

FINANCIAL REVIEW

Saab AB, Corporate Identity No. 556036-0793, registered office Linköping, has been listed on the Stockholm Stock Exchange since June 18, 1998. The principal owners are Investor AB with 20 percent of the shares, corresponding to 36 percent of the votes, and British Aerospace, with 35 percent of the shares, corresponding to 35 percent of the votes. The remaining 45 percent of the shares are traded on the Stockholm Stock Exchange.

Group

Saab offers advanced products and systems partly based on sophisticated information technology. Saab is active in military aircraft and other high technology applications for the aircraft, defense and space industries. The Saab Group consists of the business areas **Military Aerospace**, **Space**, **Training Systems**, **Commercial Aircraft** and **Combitech**. The Group also includes business area Regional Aircraft, which is in the process of being phased out and the production will cease mid -99.

Business area **Military Aerospace** comprises the business units *Gripen*, *Dynamics*, *General Military Programs*, and *Future Products & Technology*, in addition to the associated companies *Avionics* and *CSM Materialteknik*.

Saab produces the Gripen, the only fourth-generation combat aircraft in operational service. Gripen is an integrated and flexible information, command and weapon control system which will be kept modern for a long period of time. Orders from the Defence Materiel Administration (FMV) comprise 204 aircraft. This means continuous production of the Gripen for the Swedish Air Force up to the beginning of 2007. By year-end 1998, 65 aircraft had been delivered, including 17 during the year. Saab is collaborating with British Aerospace in a joint venture for exporting the Gripen. During the year, significant marketing activities have been carried out, including among others participation with Gripen in air shows in both South America, South Africa and Europe. Development efforts on the export version of Gripen have been intensified during the year. The development includes adaptation to world wide climate, equipment for air to air refueling and implementation of NATO standard. During the fall, the South African Government decided to enter into final negotiations with Saab and British Aerospace with the intention of signing a contract to purchase 28 Gripen aircraft for the South African Air Force. *Dynamics'* operations comprise high-technology products, mainly guided weapons, optronic systems and pertaining subsystems and equipment. The company is involved in international joint projects for the IRIS-T short-range missile and is planning to take part in the Meteor air-to-air missile project. *Avionics* is owned jointly with Ericsson and is active in systems for electronic warfare, display and reconnaissance. The company is a major supplier of electronics for the Gripen. On January 1, 1999 Saab acquired a majority of the shares from Ericsson, thereby enabling the company, which is now 50.1 percent owned by Saab, to be consolidated from the beginning of the year.

Space develops and produces on-board computers, antennas and other equipment for the space industry. The company is 60 percent owned by Saab and 40 percent by Ericsson.

Training Systems is a world leader in the area of simulator equipment based on laser technology for direct fire weapons. Approximately 95 percent of sales go to export, the major markets being the UK, the USA and Germany.

Commercial Aircraft consists of *Collaborative Programs*, *Customer Support* and *Saab Aircraft Leasing (SAL)*. *Collaborative Programs* is a direct supplier of components and subassemblies to external customers such as Airbus Industrie and Boeing, and also an internal supplier to *Gripen* and Regional Aircraft. *Customer Support* is responsible for providing high quality support and spare parts for the fleet of over 500 Saab 340 and Saab 2000 aircraft in use throughout the world. *Saab Aircraft Leasing (SAL)* manages a leasing portfolio which at year-end consisted of 316 regional aircraft: 286 Saab 340 and 30 Saab 2000.

Combitech's operations comprise commercial niches in high technology. The concept is to exploit technologies and business ideas from the military programs, after which they are commercialized. During the year, the Telelogic and Image Systems companies were divested in accordance with the strategy set out for **Combitech**.

Regional Aircraft is currently being phased out. At year-end, three Saab 340 and four Saab 2000 remained to be delivered. This brings the total deliveries of regional aircraft to 459 Saab 340 and 63 Saab 2000, a total of 522 aircraft.

Future development

Business areas

The order backlog of *Gripen* constitutes an important platform for the future business within **Military Aerospace**. Deliveries to the Swedish Air Force are at present being made at the rate of 18 aircraft a year, to which will be added further development of the aircraft system and maintenance and add-on orders. Export activities concerning the Gripen are continuing. In addition to final negotiations with South Africa, the Gripen is being marketed jointly with British Aerospace in South America, Central Europe and other areas. Marketing and sales activities may cover a period of several years and are characterized by a long-term approach which, if successful, will lead to collaboration over several decades. *Dynamics* and *Avionics* have close connections with the Gripen, but also develop high-technology products for use in other systems. One example is *Dynamics'* participation in international missile projects. **Space** will continue to develop with the growing commercial market for telecommunications satellites. **Training Systems** will use its leading position in the market as a basis for developing its products to meet a shrinking total market. **Commercial Aircraft** aims at continuing to build up new activities within the business unit *Collaborative Programs* oriented towards collaboration with Airbus and Boeing. Activities in *Saab Aircraft Leasing (SAL)*

and *Customer Support* are aimed at serving the fleet of Saab 340 and Saab 2000 aircraft with funding arrangement and support. The work of restructuring **Combitech** to realize the values will continue.

Restructuring

In December 1997, Saab made the decision to end production of regional aircraft and allocated reserves totaling SEK 4,079 m. for restructuring the industrial operation. The reserves cover estimated losses for the production of the remaining order backlog, redeployment or retirement of personnel, commitments to suppliers and customers, continued support activities for the aircraft fleet, and underabsorption of shared costs and overhead. The restructuring is proceeding according to plan and regular checks are being made against reserves. During 1999, a number of structural measures will be completed and a more reliable assessment of the costs will be possible later in the year. However, it has been observed at the beginning of 1999 that actions taken to permit a different assessment of the underabsorption calculated earlier, and a decision has thus been made to reverse the reserves in the 1998 financial statements by SEK 200 m.

Sales and orders

Sales of Saab, excluding Regional Aircraft, increased two percent to 7,539 m. (7,379). Group sales decreased during the year by 5 percent to SEK 8,248 m. (8,674). Sales to foreign markets amounted to SEK 3,403 m. (4,449) or 41 percent (51) of total sales. Total exports from the Group's Swedish companies decreased to SEK 3,164 m. (4,142). The Group's exports to the EU market amounted to SEK 1,209 m. (1,296) and total sales within the EU, excluding Sweden, were SEK 1,301 m. (1,438).

Sales by business ares

SEK m.	1998	1997	Change
Military Aerospace	4,572	4,480	2%
Space	607	594	2%
Training Systems	621	668	-7%
Commercial Aircraft	908	757	20%
Combitech	1,057	1,073	-1%
Internal sales	-226	-193	
Saab	7,539	7,379	2%
Regional Aircraft	2,698	2,522	7%
Internal sales	-1,989	-1,227	
Saab Group	8,248	8,674	-5%

The fall in sales is mainly due to a larger number of regional aircraft being financed within the Group. Of a total of 36 deliveries, 26 have been financed within the Group and are consequently not included in external sales.

Sales of **Military Aerospace** increased 2 percent to SEK 4,572 m. (4,480). The improvement is attributed to higher sales of *Dynamics*, partly in development of the IRIS-T,

deliveries of the EOS 450 fire control system to Brazil, deliveries of STRIX to the Swedish and Swiss defense and increased development orders and spare parts sales for the Gripen. During the year, 17 Gripen aircraft were invoiced, compared with 20 in 1997. However, three of the aircraft invoiced in 1997 were delivered at the end of 1996. Of sales of **Military Aerospace**, sales of *Dynamics* amounted to SEK 853 m. (630). Sales of *Avionics* amounted to SEK 934 m. (841), which is not included in Group Sales since *Avionics* is reported as an associated company in 1998.

Sales by **Space** increased SEK 13 m. to SEK 607 m. and included an increased share of equipment for the commercial market in telecommunications satellites.

Sales of **Training Systems** decreased as a result of lower deliveries of laser simulators and other products, and totaled SEK 621 m. (668). This reflects lower order bookings in a shrinking market.

Sales of **Commercial Aircraft** increased through higher deliveries, principally to Boeing, and larger volumes of spare parts for regional aircraft.

Sales of **Combitech** decreased somewhat owing to the divestment of Telelogic. After adjusting for the divestments, sales increased ten percent, partly through an increase for Marine Electronics following good order bookings in 1997.

Sales of Regional Aircraft increased as a result of larger deliveries. During the year, 25 (26) Saab 340 aircraft were delivered – 22 to Mesaba, two to JAC in Japan and one Saab 340 AEW to FMV. During the same period, a total of 11 (9) Saab 2000 were delivered, including five for Crossair, two for SAS and two for Japan Civil Aviation Bureau (JCAB).

Sales by market ares

SEK m.	1998	1997	Change
Sweden	4,845	4,225	15%
Other EU countries	1,301	1,437	-9%
Other European countries	470	534	-12%
Total Europe	6,616	6,196	7%
North America	658	1,819	-64%
Asia	862	524	65%
Australia, etc	66	74	-11%
Other markets	46	61	
Saab Group	8,248	8,674	-5%

The decrease in sales in North America is largely due to internal financing of 22 (10) Saab 340 delivered to operators in the USA which are consequently not included in external sales.

Group order bookings amounted to SEK 5,797 m. (16,612). The order backlog at year end amounted to SEK 23,132 m. (27,122) and includes military orders worth SEK 20,900 m. (23,000).

Order bookings

SEK m.	1998	1997
Military Aerospace	2,544	11,411
Space	667	605
Training Systems	583	677
Commercial Aircraft	1,167	804
Combitech	1,001	1,356
Internal	-221	-234
Saab	5,741	14,619
Regional Aircraft	474	2,193
Internal	-418	-200
Saab Group	5,797	16,612

Order bookings for **Military Aerospace** amounted to SEK 2,544 m. (11,411) and include further development, add-on orders and spare parts for the Gripen. The high order bookings in 1997 contain the order for batch 3 of 64 Gripen aircraft from the Swedish Defence Materiel Administration, FMV. *Dynamics* received an important order for development work on the international short-range missile, IRIS-T, valued at SEK 300 m.

