the steering group defined three most important issues for Patria within the CSR context. Patria wants to build profitable business on good partnership which covers activities and relationship with all the interest groups. The good partnership is built on well-being of the personnel and ethical code of conduct. In our operational environment it is important to ensure the continuity which consists of profitability as well as ethical code of conduct locally, within EU and globally.

The most important areas to further develop and strengthen are transparency and ethics. Ethical code of conduct is part of Patria's operational conduct of business arising from individuals and concerns the whole working community. Ethics in Patria means compliance with laws and regulations as well as prevention, detection and investigation of identified risks. Patria has zero tolerance for corruption.

During the Financial Period an organization was established to further develop and strengthen ethical code of conduct under the responsibility of the Group General Counsel who is also a member of the Group Board of Management. Reporting to the Group Board of Management, Patria Board of Directors as well as Audit Committee increased and strengthened. For detection of fraud an anonymous reporting channel was established. The targets for the ethical code of conduct as well as an 18 month action plan were defined.

Patria's Group Board of Management steers regularly activities within ethical and corporate social responsibility area which are discussed and reported as well as measured. Thus this is part of Patria's management system.

Patria has an environmental policy, according to which environmental aspects, impacts and risks are observed in business planning, operations and management. The majority of operational systems within Patria's Business Units currently fulfil the requirements of the ISO standard for environmental issues.

Events after the financial period

On 5 March 2013 Patria delivered the first Patria AMV armoured wheeled vehicles to the Swedish Defence Material Administration (FMV). This was the first delivery of altogether 113 Patria AMV armoured wheeled vehicles to the Swedish Defence Forces, based on the agreement signed with FMV in 2010.

Outlook

Based on previously received orders, the Group's net sales for 2013 are estimated to grow compared to year 2012. However, due to structural changes in the order base, profitability is estimated to decrease somewhat from year 2012. Overall Patria's operations will continue stable. Any turmoil in global economy affects Patria with delay, but the known reduction of the domestic market military spending and the ongoing reform of the Finnish Defence Forces will urge Patria to contemplate possible realignment of its operations sometime in the future.

Board of Directors' proposal for profit distribution

The parent company's non-restricted equity on December 31, 2012 is EUR 186,021,260.91 of which the net profit for the financial period is EUR 21,754,995.67.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.50 per share be paid on the shares. Under the proposal, the total amount of dividends will be EUR 19,012,424.00. The Board of Directors further proposes that the remaining non-restricted equity, EUR 167,008,836.91 be retained and carried forward.

Annual General Meeting 2013

The Annual General Meeting of Patria Oyj will be held on 24 April 2013 in Helsinki, Finland.

Consolidated Financial Statements (IFRS)

Consolidated Balance Sheet

EUR million	Note	31.12.2012	31.12.2011
Assets			
Non-current assets			
Intangible assets	11		
Development expenses		2.3	3.2
Intangible rights		20.4	21.2
Goodwill	8, 11	50.2	47.6
Other long-term expenditures		2.6	1.9
Advance payments		8.4	9.3
Tangible assets	11		
Land and water		3.9	3.1
Buildings and constructions		64.0	60.1
Machinery and equipment		41.3	37.2
Other tangible assets		0.2	0.2
Advance payments and construction in progress		8.8	8.6
Investments in associated companies	12	0.9	0.4
Other shares	13	0.8	0.7
Deferred tax assets	10	13.5	22.0
Other receivables		1.9	1.9
Long-term receivables from associated companies	12	0.1	0.0
Total Non-current assets		**219.3**	**217.3**
Current assets			
Inventories			
Raw materials and supplies		85.2	79.6
Work in progress		65.2	56.7
Finished goods		16.8	10.4
Advance payments		13.4	17.3
Receivables			
Accounts receivable	2	145.1	152.1
Receivables from associated companies	12	6.9	1.4
Other receivables		14.8	20.3
Prepaid expenses and accrued income	14	129.5	76.2
Derivative financial instruments	22	2.6	2.6
Current tax asset	10	0.8	0.9
Cash and cash equivalents	16	44.7	62.0
Total Current assets		**525.1**	**479.3**
Total Assets		**744.4**	**696.7**

Consolidated Balance Sheet

EUR million	Note	31.12.2012	31.12.2011
Shareholders' equity and liabilities			
Shareholders' equity	18		
Share capital		38.0	38.0
Revaluation fund	17	2.1	1.7
Invested non-restricted equity fund		164.1	164.1
Translation differences		9.1	-2.3
Retained earnings		15.5	0.3
Net income for the period		61.3	39.5
Equity attributable to shareholders of parent company		**290.1**	**241.4**
Non-controlling interests		**10.3**	**7.4**
Total Shareholders' equity		**300.4**	**248.8**
Non-current liabilities			
Deferred tax liability	10	4.0	2.6
Provisions	20	51.0	63.6
Interest bearing liabilities	19	57.0	66.6
Total Non-current liabilities		**112.0**	**132.7**
Current liabilities			
Interest bearing liabilities	19	11.2	5.9
Advance payments		115.2	105.0
Accounts payable		42.5	40.6
Liabilities to associated companies	12	16.2	19.7
Other current liabilities		32.9	38.0
Accruals and deferred income	15	104.6	95.2
Derivative financial instruments	22	0.6	1.7
Current tax liability	10	8.9	8.9
Total Current liabilities		**332.0**	**315.1**
Total Shareholders' equity and liabilities		**744.4**	**696.7**

Consolidated Income Statement

EUR million	Note	1-12/2012	%	1-12/2011	%
Net sales	4	**736.1**		**618.4**	
Other operating income	5	7.9		5.0	
Change in inventories of finished goods and work in progress		-2.7		3.6	
Production for own use		0.2		0.0	
Raw materials and supplies		-250.3		-229.0	
Change in inventories of raw materials		14.6		21.9	
Services purchased		-58.0		-37.6	
Personnel expenses	7	-224.7		-203.4	
Depreciation, amortization and impairments	8	-21.3		-21.5	
Other operating expenses	5	-114.9		-97.1	
Operating profit		**87.0**	**11.8%**	**60.3**	**9.7%**
Financial income and expenses	9				
Interest and other financial income		0.8		1.3	
Interest and other financial expenses		-3.7		-3.9	
Exchange gains and losses		0.5		-0.1	
Income before taxes		**84.6**	**11.5%**	**57.6**	**9.3%**
Income taxes	10	-23.3		-18.1	
Profit for the period		**61.3**	**8.3%**	**39.5**	**6.4%**
Net income attributable to non-controlling interests		4.0		3.0	
Net income attributable to equity shareholders		57.2		36.5	
Profit for the period		**61.3**	**8.3%**	**39.5**	**6.4%**

Consolidated statement of comprehensive income

EUR million	Note	1-12/2012	%	1-12/2011	%
Profit for the period		61.3		39.5	
Other comprehensive income					
Cash flow hedges		0.4		0.2	
Change of translation difference		1.9		-1.1	
Total comprehensive income		**63.6**	**8.6%**	**38.6**	**6.2%**
Total comprehensive income attributable to non-controlling interests		4.0		3.0	
Total comprehensive income attributable to equity shareholders		59.6		35.5	
Total comprehensive income		**63.6**	**8.6%**	**38.6**	**6.2%**

Consolidated Cash Flow Statement

EUR million	Note	1-12/2012	1-12/2011
Net income for the period		61.3	39.5
Depreciation, amortization and impairments	8	21.3	21.5
Other adjustments		-7.7	-21.1
Financing items		2.4	2.7
Taxes		23.3	18.1
Change in receivables		-42.5	-48.9
Change in payables		-1.0	63.2
Change in inventories		-20.6	-29.7
Cash flow from operations		**36.5**	**45.2**
Interest received		0.8	1.3
Interest paid		-1.5	-1.8
Dividends received		0.1	0.0
Other financial items		-0.3	-0.7
Income taxes paid		-6.1	-6.5
Cash flow from operating activities		**29.5**	**37.5**
Acquired group companies		-5.6	-4.8
Other capital expenditures		-25.8	-24.1
Divested group companies		0.1	0.0
Sale of other fixed assets and other changes		0.4	0.2
Other changes and exchange rate differences		-0.8	-0.1
Cash flow from investing activities		**-31.7**	**-28.8**
Change in long-term financing		-0.2	0.4
Repayments of long-term loans		-4.4	0.0
Change in short-term financing		-0.5	-15.8
Change in long-term receivables		-0.6	0.1
Dividends paid		-10.3	0.0
Other changes		0.6	-2.2
Liquid funds in acquired companies		0.4	0.1
Cash flow from financing activities		**-15.1**	**-17.4**
Change in liquid funds		**-17.3**	**-8.6**
Change		-17.3	-8.6
Liquid funds at the beginning of the period		62.0	70.6
Liquid funds at the end of the period*	16	**44.7**	**62.0**

* Liquid funds at the end of the period include EUR 23.2 million (EUR 12.3 million) Nammo Group's liquid funds which are not available for the Parent company.