Order bookings for **Space** amounted to SEK 667 m. (605) and include an increased share of equipment for the commercial market in the telecommunications field to companies such as Hughes and Aérospatiale. The orders comprise on-board computers, antennas and other electronic equipment for the space industry. An important project during the year is "Rosetta", a scientific program from ESA (the European Space Agency) where **Space** has a contract value of over SEK 140 m. for computer, mass memory and antenna systems.

Order bookings for **Training Systems** amounted to SEK 583 m. (677). During the year, orders for simulator equipment were received from the U.S., Italy and Germany, and for target equipment from the U.K. and Denmark.

Order bookings for **Commercial Aircraft** amounted to SEK 1,167 m. (804), of which *Customer Support* for regional aircraft accounted for SEK 587 m. (513). During the year, orders were received for development and production of sub-assemblies for the Airbus A340-500/600 and Boeing. Orders received during the year from Airbus have a total contract value of approximately SEK 1,500 m., which will be subordinated during a number of years. Of this, SEK 300 m. has been treated as order bookings.

Order bookings for **Combitech** amounted to SEK 1,001 m. (1,351). The decrease compared with the previous year is mainly due to the divestment of Telelogic and Image Systems. Also, there was no counterpart in 1998 to the major order received in 1997 by Traffic Systems concerning road toll collection equipment for Melbourne, Australia. Although order bookings for Marine Electronics decreased in 1988, the company strengthened its already firm position in a total market which is under pressure. The market for Survey Systems is very weak and measures are being taken to implement a structural solution.

Order bookings for Regional Aircraft amounted to SEK 474 m. (2,193). During the year, orders were received for two Saab 340 for JAC, in Japan and three Saab 2000 for Crossair.

Order backlog

SEK m.	1998	1997
Military Aerospace	19,954	21,969
Space	733	674
Training Systems	969	1,007
Commercial Aircraft	350	102
Combitech	693	781
Internal	-139	-145
Saab	22,560	24,388
Regional Aircraft	572	2,734
Saab Group	23,132	27,122

Number of aircraft in the order backlog

	1998	1997
Gripen	139	156
Saab 340	3	26
Saab 2000	4	12

Income and profitability

Income statement

SEK m.	1998	1997
Sales	8,248	8,674
Cost of goods sold	-6,105	-6,400
Gross margin	2,143	2,274
Marketing expenses	-795	-824
Administrative expenses	-532	-622
Research and development costs	-378	-495
Items affecting comparability	200	-5,421
Other operating income	206	133
Other operating expenses	-34	-364
Share in income		
of associated companies	65	3
Operating income¹	875	-5,316
Financial income and expenses	343	471
Income after financial income and expenses	1,218	-4,845
Taxes	-279	1,075
Minority share	-27	-20
Net income	912	-3,790

Earnings per share, SEK²

¹Includes depreciation of -773 -749
of which depreciation on leasing assets -439 -383

²Number of shares 106,459,675 as per December 31, 1998

Operating income amounted to SEK 875 m. (-5,316). Losses in Regional Aircraft and SAL burdened the preceding year with SEK 6,186 m. The reversal of the loss risk reserve concerning the base contract for the Gripen amounting to SEK 100 m. (313) and reversal of the loss risk reserve for phasing out Regional Aircraft by SEK 200 m. improved the year's income.

The year's loss in Regional Aircraft of SEK -477 m. has been charged against the termination reserve. Thus, operating income of Saab, excluding Regional Aircraft, SAL and changes in the loss risk reserves, amounted to SEK 575 m. (557). Other operating income consists mainly of a capital gain from the sale of Telelogic, SEK 75 m., reversal of provision corresponding to the loss in *Customer Support*, SEK 60 m. and trading income from Treasury business and exchange rate gains etc. of SEK 206 m. (133). Other operating expenses amounted to SEK -34 m. (-364), of which SAL accounted for SEK 0 m. (-212). Income of SAL before reversal of the loss risk reserve amounted to SEK -55 m. Project interest on non-utilized advance payments amounted to SEK 263 m. (249).

Net financial income and expenses amounted to SEK 343 m. (471), of which *Saab Aircraft Leasing* accounted for SEK 91 m. The deterioration is mainly due to a lower interest level and an accrued interest cost of SEK 46 m. resulting from the fiscal outcome of an investor lease transaction in 1989. The average return on liquid funds was 5.7 percent (6.2). The average liquidity was SEK 13,300 (12,800) m. Income after financial income and expenses amounted to SEK 1,218 m. (-4,845). Of income, SEK 300 m. (-5,108) consists of reversal of loss risk reserves and items affecting comparability.

Paid and deferred taxes amounted to SEK -279 m. (1,075), corresponding to tax of 23 percent.

Net income for the year was SEK 912 m. (-3,790), corresponding to income per share of SEK 8.55.

Pre-tax return on capital employed was 21.4 percent (negative in 1997). Return on capital employed before items affecting comparability was 18.2 percent (8.8). After-tax return on shareholders' equity was 25.6 percent (negative in 1997). For definitions of key ratios, see Note 41, page 89.

Operating income by business area

SEK m.	1998	1997
Military Aerospace	528	586
Space	59	47
Training Systems	167	156
Commercial Aircraft ¹	-15	3
Combitech	-166	-338
Corporate	2	103
Saab	575	557
Reversal of loss risk reserve	100	313
Saab	675	870
Regional Aircraft	0	-553
Saab Aircraft Leasing	0	-212
Total	675	105
Items affecting comparability	200	-5,421
Saab Group	875	-5,316

¹Whole year 1997 comprises only Collaborative Programs. Customer Support has no effect on income for the year owing to the provisions made in the financial statements for 1997.

Operating income of **Military Aerospace** decreased to SEK 528 m. (586), mainly due to higher marketing and development costs for the export version of Gripen. Risks and guarantee commitments in the base contract for the Gripen have been reduced and the loss risk reserve has thus been reduced by SEK 100 m. (313). Operating income includes project interest on non-utilized advance payments amounting to SEK 252 m. (235).

Operating income of **Space** improved to SEK 59 m. (47), due to higher margins and somewhat higher sales. Operating margin increased to 9.7 percent (7.9).

Operating income of **Training Systems** improved to SEK 167 m. (156), mainly through higher deliveries with large margins during the last quarter.

Operating income of **Commercial Aircraft** amounted to SEK -15 m. (3) and consists of the external income of *Collaborative Programs*, which was affected by investments in new activities connected with Airbus, Boeing and other projects. Development for *Customer Support* and *Saab Aircraft Leasing* is following the plans set up in 1997, when a write-down was made in the leasing portfolio together with provisions for future negative income in *Customer Support*.

Operating income of **Combitech** was negative at SEK -166 m. (-338). The improvement was mainly due to gains from divesting operations, considerable losses having been incurred through the divestments made in 1997. Operating income for Marine Electronics, Software, Network and Pronesto also developed favorably. Income of Traffic Systems continues to be severely negative and includes considerable reserves for expected losses following the conclusion of the Melbourne project. Difficulties with start-up of a new production facility led to profitability problems at Electronics. Operations in **Combitech** are the subject of continued restructuring.

Income of Corporate activities decreased since there was no counterpart to the non-recurrent items in 1997.

Subdivided summary of income statement

SEK m.	Regional			Elimi-	Group
	Saab	Aircraft	SAL	nations	
Sales	7,539	2,698		-1,989	8,248
Cost of goods sold	-5,496	-3,038		2,429	-6,105
Gross margin	2,043	-340		440	2,143
Operating expenses	-1,533	-137	-55	92	-1,633
Share in income of associated companies	65				65
Settle of termination reserve		477	55	-532	0
Total	575	0	0	0	575
Reversal of loss risk/termination reserve	100	200			300
Operating income	675	200	0	0	875
Income from financial items	252		91		343
Income after financial items	927	200	91	0	1,218
Taxes					-279
Minority interest					-27
Net income					912

Four year overview¹

SEK m., unless otherwise stated	1998	1997	Pro forma 1996	Pro forma 1995
Sales, Group	8,248	8,674	8,159	7,925
Operating income	875	-5,316	-2,066	-399
Operating margin, %	10.6	neg	neg	neg
Sales, Saab	7,539	7,379	6,079	5,196
Operating income ²	575	557	610	618
Operating margin, %	7.6	7.5	10.0	11.9
Operating margin before depreciation, %	12.1	12.5	16.2	18.4
Income after financial items, Group	1,218	-4,845	-1,572	271
before items affecting comparability	1,018	576	-353	271
Total assets	31,788	32,780	31,388	28,137
of which utilized advance payments	2,108	2,460	3,248	3,171
of which aircraft leasing operation	9,119	9,604	8,817	6,711
Capital employed	6,352	6,440	8,975	8,719
Return on capital employed, %	21.4	neg	neg	5.0
before items affecting comparability, %	18.2	8.8	neg	5.0
Return on shareholders' equity, %	25.6	neg	neg	2.5
before items affecting comparability, %	21.6	2.4	neg	2.5
Profit margin before items affecting comparability, %	14.1	7.8	neg	5.5
Capital turnover rate	1.29	1.13	0.92	0.91
Earnings per share	8.55			
Proposed dividend	2.00			
Financial position				
Equity/assets ratio, Group, %	13.6	10.2	22.5	23.3
Equity/assets ratio, Saab, %	26.5	21.9	31.6	26.0
Interest coverage ratio, before items affecting comparability, Group	7.88	6.76	neg	2.64
Average no. of employees	7,742	7,716	8,131	7,991

¹For definitions of key ratios, see Note 41 on page 89.

²Excl the reversal of the loss risk reserve.

Financial objectives

In the long term, Saab's goal is to achieve an operating margin of at least 15 percent before depreciation and at least 10 percent after depreciation. In 1998, the operating margin before depreciation was 12.1 percent (12.5) and the operating margin after depreciation 7.6 percent (7.5).

Shareholders' equity is expected to increase during the coming years and the aim is for Saab's equity/assets ratio to exceed 30 percent.

The profitability goal is a return of at least 15 percent on shareholders' equity, based on the present interest level.

Finance and liquidity

Balance sheet

SEK m.	1998	1997
Assets		
Goodwill and other intangible assets	108	134
Property, plant and equipment, etc.	2,620	2,583
Lease assets	8,664	6,919
Shares	103	66
Inventories, etc.	4,285	4,996
Receivables	3,062	2,970
Receivables on Investor AB	0	9,104
Cash and marketable securities	12,946	6,008
Total assets	31,788	32,780

Shareholders' equity and liabilities

Shareholders' equity	4,033	3,091
Minority interest in subsidiaries	92	158
Provision for pensions	1,948	2,243
Other provisions	6,226	6,868
Liabilities to credit institutions	69	948
Convertible debenture loan	210	
Lease obligations	4,953	5,207
Advance payments from customers ¹	6,989	7,538
Other liabilities	7,268	6,727
Total shareholders' equity and liabilities	31,788	32,780

¹Of which portion used

	2,108	2,460
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Cash and marketable securities including receivables on Investor AB, less external borrowing, decreased by SEK 1,497 m. to SEK 12,667 m. (14,164). The decrease is the result of investments in leasing aircraft and lower advance payments from customers. The Group's financial position is strong and net liquidity after deduction for provision for pensions amounted to SEK 10,719 m. (11,921). Provision for pensions decreased during the year since SEK 350 m. of the debt to FPG/PRI have been repaid.

On September 30, 1998 an Extraordinary General Meeting resolved to issue a convertible debenture loan to the Group's employees. The loan amounts to SEK 254 m., which, after full conversion, corresponds to a dilution of 2.55 percent of the capital and 1.67 percent of the total votes. Employee response was very great and the loan was oversubscribed by 24 percent or SEK 62 m. and 48 percent of the employees made use of the opportunity. See Note 35.

Group equity/assets ratio amounted to 13.6 (10.2) percent and the interest coverage ratio, excluding items affecting comparability, was 7.88 (6.76). Equity/assets ratio excluding Regional Aircraft and *Saab Aircraft Leasing* was 26.5 (21.9) percent.

Shareholders' equity amounted to SEK 4,033 m. (3,091), corresponding to SEK 37.90 (29.00) per share.

Subdivided summary of balance sheet

SEK m.	Saab	Regional Aircraft	SAL	Elimi- nations	Group
Fixed assets	4,325	4	2	-1,500	2,831
Lease assets			8,664		8,664
Deferred tax receivables	271	953		-490	734
Inventories, etc.	3,520	765			4,285
Receivables	1,206	209	913		2,328
Cash and marketable securities	8,013	3,403	1,530		12,946
Total assets	17,335	5,334	11,109	-1,990	31,788
Shareholders' equity	4,033	0	1,500	-1,500	4,033
Minority share in subsidiaries	81		11		92
Provision for pensions	1,948				1,948
Other provisions	140	3,402	3,174	-490	6,226
Liabilities to credit institutions	69				69
Convertible debenture loan	210				210
Lease obligations	55		4,898		4,953
Advance payments from customers	6,858	131			6,989
Other liabilities	3,941	1,801	1,526		7,268
Total shareholders' equity and liabilities	17,335	5,334	11,109	-1,990	31,788

Cash Flow

The cash flow from operating activities, excluding Regional Aircraft and SAL, amounted to SEK 1,706 m. (79). Group cash flow from operating activities amounted to SEK 1,604 m. (-348). Working capital increased by SEK 28 m. (1,424). Higher utilization of payments for the Gripen and lower advance payments for Regional Aircraft led to a decrease of SEK 549 m. in advance payments from customers. Provisions have net decreased by SEK 442 m., of which the year's losses in Regional Aircraft and SAL have, in accordance with plans, led to a decrease in provisions of SEK 532 m. Inventories decreased by SEK 711 m., mainly attributable to Regional Aircraft. The cash flow from investments amounted to SEK -2,709 m. (-1,881), of which SAL accounted for SEK -2,392 m. (-1,382). The operating cash flow amounted to SEK -1,105 m. (-2,229), of which Saab accounted for SEK 1,389 m. (-393), Regional Aircraft SEK -681 m. (-343) and SAL SEK -1,813 m. (-1,494).

Summary of cash flow statement

SEK m.	1998	1997
Cash flow from operations activities		
Income after financial items, excluding share in income of associated companies	1,153	-4,847
Depreciation and write-down charged to income	773	789
Items affecting comparability	-200	5,421
Taxes	-94	-287
Cash flow from operating activities before changes in working capital	1,632	1,076
Working capital		
Inventories	711	-31
Receivables	-35	-173
Advance payments from customers	-549	-479
Other liabilities	541	195
Lease obligations	-254	-534
Provisions	-442	-402
Change in working capital	-28	-1,424
Cash flow from operating operations	1,604	-348
Investments in fixed assets	-336	-515
Investments in lease assets	-2,184	-1,365
Increase in long-term receivables	-189	-1
Cash flow from investments	-2,709	-1,881
Operating cash flows	-1,105	-2,229

Subdivided summary of cash flow statement

SEK m.	Regional			Group
	Saab	Aircraft	SAL	
Cash flow from operating activities, before operating capital	1,077	0	555	1,632
Change in working capital	629	-681	24	-28
Cash flow from operating activities	1,706	-681	579	1,604
Investment activities	-317	0	-2,392	-2,709
Operating cash flow	1,389	-681	-1,813	-1,105

Financial risk management

The operations of the Group are always exposed to financial risks such as fluctuations in exchange rates, interest levels, credit and liquidity. The overall policy for the operating units is to minimize the financial risks in routine business. Saab Treasury is responsible for the Group's investment and borrowing activities, in addition to the external management of interest and exchange rate risks. Operations are conducted on the basis of a finance policy set out by the Board of Directors.

Exchange rate risks are defined as the risk that fluctuations in exchange rates will have a negative effect on the Group's income. Risk neutrality on the exchange rate side is achieved through specific clauses in contracts or through futures or options transactions in the currency market. Exchange rate risks in military business are largely hedged through the respective contract. In other business, the policy of the Group is to hedge the exchange rate risk continuously when signing firm orders. Exchange rate risks during an offer period are managed according to special assessments in each case.

"Interest risk" is the risk of negative influence on the Group's income as a result of fluctuations in market rates. Risk neutrality is achieved through the principle of seeking uniformity between interest fixing on the assets side and future commitments on the liabilities side.

Options held by Saab Treasury per December 31, 1998 had a nominal value of SEK 15,546 m. (18,914). This amount can be subdivided as follows:

Nominal amount in SEK m.	1998	1997
Interest swaps, SEK	5,050	7,300
Interest swaps, foreign	4,556	3,404
Futures, SEK	1,500	0
Currency options	98	39
Currency futures	4,342	8,171
Total	15,546	18,914

Futures and interest swaps in SEK are used for risk management of liquidity, while interest swaps in foreign currency are made for the purpose of risk management of the leasing

portfolio. Others are futures and options for the USD share of allocations for Regional Aircraft and *Saab Aircraft Leasing*, together with firm orders for other business in the Group.

To minimize credit risks, it is necessary for the opposite party to have a minimum credit rating of single A, according to Moody's and S&P's ratings. Calculations are made of the actual and anticipated credit risk fully in compliance with the recommendations of the Bank of International Settlement (BIS). At December 31, 1998 the risks of the opposite parties amounted to SEK 3,391 m. (1,026), of which housing finance institutes accounted for SEK 2,617 m. (0).

Capital expenditures

The year's capital expenditures in property, plant and equipment, excluding leasing assets, amounted to SEK 521 m. (396). Net investments including leasing assets and intangible fixed assets amounted to SEK 2,529 m. (1,858), including leasing assets of SEK 2,184 m. (1,365).

SEK m.	1998	1997
Military Aerospace	269	153
Space	87	43
Training Systems	65	51
Commercial Aircraft	35	45
Combitech	63	91
Regional Aircraft	2	13
Group	521	396

Research and development

The Group allocates considerable resources to research and development in order to maintain its position as a leading producer of military aircraft and defense materiel. Over 2,000 people are employed in research and development. Investments in research and development are made primarily for customers in business area **Military Aerospace**. Development is also carried on in the fields of laser simulation, radar-based level-gauging, space, and development of military technology for commercial applications.

The year's expenditure on research and development amounted to SEK 2,128 m. (1,792). During the year, Saab's

costs for developing the export version of the Gripen amounted to SEK 119 m. (63).

SEK m.	1998	1997
Military Aerospace	1,713	1,327
Space	171	171
Training Systems	69	94
Commercial Aircraft	49	5
Combitech	123	137
Regional Aircraft	3	58
Group	2,128	1,792
in percent of net sales	25.8	20.7

Of the year's expenditures for research and development, SEK 1,750 m. (1,355) relates to development paid by customers.

Auditors' fees

Auditors' fees for the Group in 1998 amounted to SEK 5.4 m. (4.6), of which Ernst & Young accounted for SEK 3.4 m. (2.9), KPMG Bohlins SEK 0.8 m. (0.7) and Price Waterhouse Coopers SEK 1.2 m. (1.0). Auditors' fees for 1998 include costs for special examination of two of the year's interim reports. Fees to auditors for other assignments amounted to SEK 0.7 m.