Consolidated Statement of Changes in Equity

EUR million	Share capital	Invested non-restricted equity fund	Revaluation fund	Translation differences	Retained earnings	Equity attributable to shareholders of parent company	Non-controlling interests	Total Shareholders' equity
Opening balance	38.0	164.1	1.7	-2.3	39.9	241.4	7.4	248.8
Dividends paid					-10.3	-10.3		-10.3
Other comprehensive income			0.4	11.4	-9.5	2.3		2.3
Other changes					-4.6	-4.6	2.9	-1.7
Net income for the period					61.3	61.3		61.3
31 Dec 2012	**38.0**	**164.1**	**2.1**	**9.1**	**76.8**	**290.1**	**10.3**	**300.4**

EUR million	Share capital	Invested non-restricted equity fund	Revaluation fund	Translation differences	Retained earnings	Equity attributable to shareholders of parent company	Non-controlling interests	Total Shareholders' equity
Opening balance	38.0	164.1	1.5	0.8	0.8	205.2	6.2	211.4
Dividends paid								
Other comprehensive income			0.2	-3.1	2.0	-0.9		-0.9
Other changes					-2.5	-2.5	1.2	-1.2
Net income for the period					39.5	39.5		39.5
31 Dec 2011	**38.0**	**164.1**	**1.7**	**-2.3**	**39.9**	**241.4**	**7.4**	**248.8**

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 (73.2%) and the European Aeronautic Defence and Space Company EADS N.V. (26.8%).

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 Industrial Holdings.

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.

BASIS OF PRESENTATION

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") effective on 31.12.2012.

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 where over 50% of the subsidiary's voting rights are controlled directly or indirectly by the parent company. Internal shareholding has been eliminated using the acquisition method. Subsidiaries acquired during the financial year are included in the consolidated financial statements from the date of their acquisition and disposed subsidiaries are included up to their date of sale.

Associated companies

Associated companies, where Patria holds voting rights of 20–50% and in which the Group has significant influence, but not control, over the financial and operating policies, are included in the consolidated financial statements using the equity method. When Patria's share of losses exceeds the interest in the associated company, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has made a commitment to fulfil the liabilities of the associated company in question.

Joint ventures

Joint ventures are entities in which a company enters into a contractual arrangement whereby it shares control over the finances and operations together with other parties. The Group's holdings in joint ventures are consolidated using the proportionate method line by line. Accordingly, Patria's consolidated financial statements include an amount of the joint ventures' assets, liabilities, revenue and expenses corresponding to the company's holding in them. Nammo Group has been consolidated using the proportionate method line by line.

All intra-group transactions, receivables, liabilities and unrealised margins, as well as distribution of profits within the Group, are eliminated. Business combinations between entities under shared control are measured using the purchase prices as such acquisitions do not belong to the scope of application of IFRS 3 Business Combinations.

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.

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Foreign exchange gains and losses related to business operations are included in the corresponding items above the operating profit line. Foreign exchange gains and losses related to loans and receivables in foreign currencies are included in financial income and expenses.

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

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

FINANCIAL INSTRUMENTS

Financial instruments are classified as loans and other receivables, held-to-maturity investments, available-for-sale financial assets, financial liabilities at amortised cost and financial assets and liabilities at fair value through income statement.

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

Loans and receivables as well as all financial liabilities are recognised at the settlement date and measured at amortised cost using the effective interest rate method.

Available-for-sale financial assets for example investments in mutual funds are measured at fair value and the valuation is based on quoted rates and market prices. Unlisted securities for which fair value can not be reliably measured are recognised at cost less impairment. Fair value changes of available-for-sale investments are recognised directly in other comprehensive income. In the event such an asset is disposed of, the accumulated fair value changes are released from other comprehensive income to financial income and expenses in the income statement. Impairments are recognized in the income statement. Significant or prolonged decline in the fair value will lead to impairment write-down, which is recognised in profit and loss. Purchases and sales of available-for-sale financial assets are recognised at the settlement date.

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.

Hedge accounting is applied 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 (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 into income in the period when the hedged cash flow affects income. Hedge accounting is not applied to derivatives hedging balance sheet items.

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

REVENUE RECOGNITION

Consolidated 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.

Sales and cost of sales under the long-term contracts are recorded on a percentage of completion basis. Sales and profits are recorded after considering the ratio of accumulated costs to estimated total costs to complete each contract.

Sales and cost of sales from contracts are recognised on the percentage of completion method when the outcome of the contract can be estimated reliably. A contract's outcome can be estimated reliably when total contract revenue and the costs to complete the contract can be estimated reliably, it is probable that the economic benefits associated with the contract will flow to the Group and the stage of contract completion can be measured reliably.

RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as they are incurred. Development costs are capitalised when the criteria according to IAS 38 standard are met. Capitalised development expenses, comprising materials, supplies, direct labor and related overhead costs are amortised on a systematic basis over their expected useful lives.

Capitalised development costs are subject to regular 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 associated companies 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 available-for-sale 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.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

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. Development costs are depreciated using the straight-line method or in accordance with the deliveries of the end product. If the economic life exceeds twenty years, depreciation may be, case by case calculated using the straight-line depreciation method over the economic life. In aerospace industry, the time between launching of research and product development processes and commercial launching of complete products is long, as are the lifecycles of products. In addition investments in technology have a long-term effect.

GRANTS RECEIVED

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

IMPAIRMENTS

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

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

LEASES

Leases, on the basis of which the Group takes over a material part of the risks and benefits related to the ownership of such assets, are classified as finance leases. Finance leases are recorded in the Balance Sheet under assets and liabilities, mainly at the time when the lease period starts, either at the fair value of the assets or the lower present value of the minimum lease payments.

The assets acquired through finance lease agreements will be depreciated as any non-current assets, either over the economic life of the assets or over a shorter lease term. Finance lease liabilities are recorded under the non-current and current interest-bearing liabilities in the Balance Sheet.

If the lessor maintains the ownership risks and benefits, the lease agreement is treated as an operating lease, and the lease paid on the basis of such agreement is recognised as an expense, allocated over the entire lease term.

EMPLOYEE BENEFITS

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

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

benefit plans. In calculating the Group's obligation with respect to a plan, the extent to which the cumulative unrecognized actuarial gain or loss exceeds the greater of the present value of the defined benefit obligation and the fair value of plan assets by more than 10% is identified. That excess portion is recognized in the income statement over the expected average remaining working lives of the employees participating in the plan.

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 labor, other direct costs and related production overheads.

ACCOUNTS RECEIVABLE

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, bank deposits, other short-term highly liquid investments. Investments in highly liquid fixed income funds are included in cash equivalents. 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 18 standard and will not disclose financial information by segment in the financial statements.

APPLICATION OF NEW AND AMENDED IFRS STANDARDS AND IFRIC INTERPRETATIONS

The following standards and interpretations were mandatory during year 2012, but they did not have any material effect on the financial statements of the Group:

- IFRS 1, First-time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- IFRS 7, Financial Instruments: Disclosures (Amendment)
- IAS 12, Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

The following new and amended standards and interpretations are effective in the year 2013:

- IAS19, Employee Benefits (Revised)
- IFRS 10, Consolidated Financial Statements
- IFRS 11, Joint Arrangements
- IFRS 12, Disclosure of Interest in Other Entities
- IFRS 13, Fair Value Measurement
  Improvements to International Financial Reporting Standards – 2009–2011

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of IAS 19. All actuarial gains and losses are recognized immediately through other comprehensive income. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a net-interest amount under revised IAS 19, which is calculated by applying the discount rate to the net defined benefit liability or asset. The revised IAS 19 introduces also certain changes in the presentation of the defined benefit cost and obligation including more extensive disclosures. The effect of the amended standard may have an impact on financial statements in 2013.

IFRS 11 uses the principle of control as described in IFRS 10 to define joint control. Joint Arrangements are classified into Joint Operations and Joint Ventures. In Joint Operations the parties with joint control have rights to the assets and obligations for the liabilities of the arrangement. Joint Operations are accounted for showing each party's interest in the assets, liabilities, revenues and expenses and / or its relative share of jointly controlled assets, liabilities, revenue and expense, if any. In Joint Ventures the parties with joint control have rights to the net assets of the arrangement. Joint Ventures are accounted for using the equity method. The proportionate consolidation method is prohibited under IFRS 11. IFRS 12 requires extensive qualitative and quantitative disclosures of interests held in other entities and how control was determined. The Group expects that introduction of IFRS11 will

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

reclassify one company as joint venture and this will have material impact on financial statements.

The other new and amended standards in 2013 will have immaterial impact on future financial statements.

2. Financial risk management, capital management and insurances

ORGANISATION OF FINANCE FUNCTION AND FINANCIAL RISK MANAGEMENT

The Board of Directors of Patria has approved the Guidelines for Patria Group's Finance Administration, 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 funding 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 RISK

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 as well as highly probable forecasted cash flows (transaction position), are hedged by project or transaction by using foreign exchange derivatives. The subsidiaries are responsible for determining and hedging their exposures against Patria Finance Oyj, which makes the necessary hedging transactions with banks.

Patria applies hedge accounting according to IAS 39 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 (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 into income in the period when the hedged cash flow affects income. The majority of the hedging instruments mature within one year. Hedge accounting is not applied to derivatives hedging balance sheet items.

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 revaluation fund 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 the currency in question would have strengthened against euro on the balance sheet date. An equal weakening of the currency would result in an effect of opposite sign. The sensitivity is calculated for a five percent exchange rate change.

Based on the net exposure calculation the most significant currency exposures on 31 December 2011 were in the Swedish krona (SEK), United Kingdom pound sterling (GBP) and United States dollar (USD). The currency exposures of Nammo AS are not included in the sensitivity analysis.