The new millennium

Extensive work has been in progress since autumn 1996 to safeguard the transition to the year 2000. The Board of Directors is currently informed about the work. This work is being carried out in project form led by project owners appointed by Group management. The projects are: IS/IT applications, IS/IT infrastructure, embedded software in the Group's products, and embedded software in plant and equipment. The time schedule is aimed at completing all the necessary preparations in good time before year-end 1999.

The Group's financial systems have been adapted to the new millennium.

The year's expenditures amounted to SEK 22 m. and remaining costs have been calculated at SEK 35 m. During the year, investments in plant and equipment amounted to SEK 2 m. and remaining investments are calculated at SEK 10 m. The total costs from the beginning of the project to its completion are estimated at SEK 61 m. and the total investments at SEK 12 m.

The Board of directors

During 1998, the Board had held six Board meetings. At the Annual General Meeting on April 27, Lars Westerberg left the Board and at an Extraordinary General Meeting on April 30, George W. Rose, William Anthony Rice and Kevin Smith were elected to the Board. On September 30, an Extraordinary General Meeting resolved to offer employees the chance to subscribe to convertible debentures in Saab AB.

During the year, the Board has paid special attention to the following issues:

- Listing of Saab on the Stock Exchange
- Exports of the Gripen
- Collaboration with British Aerospace
- Development of the European aerospace industry
- Business development of the Group
- The new millennium
- Follow-up of the decision in December 1997 to phase out Regional Aircraft
- Leasing portfolio of Saab 340 and Saab 2000 aircraft

At a Board meeting in December, the Board established a formal procedure for its work and instructions for distributing work between the Board and the President.

Consequences of the EMU for Group exposure

The EMU will lead to major structural changes, particularly in the financial sphere. Within the EMU, the exchange rate risk for member countries will be eliminated, thereby making it unnecessary to manage exchange rate risks in connection with investments, offers and transactions. In the case of the Saab Group, the exchange rate risk will however remain, since the Swedish krona is floating against the Euro and other currencies.

For the Saab Group, the introduction of the Euro will reduce exposure to a smaller number of currencies. The Group's exposure to the Euro is relatively low. The international aviation industry will continue to be dominated by trade in USD, which is the principal currency for the Group.

The Group's EMU policy means that new contracts will be written in Euros instead of the national currencies. The introduction of the Euro will, however, have no effect on the Group's preferences regarding invoicing currencies since the USD and SEK are the Group's principal currencies for this purpose. The Saab Group will successively replace transactions in national currencies with the Euro. For Saab AB and its Swedish subsidiaries, the accounting currency will be the SEK as long as Sweden remains outside the EMU.

Environment

Saab AB carries on industrial operations which must be notified to the authorities and licensed in compliance with the Environmental Protection Act (from 1999 the Environment Act). These requirements apply to surface treatment, handling of chemicals, airport operation and factory size. The environmental impact of the operations requiring a license consists primarily of emissions to the atmosphere and water, and the generation of waste and noise. During 1998, the various operations have been carried on in accordance with applicable licenses and conditions. The manufacturing operations are dominated by the portion subject to licensing.

Aircraft manufacture by Saab AB in Linköping is the only operation subject to licensing by the Licensing Board for

Environmental Protection, i.e. the Environmental Court from 1999.

The Regional Aircraft operation in Malmö, which has been subject to environmental licensing by the County Administration, will be discontinued at mid-year 1999 when regional aircraft are no longer produced.

The operation conducted by Ericsson Saab Avionics in Jönköping has been examined by the County Administration regarding exemption from the obligation to seek licensing according to the Environmental Protection Act. However, with the introduction of the new Environment Act the operation will become subject to licensing or notification. The issue is currently being discussed with the County Administration.

Saab Ericsson Space (Gothenburg), Saab Combitech (Jönköping), Regional Aircraft (Arlanda) and Saab Marine Electronics (Gothenburg) have notified their operations in accordance with the Environment Act.

Saab has no ongoing disputes in the environmental field. Neither are there any orders from authorities concerning Saab's actions in environmental issues or its handling of chemicals. All units have a good standard of cooperation with the authorities involved.

The description of operations provides a detailed account of Saab's environmental influence, the company's environmental management issues and its work in this field.

Personnel

At year-end 1998, the Group had a total of 7,891 (8,110) employees.

Number	1998	1997	Change
Military Aerospace	3,991	3,879	112
Space	600	575	25
Training Systems	257	258	-1
Commercial Aircraft	1,575	1,439	136
Combitech	858	878	-20
Regional Aircraft	610	1,081	-471
Group	7,891	8,110	-219

Parent company

Sales of the parent company amounted to SEK 6,857 m. (6,845). Operating income amounted to SEK 677 m. (-3,682), of which phasing-out costs for Regional Aircraft in 1997 accounted for SEK 4,079 m.

Net financial income and expenses amounted to SEK 798 m. (637) and income after financial income and expenses was SEK 1,475 m. (-3,045). Of the financial net SEK 549 m. (239) are Group contributions and dividends.

After appropriations of SEK -79 m. (43) and paid and deferred tax of SEK -319 m. (1,205), net income for the year amounted to SEK 1,077 m. (-1,797).

The operations within Regional Aircraft are, as earlier, conducted on commission on behalf of Saab AB.

Proposed disposition of earnings

As shown in the consolidated balance sheet, unappropriated earnings of the Group amount to SEK 361 m. (-444), of which SEK 912 m. (-3,790) is income for the year. Allocations to restricted reserves are required in the parent company for SEK 71 m.

The Board of Directors and the President propose that the unappropriated earnings at the disposal of the Annual General Meeting in the Parent Company, amounting to:

SEK m.	
Unappropriated earnings carried forward	-228
Income for the year	1,077
Total	849

be disposed as follows:

Allocation to reserve fund	71
Dividend, SEK 2.00 per share	213
To be retained in the business	565
Total	849

After the proposed disposition, shareholders' equity in the parent company will be as follows:

SEK m.	
Capital stock	1,703
Premium reserve	21
Revaluation reserve	500
Legal reserve	320
Unappropriated earnings	565
Total	3,109

The company's policy is to issue a dividend of 20-40 percent of income for the year. The Board and President propose that SEK 213 m., or SEK 2.00 per share, corresponding to 28 percent of the Group's income for the year, excluding effects of reversal of structural reserves, be issued as dividend. Effects of the reversal of structural reserves will contribute to a more rapid consolidation of the Saab Group, where the long-term goal is to achieve an equity/assets ratio of at least 30 percent. Equity/assets ratio of the Saab Group, excluding Regional Aircraft and *Saab Aircraft Leasing*, is currently 26.5 percent and after the proposed disposition of earnings equity/assets ratio will be 25.4 percent.

For the income and financial position of the Group and Parent Company, see the following income statements and balance sheets, including notes with comments.

FINANCIAL STATEMENTS

Income Statement of the Saab Group

SEK m.	Note	1998	1997
Sales	3	8,248	8,674
Cost of goods sold		-6,105	-6,400
Gross margin		2,143	2,274
Marketing expenses		-795	-824
Administrative expenses		-532	-622
Research and development costs		-378	-495
Items affecting comparability	4	200	-5,421
Other operating income	5	206	133
Other operating expenses	6	-34	-364
Share in income of associated companies		65	3
Operating income	9	875	-5,316
Result from financial investments			
Other interest income and similar profit/loss items	10	492	571
Interest expense and similar profit/loss items	11	-149	-100
Income after financial items		1,218	-4,845
Taxes	13	-279	1,075
Minority interest		-27	-20
Net income for the year		912	-3,790

Sales and income per quarter

SEK m., unless otherwise stated	1998				1997			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales								
Saab	1,817	1,856	1,359	2,507	1,586	2,021	1,257	2,515
Regional Aircraft	572	743	377	1,006	770	1,067	375	310
Internal sales	-572	-495	-369	-553	-360	-447	-68	-352
	1,817	2,104	1,367	2,960	1,996	2,641	1,564	2,473
Operating income								
Saab	281	63	56	175	37	31	75	414
Decrease loss risk reserve	0	0	0	100	0	75	75	163
Regional Aircraft	0	0	0	0	-134	18	-144	-293
Saab Aircraft Leasing	0	0	0	0	-31	-34	24	-171
Items affecting comparability	0	0	0	200	0	0	0	-5,421
	281	63	56	475	-128	90	30	-5,308
Operating margin for Saab excl decrease loss risk reserve								
before depreciation, percent	19.8	7.6	9.9	10.9	7.6	7.5	12.3	21.4
after depreciation, percent	15.5	3.4	4.1	7.0	2.3	1.5	6.0	16.5
Net financial income	68	63	84	128	104	111	129	127
Income after financial income and expenses	349	126	140	603	-24	201	159	-5,181
Net income	245	87	95	485	-27	146	113	-4,022
Earnings per share, SEK ¹	2.30	0.81	0.90	4.54				

¹Number of shares 106,459,675

Balance Sheet of the Saab Group

SEK m.	Note	1998	1997
ASSETS			
Fixed assets			
Intangible fixed assets			
Other intangible fixed assets	15	108	122
Goodwill	16		12
		108	134
Tangible fixed assets			
Land and buildings	17	1,715	1,695
Plant and machinery	18	564	667
Equipment, tools, fixtures and fittings	19	250	173
Lease assets	20	8,664	6,919
Construction in progress and advance payments for tangible fixed assets	21	91	48
		11,284	9,502
Financial fixed assets			
Participations in associated companies	24	79	30
Other securities held as fixed assets	25	24	36
Other long-term receivables	26	721	532
Deferred tax receivables	27	734	866
		1,558	1,464
Total fixed assets		12,950	11,100
Current assets			
Inventories etc.			
Raw materials and consumables		974	977
Work in progress		2,591	3,250
Finished products and goods for resale		624	529
Advance payments to suppliers		96	240
		4,285	4,996
Current receivables			
Accounts receivable		1,017	692
Receivables from Group companies			9,104
Receivables from associated companies		151	445
Other receivables		216	212
Prepaid expenses and accrued income	28	223	223
		1,607	10,676
Short-term investments	29	12,435	5,672
Cash and bank		511	336
Total current assets		18,838	21,680
Total assets		31,788	32,780

Balance Sheet of the Saab Group cont.