IFRS 7 Sensitivity analysis – sensitivity to foreign exchange rates 2012

EUR million	SEK	GBP	USD
Net exposure	2.4	-0.1	0.5
Effect on income before taxes	0.1	-0.0	0.0
Effect on equity	0.3	0.2	-0.5

IFRS 7 Sensitivity analysis – sensitivity to foreign exchange rates 2011

EUR million	SEK	GBP	USD
Net exposure	3.8	-0.1	-0.0
Effect on income before taxes	0.2	-0.0	-0.0
Effect on equity	0.3	0.1	-0.2

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.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

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 2012, the average interest fixing term of the liabilities was 4.6 years (4.8) and that of the receivables less than one month.

Interest fixing periods

EUR million	0-6 mths	6-12 mths	12-24 mths	24-36 mths	Later	Total
Finance lease liablilities	7.3	0.4	0.7	3.2	13.2	24.8
Pension loans	-	-	-	11.3	-	11.3
Loans from financial institutions	20.6	-	1.4	-	2.3	24.4
Other interest-bearing liabilities	-	-	-	-	7.7	7.7
Interest-bearing receivables	-44.7	-	-	-	-	-44.7
Total 2012	**-16.8**	**0.4**	**2.2**	**14.4**	**23.2**	**23.4**

Interest fixing periods

EUR million	0-6 mths	6-12 mths	12-24 mths	24-36 mths	Later	Total
Finance lease liablilities	9.7	0.5	-	0.8	14.3	25.3
Pension loans	-	-	-	-	15.0	15.0
Loans from financial institutions	19.8	-	-	1.7	1.9	23.3
Other interest-bearing liabilities	-	-	-	-	7.9	7.9
Interest-bearing receivables	-62.0	-	-	-	-	-62.0
Total 2011	**-32.4**	**0.5**	**0.0**	**2.5**	**39.1**	**9.5**

On 31 December 2012, Group's interest-bearing liabilities totalled EUR 68.2 million (72.6) out of which EUR 32.0 million (35.3) was fixed rate and EUR 36.2 million (37.3) was floating rate. Interest-bearing receivables were EUR 44.7 million (62.0) out of which EUR 41.7 million (22.1) was floating rate and EUR 3.0 million (39.9) was fixed 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 2012, would lead to an increase in annual net interest expenses of EUR 0.1 million (0.3). A corresponding decrease in interest rates would result in an equal effect of opposite sign. The Group did not have any open interest derivatives on 31 December 2012.

OTHER MARKET RISK

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.

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 refunding is not economically or contractually feasible. The risk is minimised by balancing the maturities of loans and credit facilities.

On 31 December 2012 the average maturity of the Group's interest-bearing liabilities was 4.8 years (5.1).

Maturity of interest-bearing liabilities

EUR million	2013	2014	2015	2016	2017	2018-	Total
Finance lease liablilities	1.5	1.5	1.5	1.5	1.5	17.5	24.8
Pension loans	3.8	3.8	3.8	-	-	-	11.3
Loans from financial institutions	5.7	16.1	0.6	0.6	0.6	0.9	24.4
Other interest-bearing liabilities	0.2	0.3	0.3	0.3	0.6	6.1	7.7
Total 2012	**11.2**	**21.6**	**6.0**	**2.3**	**2.6**	**24.5**	**68.2**

Maturity of interest-bearing liabilities

EUR million	2012	2013	2014	2015	2016	2017-	Total
Finance lease liablilities	1.5	1.5	1.5	1.5	1.5	19.0	26.3
Pension loans	3.8	3.8	3.8	3.8	-	-	15.0
Loans from financial institutions	0.5	10.6	5.3	5.3	0.5	1.1	23.3
Other interest-bearing liabilities	0.2	0.3	0.3	0.3	0.1	6.9	8.0
Total 2011	**5.9**	**16.1**	**10.8**	**10.8**	**2.0**	**27.0**	**72.6**

As a part of its liquidity reserves on 31 December 2012, Patria Oyj had one commercial paper program, the unused amount totalling EUR 100.0 million (100.0), a EUR 70.0 million (70.0) unused credit facilities, as well as unused overdraft facilities totalling EUR 15.6 million (15.6). These liquidity reserves do not include the reserves of Nammo AS.

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 risk related to investing liquid funds is managed by defining the acceptable counterparties with good credit standing as well as the maximum allowed exposure by counterparty. The Group does not have material loan receivables.

Accounts receivable by age

EUR million	2012	2011
Undue accounts receivables	87.1	126.7
Accounts receivables 1–30 days overdue	39.1	11.2
Accounts receivables 31–60 days overdue	6.1	5.0
Accounts receivables more than 60 days overdue	12.9	9.2
Total	**145.1**	**152.1**

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 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.

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.

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.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

3. Acquisitions and divestments

In 2012 there were no significant business arrangements.

4. Items related to percentage of completion method

TOTAL INCOME AND EXPENSE RECOGNISED ON CONTRACT IN PROGRESS

EUR million	2012	2011
Cumulative contract revenue	243.8	140.1
Less progress billings and advances	-173.1	-173.1
Contract revenue for the period	70.7	-33.0
Balance sheet brought forward *	-1.2	53.5
Balance sheet carried forward	69.4	20.5
Amounts due from customers for contract work	126.1	72.9
Amounts due to customers for contract work	-56.7	-52.3
Construction contracts in progress, net position	69.4	20.5
Advances received	**71.0**	**87.9**

*Balance sheet brought forward differs from previous year due to revenue adjustments.

5. Other operating income and expenses

OTHER OPERATING INCOME

EUR million	2012	2011
Rental income	2.0	1.5
Capital gain on sale of fixed assets	0.1	0.1
Service revenues	0.5	0.4
Other operating income	5.1	2.8
Grants received	0.2	0.1
Total	**7.9**	**5.0**

OTHER OPERATING EXPENSES

EUR million	2012	2011
Research and development	1.5	2.1
Rents	11.6	10.0
Losses on sale of fixed assets	0.2	0.0
Other operating expenses*	101.6	85.0
Total	**114.9**	**97.1**

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

PRINCIPAL INDEPENDENT AUDITOR'S FEES AND SERVICES

EUR million	2012	2011
Audit fees	0.2	0.3
Other audit related fees	0.1	0.0
Other services	0.0	0.0
Total	**0.3**	**0.3**

6. Research and development expenses

EUR million	2012	2011
Research and development expenses, total	28.4	25.7
Research and development costs expensed during financial period	7.8	5.5

7. Personnel expenses

EUR million	2012	2011
Salaries and fees paid to member of board, Consultative committee and President and CEO	0.7	0.7
Other wages and salaries	179.5	160.8
Pension and pension insurance expenses	23.4	22.5
Other employer costs	21.1	19.4
Total	**224.7**	**203.4**

COMPENSATION TO BOARD OF DIRECTORS AND ATTENDANCE AT MEETINGS

		Attendance at meetings		
1 000 EUR	2012	Board	Audit Committee	Nomination and Compensation Committee
Board members 31 December 2012				
Christer Granskog, Chairman	46	11/11	-	9/9
Kirsi Komi, Vice Chairman	36	11/11	6/6	-
Arto Honkaniemi	37	11/11	6/6	9/9
Peter Härtle [1]	18	7/8	3/4	-
Jussi Itävuori	32	11/11	-	9/9
Kari Rimpi [1]	17	8/8	-	-
Former board members				
Yvonne Eisele [2]	10	3/3	2/2	-
Ilkka Hollo [2]	8	3/3	-	-
Total	**203**			

1) Starting 11 April 2012
2) Until 11 April 2012

		Attendance at meetings		
1 000 EUR	2011	Board	Audit Committee [3]	Nomination and Compensation Committee
Board members 31 December 2011				
Christer Granskog, Chairman	42	11/11	-	7/7
Kirsi Komi, Vice Chairman [1]	20	7/7	6/6	-
Yvonne Eisele	24	10/11	3/4	-
Ilkka Hollo	23	11/11	-	-
Arto Honkaniemi	29	11/11	8/8	7/7
Jussi Itävuori	27	11/11	2/4	7/7
Former board members				
Anneli Tuominen, Vice Chairman [2]	9	4/4	2/2	
Total	**175**			

1) Starting 5 April 2011
2) Until 5 April 2011
3) In addition to 4 ordinary meetings, there were 4 additional Audit Committee meetings with exceptional participant composition.

Compensation to the Board of Directors includes a monthly remuneration to Chairman EUR 2,750, Vice Chairman EUR 1,850 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.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

COMPENSATION TO CONSULTATIVE COMMITTEE AND ATTENDANCE AT MEETINGS

1 000 EUR	2012	Attendance at meetings 2012
Consultative Committee members 1 January–31 December 2012		
Raimo Vistbacka, Chairman [1]	2	3/3
Thomas Blomqvist, Vice Chairman [1]	1	2/3
Seppo Kääriäinen [1]	2	3/3
Petri Peltonen [1]	1	2/3
Tuula Peltonen [1]	1	2/3
Juha Rannikko	4	4/4
Kari Tolvanen [1]	2	3/3
Mikaela Nylander, Chairman [2]	3	0/1
Reijo Laitinen, Vice Chairman [2]	2	1/1
Juha Hakola [2]	2	1/1
Tuija Nurmi [2]	2	1/1
Eero Reijonen [2]	2	1/1
Eeva-Liisa Virkkunen [2]	2	1/1
Total	**25**	

[1] Starting 11 April 2012
[2] Until 11 April 2012
Personnel representatives attendance at meetings: Jari Grönlund (4/4), Ilkka Jokioja (3/3), Jussi Karimäki (3/4), Juha Kuusi (4/4) and Ari Viiala (1/1). Separate meeting fees were not paid for their participation.