SEK m.	Note	1998	1997
EQUITY AND LIABILITIES			
Equity	30		
Restricted equity			
Capital stock (106.459.675 shares with a par value of SEK 16 each)		1,703	1,703
Restricted reserves		1,969	1,832
		<u>3,672</u>	<u>3,535</u>
Unrestricted equity			
Profit or loss brought forward		-551	3,346
Net income for the year		912	-3,790
		<u>361</u>	<u>-444</u>
		4,033	3,091
Minority interest in subsidiaries		92	158
Provisions			
Provisions for pensions and similar commitments	32	1,948	2,243
Other provisions	33	6,226	6,868
		<u>8,174</u>	<u>9,111</u>
Long-term liabilities			
Other liabilities to credit institutions	34	17	30
Convertible debenture loan	35	210	
Lease obligations		4,618	4,922
Other long-term liabilities	36	995	760
		<u>5,840</u>	<u>5,712</u>
Current liabilities			
Liabilities to credit institutions	37	52	918
Advance payments from customers		6,989	7,538
Accounts payable		843	840
Liabilities to associated companies		60	69
Income tax liability		479	383
Other liabilities	38	468	357
Lease obligations		335	285
Accrued expenses and deferred income	39	4,423	4,318
		<u>13,649</u>	<u>14,708</u>
Total equity and liabilities		<u>31,788</u>	<u>32,780</u>

Pledged assets and contingent liabilities of the Saab Group

SEK m.	Note	1998	1997
Assets pledged	40		
For own liabilities and provisions			
Property mortgages		388	
Chattel mortgages		2,147	2,147
Lease assets ¹⁾		2,389	2,551
Other long-term receivables		571	393
Accrued income		61	61
Bonds and securities		5,280	5,520
Total assets pledged		10,836	10,672
Contingent liabilities			
Guarantees to the insurance company Pensionsgaranti (FPG)		35	41
Sureties for associated companies		8	5
Sureties ²⁾		5,271	6,381
Less amount shown as liability in the balance sheet ³⁾		-3,212	-3,363
Total contingent liabilities		2,102	3,064

¹⁾ In addition to the above lease assets pledged, the balance sheet contains assets reported in accordance with finance lease contracts. See note 20.

²⁾ Of this amount, USD 609 m. (744) comprises guarantees for sureties of lease agreements related to 167 (175) Saab 340 and Saab 2000 aircraft.

³⁾ Of the above sureties in the parent company, 46 aircraft (52) equivalent to USD 239 m. (251) have been accounted for as lease assets in the Group. In the balance sheet, USD 198 m. (211) has been accounted for as liability related to a provision for future deficits according to valid leasing contracts.

Statement of Cash Flows of the Saab Group

SEK m.	1998	1997
Cash flows from operating activities		
Operating income	875	-5,316
Adjustments for items not affecting cash flow		
Depreciation and write-down	773	789
Items affecting comparability	-200	5,421
Share in income of associated companies	-65	-3
Total	1,383	891
Financial income	492	571
Dividend from associated companies	1	1
Financial expenses	-149	-100
Tax paid	-95	-287
Cash flow from operating activities before changes in working capital	1,632	1,076
Change in working capital		
Decrease in inventories etc.	711	-31
Increase in current receivables	-35	-173
Decrease in advance payments	-549	-479
Increase in current liabilities	306	-139
Increase in other long-term liabilities	235	334
Decrease in lease obligations	-254	-534
Decrease in provisions	-442	-402
Change in working capital	-28	-1,424
Cash flow from operating activities	1,604	-348
Cash flow from investments		
Investments in intangible fixed assets	12	-117
Investments in tangible fixed assets	-357	-376
Investments in lease assets	-2,184	-1,365
Investments in financial fixed assets	9	-22
Increase in long-term receivables	-189	-1
Cash flow from investments	-2,709	-1,881
Operating cash flow	-1,105	-2,229
Other items		
Minority interest in subsidiaries	-93	-5
Deferred tax	-35	
Translation differences	31	85
Total	-97	80
Decrease in net liquidity	-1,202	-2,149
Financing		
Raised loans	210	630
Amortization of liabilities	-879	-29
Decrease in provisions for pensions	-295	82
Cash flow from financing	-964	683
Decrease in cash and bank, short-term investments, receivables from Group companies	-2,166	-1,466
Cash and bank, short-term investments, receivables from Group companies at the beginning of the year	15,112	16,578
Cash and bank, short-term investments, receivables from Group companies at year-end	12,946	15,112

Parent Company Income Statement

SEK m.	Note	1998	1997
Sales	3	6,857	6,845
Costs of goods sold		-5,582	-5,593
Gross margin		1,275	1,252
Marketing expenses		-409	-415
Administrative expenses		-352	-430
Research and development costs		-132	-126
Items affecting comparability	4	200	-4,079
Other operating income	5	146	130
Other operating expenses	5	-51	-14
Operating income		677	-3,682
Result from financial investments			
Result from other securities and receivables accounted for as fixed assets		70	
Group contributions received		549	261
Other interest income and similar profit/loss items	10	385	518
Interest expense and similar profit/loss items	11	-206	-142
Income after financial items		1,475	-3,045
Appropriations	12	-79	43
Income before tax		1,396	-3,002
Tax	13	-319	1,205
Net income for the year		1,077	-1,797

Parent Company Balance Sheet

SEK m.	Note	1998	1997
ASSETS			
Fixed assets			
Tangible fixed assets			
Land and buildings	17	1,253	1,285
Plant and machinery	18	308	309
Equipment, tools, fixtures and fittings	19	132	113
Construction in progress and advance payments for tangible fixed assets	21	23	17
		<u>1,716</u>	<u>1,724</u>
Financial fixed assets			
Participations in Group companies	22	2,374	2,414
Receivables from Group companies	23	162	140
Participations in associated companies	24	17	16
Other securities held as fixed assets	25	7	6
Deferred tax receivables	27	1,414	1,545
		<u>3,974</u>	<u>4,121</u>
Total fixed assets		5,690	5,845
Current assets			
Inventories etc.			
Raw materials and consumables		774	812
Work in progress		1,936	2,652
Finished products and goods for resale		273	220
Advance payments to suppliers		82	214
		<u>3,065</u>	<u>3,898</u>
Current receivables			
Accounts receivable		333	44
Receivables from Group companies		981	9,591
Receivables from associated companies		134	425
Other receivables		142	154
Prepaid expenses and accrued income	28	54	22
		<u>1,644</u>	<u>10,236</u>
Short-term investments	29	12,410	5,672
Cash and bank		325	86
Total current assets		17,444	19,892
Total assets		23,134	25,737

Parent Company Balance Sheet cont.

SEK m.	Note	1998	1997
EQUITY AND LIABILITIES			
Equity	30		
Restricted equity			
Capital stock			
(106.459.675 shares with a par value of SEK 16 each)		1,703	1,703
Share premium reserve		21	
Revaluation reserve		500	500
Legal reserve		249	368
		<u>2,473</u>	<u>2,571</u>
Unrestricted equity			
Profit or loss brought forward		-228	2,183
Net income for the year		1,077	-2,302
		<u>849</u>	<u>-119</u>
		3,322	2,452
Untaxed reserve			
Accumulated excess depreciation	31	510	523
Tax allocation reserve		56	
		<u>566</u>	<u>523</u>
Provisions			
Provisions for pensions and similar commitments	32	1,574	1,648
Other provisions	33	3,412	4,079
		<u>4,986</u>	<u>5,727</u>
Long-term liabilities			
Liabilities to group companies		2,031	3,547
Convertible debenture loan	35	233	
		<u>2,264</u>	<u>3,547</u>
Current liabilities			
Liabilities to credit institutions	37	15	984
Advance payments from customers		6,115	6,373
Accounts payable		562	581
Liabilities to Group companies		2,823	3,364
Liabilities to associated companies		47	64
Income tax liability		454	399
Other liabilities	38	300	152
Accrued expenses and deferred income	39	1,680	1,571
		<u>11,996</u>	<u>13,488</u>
Total equity and liabilities		<u>23,134</u>	<u>25,737</u>

Pledged assets and contingent liabilities of the Parent Company

SEK m.	Note	1998	1997
Assets pledged	40		
For own liabilities and provisions			
Property mortgages		388	
Chattel mortgages		2,101	2,101
Bonds and securities		5,280	5,520
Total assets pledged		7,769	7,621
Contingent liabilities			
Guarantees to the insurance company Pensionsgaranti (FPG)		27	30
Sureties for group companies		3,143	4,381
Sureties for others		2,732	2,651
Sureties for associated companies		8	5
Total contingent liabilities		5,910	7,067

Statement of cash flows of the Parent Company

SEK m.	1998	1997
Cash flows from operating activities		
Operating income	677	-3,682
Adjustments for items not affecting cash flow		
Depreciation	159	143
Items affecting comparability	-200	4,079
Total	636	540
Financial income	1,003	778
Dividend from associated companies	1	1
Financial expenses	-206	-142
Tax paid	-73	-216
Cash flow from operating activities before changes in working capital	1,361	961
Change in working capital		
Decrease in inventories etc.	833	105
Increase in current receivables	-18	-63
Decrease in advance payments	-258	-486
Increase in current liabilities	276	-378
Decrease in provisions	-467	
Change in working capital	366	-822
Cash flow from operating activities	1,727	139
Cash flow from investments		
Investments in tangible fixed assets	-151	-447
Investments in financial fixed assets	39	-1,704
Cash flow from investments	-112	-2,151
Operating cash flow	1,615	-2,012
Other items		
Transferred untaxed reserves etc.		295
Change in equity	-17	
Group contribution given	-342	-701
Increase in net liquidity	1,256	-2,418
Financing		
Raised loans	233	725
Amortization of liabilities	-969	
Decrease in provisions for pensions	-74	169
Cash flow from financing	-810	894
Increase in cash and bank, short-term investments, receivables/liabilities from Group companies		
Cash and bank, short-term investments, receivables from Group companies at the beginning of the year	446	-1,524
	8,578	10,102
Cash and bank, short-term investments, receivables/liabilities from Group companies at year-end	9,024	8,578

NOTES

with accounting principles and comments on the financial statements

Amounts in SEK m. unless otherwise stated.