1 000 EUR	2011	Attendance at meetings 2011
Consultative Committee members 1 January–31 December 2011		
Mikaela Nylander, Chairman	13	3/4
Reijo Laitinen, Vice Chairman	8	3/4
Juha Hakola	7	3/4
Markku Koli [2]	5	1/3
Tuija Nurmi	6	2/4
Juha Rannikko [1]	1	1/1
Eero Reijonen	7	3/4
Eeva-Liisa Virkkunen	7	4/4
Total	**53**	

[1] Starting 13 October 2011
[2] Until 13 October 2011
Personnel representatives Jari Grönlund, Jussi Karimäki, Juha Kuusi and Ari Viiala, participated in all Consultative Committee meetings. Separate meeting fees were not paid for their participation.

Starting 1st May 2012 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. Until 30th April 2012 compensation to the Consultative Committee included meeting fees of EUR 200 for each meeting attended as well as a monthly remuneration to Chairman EUR 1,000, Vice Chairman EUR 600 and members EUR 500 each.

Salaries, fees and benefits paid to the President and CEO during 2012 totalled EUR 457,616 (EUR 459,530) consisting of base salary of EUR 354,679.27 (including salary of EUR 338,814.27 and benefits of EUR 15,865.00) and yearly bonus (earning period 2011) of EUR 102,936.99. The yearly bonus represents 29.0% of the CEO's base salary and reflects a payout ratio of 59.7% of the maximum bonus of 50% available for the CEO for 2011. The yearly bonus to be paid to the CEO in 2013 for the earning period 2012 is EUR 107,767.86 (30.4% of base salary of year 2012 and 60.8% of the maximum bonus payout of 50% for 2012). The retirement age for the President and CEO of the parent company is 62. The CEO's retirement arrangement is based on a fixed and defined contribution plan and it is complemented with an insurance policy. The cost of the arrangement was EUR 132,880 (EUR 132,004). The CEO's contract of employment may be terminated with 6 months' notice by either the CEO or the Company. In case the Company gives notice to the CEO, the company shall pay, in addition to the 6 months' salary for the notice period, an additional compensation corresponding to the amount of 12 months' salary.

The President and CEO is assisted in Group management by the Board of Management, which included 7 members (6 members in 2011). The salaries, fees and benefits paid to the members of the Board of Management totalled 1,206,963 EUR (1,071,539 EUR).

The remuneration of the President and CEO and the other members of the Board of Management for 2012 was 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 4 months' salary, except for the CEO where the maximum is 50% of annual salary according to his service contract signed in 2008. 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 have been participants in two separate three-year performance-based Long Term Incentive Plans i.e. for the years 2010–2012 and 2012–2014. Both incentive plans have been set up by the Board of Directors in accordance with the respective Finnish State ownership policy effective at each time.

The 2010–2012 plan has been based on annual strategic targets combined with three-year cumulative financial performance and the highest potential remuneration is 100% of a participant's annual base salary per year during the program period. The outcome of this plan was 37 per cent of the highest potential remuneration and will be paid to the participants in three instalments during the years 2013–2014 subject to the terms of the plan. The company has made a relating cost provision in the balance sheet in the amount of 1.324.227,60 EUR.

The 2012–2014 plan consists of a number of strategic targets set for the overall programme period. The outcome of the plan is subject to the Board of Directors' approval.

All Patria employees (excluding Nammo AS) are part of a yearly bonus plan. The plan can provide at maximum a bonus corresponding to between 1.8 to 3 months' salary depending on the employee's organisational standing.

EXPENSES OF EMPLOYMENT BENEFITS

EUR million	2012	2011
Pension expenses - Defined contribution plans	21.7	19.8
Pension expenses - Defined benefit plans	1.7	2.8
Total	**23.4**	**22.5**

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 Nammo's retirement arrangements and Millog Oy's additional retirement arrangement (reclassified as funded obligation in 2011) have been accounted as defined benefit plans.

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PENSION COSTS ACCORDING TO DEFINED BENEFIT PLAN

EUR million	2012	2011
Accrued pension costs	1.6	2.5
Net acturial gains and losses	0.0	0.2
Interest cost, pension commitments	0.7	0.7
Expected return on plans' assets	-0.6	-0.6
Net pension costs	**1.7**	**2.8**

DEFINED BENEFIT PLANS RECOGNISED IN THE BALANCE SHEET

EUR million	2012	2011
Present value of funded obligations	31.6	29.9
Fair value of plan assets	-12.9	-14.2
Total recognised benefit liability	18.7	15.7
Unrecognised actuarial gains and losses	-4.2	-1.0
Net liability in the balance sheet	**14.5**	**14.7**

8. Depreciation and impairments

DEPRECIATION ACCORDING TO PLAN AND IMPAIRMENTS

EUR million	2012	2011
Development expenses	1.1	1.1
Intangible rights	3.2	3.3
Other long-term expenditures	0.7	0.6
Buildings and constructions	5.3	5.2
Machinery and equipment	11.0	11.3
Other tangible assets	0.0	0.0
Total	**21.3**	**21.5**

Impairment tests

The recoverable amount of a cash generating unit is determined based on value-in-use calculations. The tested cash generating units were Land Systems & Land Services, Aviation Business Units and Nammo. The calculations are based on the cash flow projections in the strategic plans approved by the management covering a three-year period. The cash flow estimates are based on existing fixed assets. Cash flows beyond the three-year period are calculated using terminal value method, where the figures for the third planning period are calculated with 0% eternal growth and discounted using the WACC described above.

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 9.74% p.a. in 2012 (9.5%).

The calculations were also performed by using the sensitivity analysis with 5 percentage unit higher interest rates or 3 percentage unit lower operating margin levels. According to the sensitivity test, there was no need for additional goodwill impairment.

For the cash generating units there was no need for impairment.

CONSOLIDATION GOODWILL

EUR million	2012	2011
1 Jan	45.7	40.0
Additions	3.1	5.1
Translation differences	-0.3	0.5
31 Dec	48.4	45.7

9. Financial income and expenses

EUR million	2012	2011
Interest income		
Deposits and investments	0.6	1.3
Other	0.2	0.0
Other financial income	0.0	0.0
Interest expenses		
Interest bearing liabilities	-1.4	-2.1
Financial lease	-1.4	-1.4
Other financial expense	-0.9	-0.4
Exchange rate difference		
Foreign exchange derivatives, non-hedge accounted	-2.2	-2.9
Other	2.7	2.8
Total	**-2.4**	**-2.7**

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

EUR million	2012	2011
Net sales	1.1	2.7
Expenses	0.5	-0.3
Financial income and expenses	0.5	-0.1
Total	**2.1**	**2.3**

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

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

EUR million	2012	2011
Foreign exchange rate derivative contracts under hedge accounting	1.3	2.2
Total	**1.3**	**2.2**

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10. Income taxes

EUR million	2012	2011
Income taxes	-14.3	-15.8
Income taxes previous period	0.0	0.0
Change in deferred tax receivable	-8.6	-2.3
Change in deferred tax liability	-0.5	0.1
Total	**-23.3**	**-18.1**

DIFFERENCES BETWEEN INCOME TAX EXPENSE CALCULATED AT STATUTORY RATES (24.5% IN FINLAND IN 2012, 26% IN 2011)

EUR million	2012	2011
Income tax expense at statutory rate	-20.7	-15.0
Untaxed income	6.8	0.0
Non-deductible expenses	-1.2	-0.8
Losses carried forward	-0.8	-0.0
Effect of statutory tax rate change on deferred taxes	-	-1.2
Other items	-7.4	-1.1
Income taxes	**-23.3**	**-18.1**

The deferred taxes have been calculated using the statutory tax rate 24.5%, which has been in effect from the beginning of year 2012. The effect of the change in tax rate has been booked to the income statement in 2011.

RECONCILIATION OF DEFERRED TAX RECEIVABLES

EUR million	2012	2011
Tax losses carried forward	-	0.7
Accruals	13.1	21.3
Others	0.3	-
Total	**13.5**	**22.0**
1 Jan	22.0	24.7
Translation difference	-	-0.4
Income statement	-8.6	-2.3
Equity	0.0	0.0
31 Dec	**13.5**	**22.0**

RECONCILIATION OF DEFERRED TAX LIABILITIES

EUR million	2012	2011
Fixed assets depreciation differences	0.1	0.1
Accruals	3.1	1.9
Fair value of derivative financial instruments	0.8	0.6
Total	**4.0**	**2.6**
1 Jan	2.6	3.9
Income statement	0.5	-0.1
Equity	1.0	-1.2
31 Dec	**4.0**	**2.6**

11. Fixed assets

INTANGIBLE ASSETS

EUR million	Goodwill	Development expenses	Intangible rights	Other long-term expenditures	Advance payments	Total
Acquisition cost 1 Jan 2012	48.9	44.7	48.6	7.8	9.3	159.1
Translation differences	-0.3	-	-0.5	0.0	-	-0.8
Reclassifications	-	-	-1.1	-	-	-1.1
Companies acquired	-	-	0.0	0.1	-	0.1
Additions	3.1	0.2	3.8	1.4	0.1	8.6
Disposals	-0.2	-	-0.1	-0.8	-1.0	-2.1
Acquisition cost 31 Dec 2012	51.4	44.8	50.7	8.5	8.4	163.9
Accumulated depreciation and impairment losses 1 Jan 2012	-1.2	-41.5	-27.3	-5.9	-	-75.9
Translation differences	-	-	0.2	0.0	-	0.2
Reclassifications	-	-	-	-	-	0.0
Companies acquired	-	-	-	-	-	0.0
Disposals	-	-	0.1	0.6	-	0.7
Depreciation for the period	0.0	-1.1	-3.2	-0.7	-	-4.9
Impairment	-	-	-	-	-	0.0
Accumulated depreciation and impairment losses 31 Dec 2012	-1.2	-42.6	-30.3	-5.9	0.0	-80.0
Net book value at 31 Dec 2012	**50.2**	**2.3**	**20.4**	**2.6**	**8.4**	**83.9**

EUR million	Goodwill	Development expenses	Intangible rights	Other long-term expenditures	Advance payments	Total
Acquisition cost 1 Jan 2011	43.2	44.7	46.3	6.8	-	141.1
Translation differences	0.5	-	0.7	0.0	-	1.2
Reclassifications	-	-	0.0	0.2	-	0.2
Companies acquired	-	-	0.0	-	-	0.0
Additions	5.1	0.0	1.8	0.7	9.3	16.9
Disposals	-	-	-0.3	0.0	-	-0.3
Acquisition cost 31 Dec 2011	48.9	44.7	48.6	7.8	9.3	159.1
Accumulated depreciation and impairment losses 1 Jan 2011	-1.2	-40.7	-23.8	-5.3	-	-71.0
Translation differences	-	0.2	-0.2	0.0	-	-0.1
Reclassifications	-	-	-	-	-	0.0
Companies acquired	-	-	-	-	-	0.0
Disposals	-	-	-	-	-	0.0
Depreciation for the period	-	-1.1	-3.3	-0.6	-	-4.9
Impairment	-	-	-	-	-	0.0
Accumulated depreciation and impairment losses 31 Dec 2011	-1.2	-41.5	-27.3	-5.9	0.0	-75.9
Net book value at 31 Dec 2011	**47.6**	**3.2**	**21.2**	**1.9**	**9.3**	**83.2**

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TANGIBLE ASSETS

EUR million	Land and water	Buildings and constructions	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost 1 Jan 2012	3.1	123.8	173.0	1.6	8.6	310.1
Translation differences	0.0	1.1	3.2	0.0	0.1	4.4
Reclassifications	0.7	-0.8	1.0	-	1.1	2.0
Companies acquired	-	1.3	0.2	-	-	1.5
Additions	0.2	8.2	14.3	0.0	6.4	29.0
Disposals	-0.0	-0.0	-2.1	-	-7.4	-9.6
Acquisition cost 31 Dec 2012	3.9	133.6	189.6	1.6	8.8	337.5
Accumulated depreciation and impairment losses 1 Jan 2012	-0.0	-63.6	-135.9	-1.4	-	-200.9
Translation differences	0.0	-0.9	-3.4	-0.0	-	-4.4
Reclassifications	-	-	-	-	-	0.0
Companies acquired	-	-	-	-	-	0.0
Disposals	-	0.3	2.1	-	-	2.4
Depreciation for the period	-	-5.3	-11.0	-0.0	-	-16.4
Impairment	-	-	-	-	-	0.0
Accumulated depreciation and impairment losses 31 Dec 2012	0.0	-69.6	-148.3	-1.4	0.0	-219.3
Net book value at 31 Dec 2012	**3.9**	**64.0**	**41.3**	**0.2**	**8.8**	**118.2**

EUR million	Land and water	Buildings and constructions	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost 1 Jan 2011	3.1	115.5	165.3	3.5	2.4	289.7
Translation differences	0.0	0.5	-0.5	-0.0	0.2	0.1
Reclassifications	-	2.5	0.1	-2.0	-0.9	-0.2
Companies acquired	-	-	0.0	-	-	0.0
Additions	0.0	5.3	12.8	0.1	9.8	28.0
Disposals	-	-0.0	-4.6	-	-2.9	-7.6
Acquisition cost 31 Dec 2011	3.1	123.8	173.0	1.6	8.6	310.1
Accumulated depreciation and impairment losses 1 Jan 2011	-	-56.7	-126.7	-2.7	-	-186.2
Translation differences	-	-0.4	0.4	0.0	-	0.1
Reclassifications	-	-	-	-	-	0.0
Companies acquired	-	-	-0.0	-	-	0.0
Disposals	-	-1.3	1.7	1.3	-	1.7
Depreciation for the period	-	-5.2	-11.3	-0.0	-	-16.5
Impairment	-0.0	-	-	-	-	0.0
Accumulated depreciation and impairment losses 31 Dec 2011	-0.0	-63.6	-135.9	-1.4	0.0	-200.9
Net book value at 31 Dec 2011	**3.1**	**60.1**	**37.2**	**0.2**	**8.6**	**109.2**

TANGIBLE ASSETS INCLUDE CAPITALIZED FINANCE LEASES AS FOLLOWS

EUR million	Buildings and constructions	Machinery and equipment	Total
Acquisition cost 31 Dec 2012	36.3	6.8	43.2
Accumulated depreciation	-12.0	-6.8	-18.9
Net book value at 31 Dec 2012	**24.3**	**0.0**	**24.3**
Acquisition cost 31 Dec 2011	35.4	6.9	42.4
Accumulated depreciation	-9.7	-6.9	-16.6
Net book value 31 Dec 2011	**25.8**	**0.0**	**25.8**

12. Investments in associated companies

	Domicile	Ownership %
Patria Middle East General Trading & Contracting Company WLL	Kuwait City, Kuwait	49.0
Patria Hägglunds Oy	Tampere, Finland	50.0

SHARES IN ASSOCIATED COMPANIES

EUR million	2012	2011
1 Jan	0.4	0.4
Acquisitions and other changes	0.4	-0.0
31 Dec	0.9	0.4

BUSINESS OPERATIONS WITH ASSOCIATED COMPANIES

EUR million	2012	2011
Sales to associated companies	11.9	1.8
Purchases from associated companies	5.3	1.3

RECEIVABLES AND LIABILITIES, ASSOCIATED COMPANIES

EUR million	2012	2011
Subordinated loan receivable	0.1	0.0
Accounts receivables	5.5	1.2
Other receivables	1.4	0.2
Prepaid expenses and accrued income	0.0	0.0
Accounts payable	1.0	0.0
Advance payments	14.6	19.1
Other liabilities	0.6	0.6

13. Other Shares

EUR million	2012	2011
Book value	0.8	0.7

The fair value of other shares do not differ materially from the book value.

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14. Receivables

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

PREPAID EXPENSES AND ACCRUED INCOME

EUR million	2012	2011
Receivables related to POC method	126.1	72.9
Other items	3.4	3.3
Total	**129.5**	**76.2**

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

15. Accruals and deferred income

EUR million	2012	2011
Accrued wages, salaries and social security costs	32.4	30.6
Liabilities related to POC method	56.7	52.3
Other items	15.6	12.3
Total	**104.6**	**95.2**

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

16. Liquid funds

CASH AND CASH EQUIVALENTS

EUR million	2012	2011
Cash at bank and on hand	41.7	22.1
Held-to-maturity investments with maturity under 3 months	3.0	39.9
Total	**44.7**	**62.0**

The fair values of Held-to-maturity investments do not differ materially from the book value. The maturity of the investments is less than 3 months.

PATRIA FINANCIAL STATEMENTS 2012

17. Financial instruments

REVALUATION FUND

EUR million	Forward contracts	Revaluation fund Total
Revaluation fund 31 Dec 2011		
Fair value	2.2	2.2
Deferred taxes	-0.6	-0.6
	1.7	1.7
Fair value changes recognized in equity	1.6	1.6
Fair value changes recognized in income statement	-1.0	-1.0
Deferred taxes	-0.2	-0.2
	0.4	0.4
Revaluation fund 31 Dec 2012		
Fair value	2.9	2.9
Deferred taxes	-0.8	-0.8
Total	**2.1**	**2.1**

EUR million	Forward contracts	Revaluation fund Total
Revaluation fund 31 Dec 2010		
Fair value	2.1	2.1
Deferred taxes	-0.6	-0.6
	1.5	1.5
Fair value changes recognized in equity	1.7	1.7
Fair value changes recognized in income statement	-1.6	-1.6
Deferred taxes	0.1	0.1
	0.2	0.2
Revaluation fund 31 Dec 2011		
Fair value	2.2	2.2
Deferred taxes	-0.6	-0.6
Total	**1.7**	**1.7**