Unchanged accounting principles

In comparison to the previous year, the accounting principles are unchanged.

General accounting principles

From and including 1997, the company is implementing the new legislation and guidelines on annual accounts which are adapted to the requirements of the EU. This entails changes in the layout of the income statement and balance sheet. The income statements and balance sheets for comparative years have been adapted to the new rules. The new rules have had only an insignificant influence on the company's valuation principles. The company follows the recommendations of the Swedish Financial Accounting Standards Council (Redovisningsrådet) and the Swedish Accounting Standards Board (Bokföringsnämnden).

In conformance with the legislation on annual accounts, the income statement is classified according to function, pursuant to internal reporting.

The functions are as follows: *Cost of goods sold* comprises costs for goods handling and manufacturing, including salaries and material costs, purchased services and costs of premises, and depreciation on fixed assets. *Administrative expenses* relate to costs for the Board, company management and corporate staff functions. *Marketing expenses* comprise costs for the company's own sales organization, including sales subsidiaries, advertising and exhibitions. *Research and development costs* are reported separately and comprise costs for new and further development of products, see below. *Other operating income and expenses* relate to secondary activities, exchange rate differences on items of an operating character and capital gains/losses from sales of tangible fixed assets. Utilization of provision for covering the loss in *Customer Support* is included in other operating income. Income from the *SAL* operation and at Group level also capital gains/losses from divestment of subsidiaries and goodwill depreciation are also included.

Consolidated accounts statements

The consolidated accounts comprise the Parent Company and all subsidiaries and associated companies in Sweden and abroad. Subsidiaries are companies in which the Parent Company directly or indirectly owns more than 50 percent of the voting rights of the shares, and companies where the Parent Company owns shares and is entitled to appoint or dismiss more than half the members of the board or where the Parent Company otherwise has a decisive influence and a significant share in the income generated from their operations. Associated companies are companies in which the Parent Company directly or indirectly has a long-term ownership interest and where the voting rights are between 20 and 50 percent.

The consolidated statements are prepared in accordance with the purchase method of accounting. This means that a

subsidiary's assets and liabilities are accounted for at market value according to an analysis of the acquisition. If the acquisition value of the shares in the subsidiary exceeds the estimated market value of the company's net assets, after analysis, the difference is considered Group goodwill.

Associated companies are accounted for in accordance with the equity accounting method. This means that the book value of the shares and participations in associated companies is valued in the consolidated balance sheet at the Group's share in the equity of the associated companies. Thus, consolidated income includes only Saab's share in the income of the associated companies, provided this does not result in a negative book value of the shares.

Minority interest comprises the minority share in net income and shareholders' equity.

Companies acquired during the year are included in consolidated income for the period following their acquisition. Income of companies sold during the year is not included in consolidated income.

Intra-Group profits and transactions are eliminated. Prices of internal Group supplies of goods are determined by applying commercial principles and market prices.

Foreign subsidiaries and associated companies

The financial statements of foreign subsidiaries and associated companies are translated to SEK using the current rate method.

With the current rate method, assets and liabilities are translated at the year-end exchange rate, while income and expenses are translated at the average exchange rate for the year. The translation difference that arises when translating the net assets of foreign companies at a different rate at the beginning of the year than at year end is reported directly in shareholders' equity in the balance sheet.

Valuation principles, etc.

Assets, provisions and liabilities have been valued at the purchase value unless otherwise stated in the following.

Sales and income

Sales and income are reported at delivery of products, and services at the time the majority of risks and rights are transferred to the purchaser.

For long-term development contracts, revenue is recognized in pace with completion according to the "Percentage of completion" method. From the calculated total revenue for a project, a deduction is made during the respective period in an amount corresponding to the incurred costs as a proportion of the calculated total costs at the end of the period. In lengthy delivery contracts for military aircraft, revenue is recognized in pace with deliveries. Changes in anticipated total revenues and costs per contract are reported in the same period as they are noticed.

Depreciation principles for fixed assets

Depreciation according to plan is based on the historical cost and estimated useful life of an asset. Write-down is applied in the case of a permanent fall in value.

The following depreciation plan is used:

Intangible fixed assets

Capitalized expenditure on R&D, etc.	5 years
Computer software, non-standard	5 years
Goodwill and other intangible assets	5–10 years

Tangible assets

Property	25 years
Aircraft	25 years
Revaluation of property	20 years
Land improvements	20 years
Machines and other technical installations	5–10 years
Computers, equipment, tools and installations	3–10 years

The difference between the above depreciations and fiscal depreciations is, in legal entities, reported as accumulated excess depreciation, which is included in untaxed reserves.

Gross margin

For orders whose manufacturing cost is financed to a significant extent by advances from customers, the effect of advance-payment financing on interest is reported in gross margin. See Note 10.

Research and development expenditures

The Group's definition of expenditures for research and development conforms with that used by Statistics Sweden.

Expenditures on internal research and development are normally booked as costs when they are incurred. Only development costs directly attributable to completely new and important products for the Group are capitalized. Such capitalized costs are amortized annually with a minimum of 20 percent. No development costs carried forward remain on the Group's balance sheet.

For the development and manufacture of the Saab 340 and Saab 2000 commercial aircraft, Saab AB and the Swedish Government have reached special agreements whereby the Government participates in the projects on commercial terms. Saab has received a total of SEK 1,476 m. for the years 1980–94. The amounts received have been reported as income at the same rate as expenditures were incurred for the projects. According to the agreements, compensation for the Government's risk-taking was to be paid by Saab in the form of royalties based on the projects' revenues and income. In a supplementary agreement between Saab and the Swedish Government signed in December 1997, payment to the Government will instead be based on income from the customer support operation after production has been terminated.

Guarantee costs

Calculated costs for product guarantees are accounted for in connection with sales of a product.

Items affecting comparability

Recommendation No. 4 of the Swedish Financial Accounting Standards Council implies that the effects on income of special events and transactions of significance are specified within the respective income concept. Examples of such events and transactions are capital gains/losses when divesting operating areas and major fixed assets, write-downs and restructuring costs.

Hedging commercial flows

Exchange differences on forward contracts related to contracted future currency flows are reported in the same period as the underlying flow.

Non-contracted flows concerning provisions for restructuring costs where settlement is made in foreign currency are hedged so that no exchange rate difference occurs upon settlement.

Inventories

In accordance with Recommendation No. 2 of the Swedish Financial Accounting Standards Council, the inventory is valued at the lower of acquisition value according to the first in, first out principle and actual value. For internally produced semi-manufactured and finished goods, the acquisition value consists of direct manufacturing costs and a reasonable markup for indirect manufacturing costs.

Receivables

After individual valuation, receivables have been valued in the amounts in which they are expected to be received.

Convertible debenture loan

During the fall of 1998, a convertible debenture loan to the Group's employees was issued. The loan bears interest below market interest, which means that the loan is a liability with implicit interest. The convertible debenture loan has been accounted for in accordance with Recommendation No 3 of the Swedish Financial Accounting Standards Council.

Leasing

Recommendation No. 6 of the Swedish Financial Accounting Standards Council implies a classification of the lease contracts into finance and operating categories.

A finance lease implies that the lessee, even if he does not receive the legal rights of ownership of an object, in all significant respects enjoys the financial rewards and accepts the risks associated with the object. Objects possessed in accordance with a finance lease are reported in the lessee's balance sheet as a fixed asset and the commitment to pay leasing charges in the future is reported as a liability. The lessor's

balance sheet reports his net investment in the lease contract, i.e. the present value of future leasing charges, as a receivable.

In an operating lease, the financial rewards and risks linked with ownership mainly affect the lessor, who reports the object as a fixed asset.

For anticipated or real deficits according to lease contracts related to aircraft finance operation carried on by *Saab Aircraft Leasing*, provisions are made with the discounted present value of the calculated deficit. Since the leasing portfolio is regarded as a financial asset which in principle must be divestable at a given point in time, a market valuation of the lease contracts is also made. Surpluses and deficits between lease contracts in the portfolio are thereby offset.

Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency have been valued at the year-end exchange rate. Exchange rate differences in short-term receivables and liabilities are included in operating income, while differences in financial receivables and liabilities are reported among financial items.

Receivables and liabilities hedged by forward contracts are valued at the current forward rate.

Receivables from Group companies

During 1998, short-term investments with Investor have carried interest corresponding to 3-month Treasury bills. 1997 opening balance of long-term receivables related to Group contributions received and shareholders' contribution from the former parent company, Saab-Scania AB. During 1997, no interest was received on these receivables. All receivables were settled at year-end.

Short-term investments

In accordance with the Annual Accounts Act, short-term investments are valued at the lower of acquisition value and actual value.

Taxes

Taxes as reported in the income statement consists of paid tax and deferred tax. Deferred tax represents the difference between fiscal valuation and the valuation in the accounts of assets and liabilities, but only if the difference is of a temporary nature. Deferred tax is also calculated on unutilized tax losses to be carried forward.

If the calculations result in a deferred tax receivable, this is only accounted for as an asset if it in all probability is expected to be realized.

Deferred tax is calculated in accordance with the latest decided tax rate.

The Company applies the Draft to recommendation about income taxes of the Swedish Financial Accounting Standards Council. For tax reasons, however, the recommendation has not been fully applied in the parent company.

Untaxed reserves

Tax regulations in Sweden and certain other countries permit allocations to special reserves. In this manner, companies, within certain limits, can apportion and retain earnings in their business without subjecting them to immediate taxation.

Untaxed reserves are not subject to taxation until they are utilized. However, in the event the business should incur a loss, the reserves, sometimes within certain limits, may be utilized to cover such a loss without the payment of tax. The total value of the untaxed reserves can therefore be considered risk capital, because any losses to a significant extent can be covered through use of the reserves.

In the Group's balance sheet, untaxed reserves are divided into shareholders' equity and the deferred tax liability. In the income statement, tax attributable to the year's change in untaxed reserves is reported as deferred tax.

Group information

Of the Parent Company's sales, 25 percent (17) concerned sales to companies within the Saab Group, while 9 percent (18) of the Parent Company's purchases were from subsidiaries.

Exchange rates for SEK used in the financial statements

Country	Currency		Year-end rate			Average rate		
			1998	1997	Change, in %	1998	1997	Change, in %
Australia	AUD	1	4.94	5.15	-4.1	5.01	5.68	-11.8
Austria	ATS	100	68.64	62.51	6.4	64.31	62.62	2.7
Belgium	BEF	100	23.41	21.36	9.6	21.93	21.36	2.7
Denmark	DKK	100	126.85	115.45	9.9	118.81	115.68	2.7
France	FRF	100	144.00	131.40	9.6	134.96	130.91	3.1
Germany	DEM	100	482.95	439.75	9.8	452.46	440.71	2.7
Japan	JPY	100	7.00	6.06	15.5	6.10	6.32	-3.5
The Netherlands	NLG	100	428.65	390.25	9.8	401.39	391.59	2.5
Spain	ESP	100	5.68	5.20	9.2	5.33	5.22	2.1
UK	GBP	1	13.52	13.12	3.0	13.17	12.50	5.4
USA	USD	1	8.07	7.87	2.5	7.95	7.64	4.1

Note 1 Employees and personnel costs

Average no. of employees in the Group

	of whom		of whom	
	1998	men	1997	men
Sweden	7,482	86%	7,439	84%
USA	114	75%	107	71%
Austria	109	82%	104	78%
Germany	11	91%	8	88%
UK	10	70%	44	92%
Canada	4	100%	3	100%
Malaysia	4	50%	4	50%
Australia	3	67%		
Chile	2	50%	1	100%
South Africa	2	50%		
Japan	1	100%		
France			3	100%
Hong Kong			2	100%
Hungary			1	100%
Saab Group	7,742	83%	7,716	84%

Average no. of employees in the Parent Company

	of whom		of whom	
	1998	men	1997	men
Sweden	5,266	84%	5,210	84%
UK			2	100%
Austria			1	100%
Hungary			1	100%
Chile			1	100%
France			1	100%
Total	5,266	84%	5,216	84%

Salaries, other emoluments and social security expenses

	1998		1997	
	Salaries and other emoluments	Social security expenses	Salaries and other emoluments	Social security expenses
Parent company	1,469	680	1,398	632
of which pension costs		128		112
Subsidiaries	882	370	868	360
of which pension costs		56		58
Saab Group	2,351	1,050	2,266	992
of which pension costs		184		170

Of the Parent Company's pension costs, SEK 6 m. (3) relates to the Board of Directors and the President including deputies and executive vice presidents. The company's outstanding pension commitments to these amount to SEK 110 m. (141), of which SEK 68 m. (107) relates to previous board members and previous managing directors, including deputies.

Of the Group's pension costs, SEK 11 m. (8) relates to the Boards of Directors and the Presidents, including deputies and executive vice presidents. The Group's outstanding pension commitments to these amount to SEK 116 m. (156), of which SEK 68 m. (116) relates to previous board members and previous managing directors, including deputies.

Salaries and other emoluments distributed per country and between Members of the Board etc. and other employees in the Group

	1998		1997	
	Board & President	Other employees	Board & President	Other employees
Sweden	29	2,182	30	2,087
(of which bonus, etc)	(3)		(2)	
USA	1	60	1	57
Austria	2	47	2	46
UK	3	12	4	30
Germany	1	5		3
Australia		2		
Hong Kong		1	1	
Canada		1		
Chile		1		1
Japan		1		
France		1		2
Malaysia	1	1	1	1
Total	37	2,314	39	2,227
(of which bonus, etc)	(3)		(2)	

Salaries and other emoluments distributed per country and between Members of the Board etc. and other employees in the Parent Company.

	1998		1997	
	Board & President	Other employees	Board & President	Other employees
Sweden	12	1,449	10	1,383
(of which bonus, etc)	(1)			
UK		4		3
Chile		1		1
France		1		1
Germany		1		
Austria		1		
Total	12	1,457	10	1,388
(of which bonus, etc)	(1)		(0)	

Note 2 Information on remuneration to leading company officials

In accordance with a resolution of the Shareholder's Meeting, the fees to the members of the Board amount to SEK 1,800,000, consisting of SEK 700,000 to the Chairman and SEK 275,000 to each of the other members of the Board elected by the Shareholders' Meeting, with the exception of the President. The Members of the Board nominated by BAe – Kevin Smith, Tony Rice and George Rose – all of whom are employees of BAe, have declined their Board fees with respect to the BAe company policy applied.

The President and CEO has received salary, bonus and other benefits totaling SEK 4,846,865.

In the event of termination of employment by the company, the President will receive a salary and pension benefits for a period of six months (period of notice). Subsequently, the President will receive a termination payment amounting to two years' salary, based on the current fixed salary. If the President has not entered alternative employment within 18 months, he will receive a further year's termination payment. Salary during the period of notice and termination payment will be deducted from income received from another employer during the same period.

The retirement age for the President is 60.

During 1998, the terms of employment for the President have been renegotiated with regard to pension rights. The conditions have been changed from an entirely benefit-based pension plan to a bonus-based plan. The pension cost for Saab AB consists of pension bonuses amounting to 35% of the fixed salary as long as the President remains an employee of the company. To this must be added the cost of pension bonuses according to the ITP plan. The new bonus-based pension plan implies a cost-saving for the company and at the same time a risk for the President since the plan is not benefit-based. In this connection, the new pension plan for the President has been complemented with a personal warrant program. At the beginning of 1999, the President was allocated 370,000 personal warrants in Saab AB. The warrants provide entitlement to the acquisition of existing Series B shares at a redemption price of SEK 94 per share and may be utilized during the period January 1, 2003 to December 31, 2005. The costs of the program will be hedged by forward agreements in the market.

In the case of other leading officials, the benefits according to the ITP plan are applicable after the age of 65. Subscribers to the ITP plan receive pension benefits based on salary segments between 30 and 50 base amounts, in addition to benefits based on salary segments between 20 and 30 base amounts.

Furthermore, certain leading officials are entitled, or obliged if the company so requests, to retire on pension at the age of 60, or in certain cases 62. The retirement pension up to the ordinary pension age of 65 is 70% of the salary at the time of retirement.

Certain other leading officials are covered by an earlier agreement on pensions according to a special pension regulation. The agreement implies an increased retirement pension and survivors' benefit of 20% of the salary at the retirement age of 65.

Note 3 Sales by business area and Group

	Group		Parent Company	
	1998	1997	1998	1997
Sales by business area				
Military Aerospace	4,572	4,480	3,752	3,901
Space	607	594		
Training Systems	621	668		
Commercial Aircraft	908	757	766	622
Combitech	1,057	1,073		
Less internal sales	-226	-193		
Saab	7,539	7,379	4,518	4,523
Regional Aircraft	2,698	2,522	2,698	2,522
Less internal sales	-1,989	-1,227	-359	-200
Total	8,248	8,674	6,857	6,845

Sales by market

Sweden	4,845	4,225	4,279	4,433
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Note 3, cont.

Other EU countries	1,301	1,437	159	305
Other European countries	470	534	331	391
North America	658	1,819	1,381	1,287
Asia	862	524	663	386
Australia, etc.	66	74	44	41
Other markets	46	61		2
Total	8,248	8,674	6,857	6,845

Note 4 Items affecting comparability

	Group		Parent Company	
	1998	1997	1998	1997
Termination costs				
regional aircraft production		-4,079		-4,079
Revaluation of leasing portfolio related to Regional Aircraft		-1,342		
Dissolve of termination reserve	200		200	
Total	200	-5,421	200	-4,079

Note 5 Other operating income

	Group		Parent Company	
	1998	1997	1998	1997
Capital gain from sale of subsidiary	75			
Utilization of reserve for Customer Support	60		60	
Exchange rate differences	10	69		41
Trading income	13	15	13	15
Income from secondary operations	14	31		
Guarantee fees			51	55
Others	34	18	22	19
Total	206	133	146	130

Note 6 Other operating expenses

	Group		Parent Company	
	1998	1997	1998	1997
Operating income, aircraft finance (see below)	0	-212		
Income from divestment of business		-148		
Exchange rate differences			-11	
Other	-34	-4	-40	-14
Total	-34	-364	-51	-14

Aircraft finance

Income statement Saab Aircraft Leasing	Group	
	1998	1997
Leasing revenue	1,672	1,554
Interest revenue	284	123
Other revenue	75	29
Total revenue	2,031	1,706
Leasing expenses	-724	-832
Interest expenses	-635	-537
Depreciation	-439	-383
Other expenses	-288	-166
Total expenses	-2,086	-1,918
Utilization of loss risk reserve	55	
Operating income	0	-212

Note 6, cont.**Balance sheet summary, Saab Aircraft Leasing**

	1998	1997
Assets		
Lease assets	8,664	6,919
Receivables, Group companies	1,527	3,466
Receivables	915	712
Liquid funds	3	7
Total assets	11,109	11,104
Equity and liabilities		
Equity	1,500	1,500
Provisions	3,174	3,149
Lease obligations ¹	4,898	5,207
Other liabilities	1,537	1,248
Total equity and liabilities	11,109	11,104

¹Of which long-term obligations 4,618 4,922

The income statement and balance sheet for SAL are mainly dollar-related since aircraft sales and leasing contracts are always made in USD. The conversion rates used in the financial statements are shown on page 80.