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

2012 EUR million	Financial assets/ liabilities at fair value through income statement Level 2	Financial assets/ liabilities at fair value through income statement Level 3	Loans and other receivables	Available for sale financial assets Level 2	Held to maturity	Other financial liabilities	Book value	Note
Non-current financial assets								
Long-term receivables from associated companies			0.1				**0.1**	12
Other shares			0.6	0.2			**0.8**	13
Other receivables			1.9				**1.9**	
Current financial assets								
Accounts receivable			145.1				**145.1**	2
Receivables from associated companies			5.5				**5.5**	12
Derivative financial instruments	2.6						**2.6**	22
Marketable securities					3.0		**3.0**	16
Cash and bank balances			41.7				**41.7**	16
Carrying amount by category	**2.6**	**0.0**	**195.0**	**0.2**	**3.0**	**0.0**	**200.9**	
Non-current financial liabilities								
Interest-bearing liabilities						57.0	**57.0**	19
Current financial liabilities								
Interest-bearing liabilities						11.2	**11.2**	19
Accounts payable						42.5	**42.5**	
Liabilities to associated companies						1.6	**1.6**	12
Derivative financial instruments	0.6						**0.6**	22
Carrying amount by category	**0.6**	**0.0**	**0.0**	**0.0**	**0.0**	**112.2**	**112.8**	

2011 EUR million	Financial assets/ liabilities at fair value through income statement Level 2	Financial assets/ liabilities at fair value through income statement Level 3	Loans and other receivables	Available for sale financial assets Level 2	Held to maturity	Other financial liabilities	Book value	Note
Non-current financial assets								
Other shares			0.5	0.2			**0.7**	13
Other receivables			1.9				**1.9**	
Current financial assets								
Accounts receivable			152.1				**152.1**	
Receivables from associated companies			1.4				**1.4**	12
Derivative financial instruments	2.6						**2.6**	22
Marketable securities					39.9		**39.9**	
Cash and bank balances			22.1				**22.1**	
Carrying amount by category	**2.6**	**0.0**	**178.0**	**0.2**	**39.9**	**0.0**	**220.6**	
Non-current financial liabilities								
Interest-bearing liabilities						66.6	**66.6**	19
Other long-term liabilities								
Current financial liabilities								
Interest-bearing liabilities						5.9	**5.9**	19
Accounts payable						40.6	**40.6**	
Liabilities to associated companies						0.6	**0.6**	12
Derivative financial instruments	1.7						**1.7**	22
Carrying amount by category	**1.7**	**0.0**	**0.0**	**0.0**	**0.0**	**113.8**	**115.5**	

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). There were no transfers into or out of Level 3 during financial period.

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18. Shareholders' equity

The company has a total of 38,024,848 shares and one series of shares.

DISTRIBUTABLE FUNDS

The parent company's non-restricted equity on December 31, 2012 is EUR 186,021,260.91 of which the net profit for the financial period is EUR 21,754,995.67.

DIVIDEND PER SHARE

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.50 per share be paid on the shares. Under the proposal, the total amount of dividends will be EUR 19,012,424.00. The Board of Directors further proposes that the remaining non-restricted equity, EUR 167,008,836.91 be retained and carried forward.

The dividends paid for 2012 will be decided at the Annual General Meeting on 24 April 2013. This dividend payable is not reflected in these financial statements.

19. Liabilities

MATURITY OF INTEREST-BEARING LIABILITIES

EUR million	2013	2014	2015	2016	2017	2018-	Total
Finance lease liablilities	1.5	1.5	1.5	1.5	1.5	17.5	24.8
Pension loans	3.8	3.8	3.8	-	-	-	11.3
Loans from financial institutions	5.7	16.1	0.6	0.6	0.6	0.9	24.4
Other interest-bearing liabilities	0.2	0.3	0.3	0.3	0.6	6.1	7.7
Total 2012	**11.2**	**21.6**	**6.0**	**2.3**	**2.6**	**24.5**	**68.2**

EUR million	2012	2013	2014	2015	2016	2017-	Total
Finance lease liablilities	1.5	1.5	1.5	1.5	1.5	19.0	26.3
Pension loans	3.8	3.8	3.8	3.8	-	-	15.0
Loans from financial institutions	0.5	10.6	5.3	5.3	0.5	1.1	23.3
Other interest-bearing liabilities	0.2	0.3	0.3	0.3	0.1	6.9	8.0
Total 2011	**5.9**	**16.1**	**10.8**	**10.8**	**2.0**	**27.0**	**72.6**

Fair values of long-term loans do not differ materially from the book value.

FINANCE LEASE LIABILITIES

Patria has finance leasing agreements relating mainly to buildings. Agreements mature between 2017 and 2033 and capital costs of EUR 24.3 million (25.8) are included in Buildings and constructions; the depreciation thereon was EUR 1.5 million (1.5). The aggregate leasing payments amounted to EUR 2.8 million (2.9), the interest element being EUR 1.4 million (1.4).

FINANCE LEASE LIABILITIES MINIMUM LEASE PAYMENTS

EUR million	2012	2011
Not later than 1 year	2.8	2.9
1–5 years	11.2	10.6
Later than 5 years	19.4	22.8
Total	33.4	36.2
Future finance charges	-8.6	-10.0
Present value of minimum lease payments	**24.8**	**26.3**

PRESENT VALUE OF MINIMUM LEASE PAYMENTS

EUR million	2012	2011
Not later than 1 year	1.5	1.5
1–5 years	5.9	5.9
Later than 5 years	17.5	19.0
Present value of minimum lease payments	**24.8**	**26.3**

20. Provisions

EUR million	2012	2011
Warranty provision	21.9	12.4
Pension provision	14.5	14.7
Other provision	14.5	36.5
Total	**51.0**	**63.6**

During the warranty period the claimed faults will be corrected at Patria's expense. The warranty provisions amounted to EUR 21.9 million (12.4) at the end of 2012. 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. Loss provisions of EUR 26.1 million related to ongoing deliveries have been reversed from the other provisions.

The Group has made employees redundant based on economic reasons. Some of the employees have been made redundant to unemployment pension. The related liability has been treated as pension arrangement (IAS 19:132).

21. Commitments and contingent liabilities

CONTINGENT LIABILITIES

EUR million	2012	2011
Guarantees given by joint ventures	28.4	12.5
Guarantees given on behalf of associated companies	27.5	28.8
Guarantees given on behalf of others	3.3	27.9
Repurchase obligation	0.0	0.2
Other own contingent liabilities	3.2	1.7
Total	**62.5**	**71.0**

OPERATING LEASE COMMITMENTS

EUR million	2012	2011
Payments due next year	6.1	5.2
1–5 years	16.5	18.2
Payments due in thereafter	3.9	4.9
Total	**26.5**	**28.3**

Operating lease commitments of joint ventures are not included.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

22. Derivative contracts

NOMINAL VALUES OF DERIVATIVE INSTRUMENTS

	Remaining maturities 2012			Remaining maturities 2011		
EUR million	< 1 year	1-5 years	Total	< 1 year	1-5 years	Total
Derivative financial instruments designated as cash flow hedges						
Forward foreign exchange contracts						
Buy	24.3	2.4	26.7	54.0	2.3	56.3
Sell	55.2	5.5	60.6	78.6	31.6	110.2
Currency options						
Call	-	-	0.0	0.4	-	0.4
Put	-	-	0.0	0.4	-	0.4
Cash flow hedge	79.4	7.9	87.4	133.4	34.0	167.3
Non-hedging derivative financial instruments						
Forward foreign exchange contracts						
Buy	2.0	-	2.0	6.2	-	6.2
Sell	23.0	-	23.0	36.8	-	36.8
Currency options						
Call	-	-	0.0	-	-	0.0
Put	-	-	0.0	-	-	0.0
Non-hedging	25.0	0.0	25.0	42.9	0.0	42.9
Total	**104.5**	**7.9**	**112.4**	**176.3**	**34.0**	**210.3**

FAIR VALUES OF DERIVATIVE INSTRUMENTS

	Fair value 2012			Fair value 2011		
EUR million	< 1 year	1-5 years	Total	< 1 year	1-5 years	Total
Derivative financial instruments designated as cash flow hedges						
Forward foreign exchange contracts						
Buy	-0.3	-0.0	-0.3	2.0	0.0	2.0
Sell	2.2	0.2	2.4	-0.4	-0.2	-0.6
Currency options						
Call	-	-	0.0	0.0	-	0.0
Put	-	-	0.0	-0.0	-	-0.0
Cash flow hedge	1.9	0.2	2.1	1.6	-0.2	1.4
Non-hedging derivative financial instruments						
Forward foreign exchange contracts						
Buy	-0.0	-	-0.0	0.1	-	0.1
Sell	0.0	-	0.0	0.2	-	0.2
Currency options						
Call	-	-	0.0	-	-	0.0
Put	-	-	0.0	-	-	0.0
Non-hedging	0.0	0.0	0.0	0.3	0.0	0.3
Total	**1.9**	**0.2**	**2.1**	**1.9**	**-0.2**	**1.7**

23. Related party transactions

PATRIA OYJ'S SUBSIDIARIES AND JOINT VENTURES

Subsidiaries and joint ventures	Domicile	Ownership %
Patria Aviation Oy	Jämsä, Finland	100.0
Patria Aerostructures 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 Helicopters AS	Bardufoss, Norway	100.0
Patria Finance Oyj	Helsinki, Finland	100.0
Patria Land Services Oy	Hämeenlinna, Finland	100.0
Kolesnik d.o.o.	Trzin, Slovenia	90.0
Patria Vammas AB	Uddevalla, Sweden	100.0
Patria Vammas Corporation	Delaware, USA	100.0
Windhoff Vammas Airport Equipment GmbH	Neuenkirchen, Germany	100.0
Patria Polska Sp. z o.o.	Warsaw, Poland	100.0
Patria Latvia SIA	Riga, Latvia	100.0
Patria Land Systems Oy	Hämeenlinna, Finland	100.0
Millog Oy	Tampere, Finland	55.0
Inlog Partners Oy	Tampere, Finland	100.0
Oricopa Oy	Orivesi, Finland	100.0
Oricopa Kiinteistöt Oy	Orivesi, Finland	100.0
Nammo AS	Raufoss, Norway	50.0

2011 NOK million	Domicile	Ownership %	Assets	Liabilities	Net sales	Profit/Loss
Nammo AS	Raufoss, Norway	50.0	2,988.2	1,479.8	3,165.5	289.9

NET SALES AND PURCHASES BETWEEN GROUP COMPANIES

EUR million	2012	2011
Total	**71.3**	**70.3**

The policy of internal transfer pricing is to use at arm's length prices.

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

Management's employment benefits are included in Note 7.

Key management consists of the members of the Board of Directors, CEO and other members of the Board of Management. There were no outstanding loans receivable from key management on 31 December 2012. Members of the Group management and their immediate circle have not had any essential business relations with the Group companies.

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25

24. Disputes and litigations

An Austrian company which has been acting as Patria's consultant in certain countries has initiated two cases against Patria claiming, inter alia, payment of certain commissions and indemnity. The aggregate amount of these claims is EUR 4.3 million plus amounts to be specified later. In Patria management view is that the claims are groundless or premature in the current circumstances.

Patria Pilot Training Oy's aircraft went down in 2008 on a training flight and three person died. The prosecutor pressed charges in 2012 against Patria Pilot Training Oy, a fully owned Patria subsidiary, and its 3 current employees for crime on occupational safety and involuntary manslaughter. The court proceedings took place during November 2012. The court dismissed all the charges in the verdict issued in February 2013.

25. Events after the balance sheet date

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

Group Key figures

EUR million	2012	2011	2010	2009	2008	2007
New orders	432.4	456.3	1,017.6	624.4	863.0	568.0
Order stock	1,229.9	1,626.5	1,787.2	1,315.6	1 192.1	907.1
Net sales	736.1	618.4	564.3	539.5	534.6	541.2
EBITDA	108.2	81.7	31.9	46.6	48.7	55.8
Operating profit	87.0	60.3	10.5	20.0	8.9	37.3
Income before taxes	84.6	57.6	7.2	17.0	2.3	33.5
Net sales outside Finland, %	59	63	63	62	55	48
Equity ratio, %	47.7	43.5	42.2	43.5	40.0	48.1
Net gearing, %	7.8	4.2	7.0	40.8	55.1	19.6
Return on equity, %	23.1	17.7	1.7	5.8	0.4	11.8
Return on capital employed, %	22.0	16.5	3.2	6.4	3.1	14.6
Personnel average	3,587	3,430	3,397	3,414	2,810	2,662

Calculation of Key Ratios

$$\text{Return on equity, \%} = \frac{\text{Net income}}{\text{Shareholders' equity (average)}}$$

$$\text{Return on capital employed, \%} = \frac{\text{Income before taxes + interest and other financial expenses}}{\text{Balance sheet total - non-interest-bearing liabilities (average)}}$$

$$\text{Equity ratio, \%} = \frac{\text{Shareholders' equity}}{\text{Balance sheet total - advance payments}}$$

$$\text{Gearing, \%} = \frac{\text{Interest-bearing liabilities - liquid funds}}{\text{Shareholders' equity}}$$

Financial Statements of the Parent company (FAS)

Balance sheet, Parent company

ASSETS

EUR million	Note	31.12.2012	31.12.2011
Non-current assets			
Investments			
Shares in group companies	8	271.8	271.9
Shares in associated and joint venture companies	8	188.5	188.5
Total Non-current assets		**460.3**	**460.4**
Current assets			
Receivables			
Accounts receivable		0.0	0.0
Receivables from group companies	9	31.9	29.7
Loans receivable		0.1	0.0
Prepaid expenses and accrued income		0.2	0.3
Total Current assets		**32.1**	**30.0**
Total Assets		**492.4**	**490.4**

SHAREHOLDERS' EQUITY AND LIABILITIES

EUR million	Note	31.12.2012	31.12.2011
Shareholders' equity	10		
Share capital		38.0	38.0
Other reserves			
Invested non-restricted equity fund		164.1	164.1
Retained earnings		0.2	-0.2
Net income for the period		21.8	10.6
Total Shareholders' equity		**224.0**	**212.6**
Current liabilities			
Accounts payable		0.1	0.0
Liabilities to group companies	9	262.6	275.2
Other current liabilities		0.1	0.8
Accruals and deferred income		5.6	1.8
Total Current liabilities		**268.3**	**277.9**
Total Shareholders' equity and liabilities		**492.4**	**490.4**

INCOME STATEMENT, PARENT COMPANY

EUR million	Note	1-12/2012	1-12/2011
Net sales	2	2.6	3.0
Other operating income	3	0.0	0.0
Personnel expenses	4	-2.7	-4.1
Other operating expenses	3	-4.3	-2.1
Operating profit		**-4.4**	**-3.1**
Financial income and expenses	5		
Dividend income from group companies		11.0	10.3
Interest and other financial income		0.0	0.0
Interest and other financial expenses		-10.2	-7.0
Income before extraordinary items		**-3.6**	**0.2**
Extraordinary items	6	28.8	10.5
Income before taxes		**25.2**	**10.8**
Income taxes	7	-3.5	-0.2
Net income		**21.8**	**10.6**

CASHFLOW STATEMENT, PARENT COMPANY

EUR million	1-12/2012	1-12/2011
Income before extraordinary items	-3.6	0.2
Financing items	-0.8	-3.4
Other changes	-3.5	-6.4
Change in receivables	-0.1	-3.2
Change in liabilities	8.5	9.7
Cash flow from operations	**0.5**	**-3.0**
Interests paid	-10.2	-0.2
Other financial items paid	0.0	0.0
Dividends received	11.0	10.3
Interests received	0.0	0.0
Taxes paid	0.0	-0.5
Cash flow from operating activities	**1.3**	**6.6**
Acquired group companies	0.0	-66.5
Acquired associated and joint venture companies	0.0	-188.5
Cash flow from investing activities	**0.0**	**-255.0**
Change in short-term loans	-1.8	248.6
Change in short-term receivables	0.2	-0.2
Dividends paid	-10.3	0.0
Group contribution	10.5	0.0
Financial total	**-1.3**	**248.4**
Change in liquid funds	**0.0**	**0.0**
Liquid funds at the beginning	0.0	0.0
Liquid funds 31 Dec.	0.0	0.0
Change in liquid funds	**0.0**	**0.0**

Notes to the Financial Statements, Parent company

1. Accounting principles, Parent company

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

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 tangible assets	3 to 5 years

Other tangible assets are not subject to depreciation.

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

FINANCIAL ASSETS

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

FOREIGN CURRENCY TRANSACTIONS

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

DERIVATIVE INSTRUMENTS

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

GRANTS RECEIVED

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

INCOME TAXES

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

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.

EXTRAORDINARY ITEMS

Extraordinary items include material transactions which are not directly related to the actual business operations, such as divestment of businesses or other major restructuring of operations.

2. Net sales

NET SALES BY PRODUCT SEGMENT

EUR million	2012	2011
Civilian products	2.6	3.0
Total	**2.6**	**3.0**

REVENUES RECOGNITION

EUR million	2012	2011
Delivery based net sales	2.6	3.0
Total	**2.6**	**3.0**

3. Other operating income and expenses

OTHER OPERATING INCOME

EUR million	2012	2011
Service revenues	0.0	0.0
Other operating income	0.0	0.0
Total	**0.0**	**0.0**

OTHER OPERATING EXPENSES

EUR million	2012	2011
Rental expenses	0.1	0.2
Consulting services	0.3	0.1
Travel expenses	0.2	0.3
ICT and office expenses	0.0	0.1
Public fees and permits	0.0	0.0
Sales and marketing expenses	0.7	1.2
Other operating expenses	3.0	0.2
Total	**4.3**	**2.1**

4. Personnel expenses

EUR million	2012	2011
Salaries and fees paid to members of the Boards of Directors, Consultative Committee and President and CEO	0.7	0.7
Other wages and salaries	1.3	2.8
Pension and pension insurance costs	0.6	0.5
Other indirect personnel expenses	0.1	0.1
Total	2.7	**4.1**

NUMBER OF PERSONNEL, AVERAGE

	2012	2011
Salaried staff	16	14
Total	**16**	**14**

5. Financial income and expenses within the Group

EUR million	2012	2011
Dividend income	11.0	10.3
Other interest and financial income	0.0	0.0
Interest and other financial expenses	-10.2	-7.0
Exchange gains and losses	0.0	0.0
Total	**0.8**	**3.4**

6. Extraordinary items

EUR million	2012	2011
Group contributions	28.8	10.5
Total	**28.8**	**10.5**

7. Direct taxes

EUR million	2012	2011
Income tax from extraordinary items	7.1	2.7
Income tax from continuing operations	-3.6	-2.6
Total direct taxes	**3.5**	**0.2**

8. Investments

SHARES IN SUBSIDIARIES

EUR million	2012	2011
1.1.	271.9	205.3
Additions	0.0	66.5
Disposals and other changes	-0.1	0.0
Total 31.12.	**271.8**	**271.9**

SHARES IN ASSOCIATED COMPANIES

EUR million	2012	2011
1.1.	188.5	0.0
Additions	0.0	188.5
Total 31.12.	**188.5**	**188.5**

Patria Oyj bought the shares of Patria Aviation Oy, Millog Oy and Nammo AS from Patria Finance Oyj on 7 March 2011.

9. Receivables and liabilities

CURRENT RECEIVABLES FROM GROUP COMPANIES

EUR million	2012	2011
Accounts receivable	2.8	2.8
Prepaid expenses and accrued income	29.1	26.7
Other receivables	0.0	0.2
Total	**31.9**	**29.7**

PREPAID EXPENSES AND ACCRUED INCOME

EUR million	2012	2011
Taxes	0.0	0.3
Other	0.2	0.0
Total	**0.2**	**0.3**

CURRENT LIABILITIES TO GROUP COMPANIES

EUR million	2012	2011
Accounts payable	3.0	0.4
Accruals and deferred income	9.5	22.9
Other liabilities	250.1	251.9
Total	**262.6**	**275.2**

10. Shareholders' equity

EUR million	2012	2011
Share capital 1 Jan	38.0	38.0
Share capital 31 Dec	38.0	38.0
Invested non-restricted equity fund 1 Jan	164.1	164.1
Invested non-restricted equity fund 31 Dec	164.1	164.1
Retained earnings 1 Jan	10.5	-0.2
Dividends paid	-10.3	0.0
Retained earnings 31 Dec	0.2	-0.2
Net income	21.8	10.6
Total shareholders' equity 31 Dec	**224.0**	**212.6**

DISTRIBUTABLE FUNDS

EUR million	2012	2011
Invested non-restricted equity fund 1 Jan	164.1	164.1
Net income	21.8	10.6
Retained earnings 31 Dec	0.2	-0.2
Distributable funds	**186.0**	**174.5**

11. Commitments and contingent liabilities

EUR million	2012	2011
Guarantees given on behalf of Group companies	80.9	150.7
Guarantees given on own behalf	0.9	0.9
Total	**81.8**	**151.6**

LEASING COMMITMENTS

EUR million	2012	2011
Payments due next year	0.1	0.0
Payments due 1 to 5 years	0.1	0.0
Total	**0.1**	**0.1**

Board of Directors' proposal for profit distribution

The parent company's non-restricted equity on December 31, 2012 is EUR 186,021,260.91 of which the net profit for the financial period is EUR 21,754,995.67.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.50 per share be paid on the shares. Under the proposal, the total amount of dividends will be EUR 19,012,424.00. The Board of Directors further proposes that the remaining non-restricted equity, EUR 167,008,836.91 be retained and carried forward.

Helsinki, 21 March 2013

Christer Granskog
Chairman

Kirsi Komi
Vice Chairman

Arto Honkaniemi

Peter Härtle

Jussi Itävuori

Kari Rimpi

Heikki Allonen
President and CEO

Auditor's Statement

An Auditor's Report of the examination carried out has been presented today.

Helsinki, 21 March 2013

Ernst & Young Oy
Authorized Public Accountant Firm

Harri Pärssinen

Risk management and internal control

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

Risk management and internal control are an important part of Patria's management system. They enable management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build, maintain and develop shareholder value. Risk management and internal control also help to ensure that operational and profitability targets can be achieved and loss of resources prevented. Furthermore, risk management and internal control help to ensure appropriate reporting, compliance with laws and regulations, as well as avoid damage to Patria's reputation.

Patria has a Risk management and internal control policy, approved by the Board of Directors, that specifies the tasks, objectives, components, responsibilities and authorities.

The primary responsibility for risk management and internal control lies with the business units and support functions performing the day-to-day control and risk management activities, largely through established processes and project management controls. Patria's support functions provide guidelines for risk management and internal control, and perform monitoring on different levels. The Internal Audit Function and the Auditors, security and quality auditors, as well as customers, monitor and evaluate the effectiveness of risk management and internal control.

The Board provides the ultimate oversight and direction for risk management and internal control. The Audit Committee of the Board monitors the effectiveness of risk management and internal control. The CEO is responsible for the proper functioning and monitoring of the Group's risk management and internal control. Patria also has a risk management steering group that supports the Group and business unit management in the planning, development, and implementation of risk management processes.

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

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

Twice a year, Patria's business units and support functions report their major risks and the related treatment actions to Group management. New, significant risks are reported to Group management without delay, immediately after they have been identified. The most significant risks faced by the Group, together with the related risk treatment activities, are reported to Patria's Board of Directors and the Board's Audit Committee.

The Patria Group has appropriate insurance coverage in place. In determining the scope, arrangement, and management of such coverage, Patria is assisted by a major insurance brokerage community.

Corporate governance statement

Applicable legal provisions

Administration of the Patria Group is subject to the provisions of the Finnish Companies Act and other legislation relevant to the Group's operations. In addition, the Group follows other guidelines and recommendations as applicable to the handling of good corporate governance in companies in which the Finnish state is the majority shareholder. The shareholders of the Patria Group – the Finnish state and European Aeronautic Defence and Space Company EADS N.V. – have also signed a shareholders' agreement that contains provisions applicable to the administration of the Group.

Group organisation and administrative system

The organisation is operationally divided into business units. The division into business units does not fully correspond to the Group's legal structure.

The major legal portion of the Patria Group consists of the parent company, Patria Oyj (known under the business name Patria Holding Oyj until 31 May 2011), and its wholly owned subsidiaries. In addition to wholly owned subsidiaries, the Patria Group owns 55% of Millog Oy. The Nammo Group is 50/50 coowned by Patria and the Norwegian state.

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

Consultative Committee

According to the Articles of Association, Patria Oyj must have a Consultative Committee appointed by the General Meeting of Shareholders. The Articles of Association further state that the Board of Directors shall consult the Consultative Committee on matters that concern 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 industry that the company is engaged in, either in Finland or internationally. The Consultative Committee consists of a chairman, a vice-chairman, and a maximum of ten other members. During the financial period under review, the committee had 11 members. As a general rule, the Consultative Committee has convened four times a year. In 2012, the parent company's Consultative Committee convened four times. The average attendance of the members of the Consultative Committee was 91%.

Composition of the Board of Directors and the election procedure

According to the Articles of Association as currently in force, the Board of Directors of Patria Oyj consists of a chairman, a vice-chairman, and a minimum of three and a maximum of seven other members. In the financial period under review, the Board had six members. The General Meeting of Shareholders elects the chairman, the vice-chairman, and other Board members, and decides on their remuneration. The Board members are elected for one year at a time, their terms of office ending at the close of the first Annual General Meeting held subsequent to their election. The Board of Directors meets at least eight times a year. The Board convened eleven times in 2012. The average attendance of Board members was 98%.

Principal duties of the Board of Directors and distribution of tasks

The Board of Directors is responsible for the management of the Patria Group and the appropriate organisation of its operations, in accordance with legislation, the Articles of Association and any instructions issued by the General Meeting of Shareholders. In addition to its statutory duties, the Board's principal duty is to make decisions on the Group's strategic policy, as well as to monitor and control the Group's business operations, to ensure that the Group follows the legal provisions relevant to its operation in a commercially appropriate manner, providing added value to its owners. The Board also makes decisions on the Group's key operating principles, approving annually the Group's financial targets and operational objectives, as well as its financial statement and any interim reports. Furthermore, the Board decides on major investments and confirms the ethical values and operational principles of the Group, as well as monitoring adherence to these values. The Board also approves the broad outline of the Group's organisational and functional structure and specifies the company's dividend distribution policy.

The Board of Directors has set up an Appointment and Compensation Committee as well as an Audit Committee. The Appointment and Compensation Committee consists of three members. It prepares the Group's and the management's payroll structures, as well as any bonus and incentive systems. It also approves key appointments. The Audit Committee also consists of three members. Its task is to follow and monitor, among other operations, the implementation of the Group's internal supervision, risk management and financial reporting. No other particular distribution of tasks has been agreed upon among Board members.

The company's President and CEO and the Group management

Patria Oyj's president and CEO is responsible for managing the company's and the Patria Group's business activities and administration, in accordance with the provisions of the Companies Act and any guidelines or rules issued by the Board of Directors. The President and CEO is assisted in Group management by the Board of Management, which convenes monthly. In addition, the Group management meets as and when necessary for management purposes.

Compensation

The information of the compensation system is available in the attachment of the Financial Statement, see chapter 7. Personnel expenses.

System of supervision

In accordance with the Companies Act, the Board of Directors must ensure that the supervision of accounts and financial management has been organised appropriately. The president and CEO shall ensure that the company's accounting complies with legislation and that the financial administration is reliably organised. The Group's management is responsible for ensuring that the Group's day-to-day 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 Group's division into business units makes management work more effective and well defined, and facilitates the organisation of effective supervision. An operational reporting system has been set up for the Group's financial supervision. It produces versatile information on the Group's financial standing and development on a monthly basis. The Group has a clearly defined decision-making hierarchy for investments. 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.

Patria

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