Note 7 Lease contracts**Operating lease contracts**

Outcome	Group	
	Premises and buildings	Machines and equipment
1997	51	35
1998	37	59

Contracted

1999	30	36
2000	18	28
2001	10	6
2002	7	
2003	4	
2004 –	6	
Total contracted	75	70

Outcome	Parent company	
	Premises and buildings	Machines and equipment
1997	14	18
1998	16	38

Contracted

1999	12	28
2000	6	24
2001	6	4
2002	3	
2003		
2004 –		
Total contracted	27	56

Outcome	Aircraft for lease	
	Payments to lessors	Payments from airlines
1997	839	668
1998	821	811

Contracted

1999	754	779
2000	735	683
2001	733	664

Note 7, cont.

2002	713	650
2003	662	603
2004 –	4,089	3,926
Total contracted	7,686	7,305

The above commitments relate to lease of Saab 340 aircraft placed with American investors and operators. The difference between incoming and outgoing payments is mainly due to the leasing period in the sublease contracts normally being shorter than in head lease contracts. As contracts are extended and new contracts signed, further payments are received from airlines in addition to the contracted flows shown in the table.

Finance lease contracts

	Aircraft for lease	
	1998	1997
Acquisition value	2,623	2,121
Accumulated depreciation	-661	-460
Residual value according to plan	1,962	1,661
Depreciation for the year	-135	-135
Leasing fees for the year	253	246
Contracted future leasing fees ¹	2,243	1,930

¹The above finance lease contracts relate to 40 (35) Saab 340 aircraft.

	1998	1997
USD m.	227	214
DEM m.	57	6
JPY m.	1,929	1,929

The amounts are hedged through deposits and/or other financial instruments in the respective currency.

Note 8 Depreciation on tangible and intangible fixed assets

	Group		Parent Company	
	1998	1997	1998	1997
Other intangible fixed assets	-14	-14		
Goodwill		-45		
Land and buildings	-60	-56	-38	-37
Plant and machinery	-201	-209	-100	-87
Equipment, tools, fixtures and fittings	-59	-42	-21	-19
Lease assets	-439	-383		
Total	-773	-749	-159	-143

Note 9 Operating income by business area

Operating income by business area	Group		Parent Company	
	1998	1997	1998	1997
Military Aerospace	528	586	408	577
Reversal of loss risk reserve	100	313	100	313
Space	59	47		
Training Systems	167	156		
Commercial Aircraft	-15	3	-15	3
Combitech	-166	-338		
Corporate	2	103	-16	57
Saab	675	870	477	950
Regional Aircraft	0	-553		-553
Saab Aircraft Leasing	0	-212		
Items affecting comparability	200	-5,421	200	-4,079
Total	875	-5,316	677	-3,682

Note 10 Other interest income and similar profit/loss items

	Group		Parent Company	
	1998	1997	1998	1997
Interest income, Group companies		278	15	355
Interest income, other	754	536	633	404
Dividends from others	1	6		
Less project interest, accounted for as gross margin	-263	-249	-263	-241
Total	492	571	385	518

Note 11 Interest expense and similar profit/loss items

	Group		Parent Company	
	1998	1997	1998	1997
Interest expenses, Group companies			-26	-5
Interest expenses, convertible debenture loan	-1		-1	
Interest expenses, others	-54	-24	-49	-20
Interest on pension debt	-94	-76	-68	-54
Write-down of participations in Group companies			-62	-59
Other				-4
Total	-149	-100	-206	-142

Note 12 Appropriations, other

	Parent Company	
	1998	1997
Difference between book depreciation and depreciation according to plan		
Land and buildings	-12	24
Plant and machinery	-11	19
Tax allocation reserve	-56	
Total	-79	43

Note 13 Taxes

	Group		Parent Company	
	1998	1997	1998	1997
Current tax expense	-114	-287	-73	-216
Deferred tax	-165	1,362	-150	1,617
Tax related to Group contribution given			-96	-196
Total	-279	1,075	-319	1,205

The difference between the Swedish income tax rate and the Group's effective tax rate appears in the following table.

Percent	1998
Swedish income tax rate	28
Utilized loss carry-forward	-7
Non-deductible expenses	6
Non-taxable income	-4
Group tax rate	23

Note 14 Capitalized expenditure for research and development and similar

	Group		Parent Company	
	1998	1997	1998	1997
Accumulated acquisition value				
At beginning of year	40	1,070	0	1,030
Sales and disposals	0	-1,030		-1,030
Total	40	40	0	0

Accumulated depreciation				
At beginning of year		-446	0	-446
Sales and disposals		446		446
Total	0	0	0	0

Accumulated write downs				
At beginning of year	-40	-584	0	-584
Sales and disposals		584		584
Write-downs for the year		-40		
Total	-40	-40	0	0
Residual value according to plan carried forward	0	0	0	0

Note 15 Other intangible fixed assets

	Group		Parent Company	
	1998	1997	1998	1997
Accumulated acquisition value				
At beginning of year	136	0		
Purchases	0	136		
Total	136	136		

Accumulated depreciation				
At beginning of year	-14			
Depreciation for the year	-14	-14		
Total	-28	-14	0	0
Residual value according to plan carried forward	108	122	0	0

Note 16 Goodwill

	Group	
	1998	1997
Accumulated acquisition value		
At beginning of year	39	146
Sales and disposals of business operations	-39	-107
Total	0	39

Accumulated depreciation		
At beginning of year	-18	-27
Sales and disposals of business operations	18	54
Depreciation for the year		-45
Total	0	-18

Accumulated write-downs		
At beginning of year	-9	-43
Sales and disposals of business operation	9	34
Total	0	-9
Residual value according to plan carried forwards	0	12

Note 17 Land and buildings

	Group		Parent Company	
	1998	1997	1998	1997
Accumulated acquisition value				
At beginning of year	1,576	1,504	1,043	523
Purchases	117	75	43	² 523
Sales and disposals	-2	-3	-2	-3
Total	1,691	1,576	1,084	1,043
Accumulated depreciation				
At beginning of year	-591	-537	-468	-254
Sales and disposals	1	2	1	2
Acquired depreciation				² -179
Depreciation for the year	-60	-56	-38	-37
Total	-650	-591	-505	-468
Accumulated net revaluation				
At beginning of year	710	17	710	17
Depreciation for the year	-36		-36	
Revaluations for the year		695		695
Write-downs for the year		-2		-2
Total	674	710	674	710
Residual value according to plan carried forward	1,715	1,695	1,253	1,285
Tax assessment value, buildings (Sweden)	801	831	536	597
Tax assessment value, land (Sweden)	223	218	184	179
¹ Acquisition value includes capitalized interest of	11	11		

No property is possessed via finance lease contracts

²Of which acquired from subsidiaries SEK 516 m. and SEK 179 m.

Note 18 Plant and machinery

	Group		Parent Company	
	1998	1997	1998	1997
Accumulated acquisition value				
At beginning of year	2,031	2,008	1,103	1,063
Purchases	195	267	102	121
Sales and disposals	-333	-244	-149	-81
Total	1,893	2,031	1,056	1,103
Accumulated depreciation				
At beginning of year	-1,364	-1,343	-794	-775
Sales and disposals	236	188	146	68
Depreciation for the year	-201	-209	-100	-87
Total	-1,329	-1,364	-748	-794
Residual value according to plan carried forward	564	667	308	309
Assets possessed via finance lease contracts		none		
Calculated acquisition value of the assets	60			
Leasing fees paid during the fiscal year	13			
Contracted future leasing fees	59			

Note 19 Equipment, tools, fixtures and fittings

	Group		Parent Company	
	1998	1997	1998	1997
Accumulated acquisition value				
At beginning of year	957	950	788	890
Purchases	153	67	43	27
Sales and disposals	-96	-60	-60	-129
Total	1,014	957	771	788
Accumulated depreciation				
At beginning of year	-784	-788	-675	-739
Sales and disposals	79	46	57	83
Depreciation for the year	-59	-42	-21	-19
Total	-764	-784	-639	-675
Residual value according to plan carried forward	250	173	132	113
No assets are possessed via finance lease contracts				

Note 20 Lease assets

	Group		Parent Company	
	1998	1997	1998	1997
Accumulated acquisition value				
At beginning of year	8,626	7,374		
Purchases	2,132	2,324		
Sales and disposals	-77	-1,072		
Total	10,681	8,626	0	0
Accumulated depreciation				
At beginning of year	-1,707	-1,437		
Sales and disposals	129	113		
Depreciation for the year	-439	-383		
Total	-2,017	-1,707	0	0
Residual value according to plan carried forward	8,664	6,919	0	0
Assets possessed via finance lease contracts				
Calculated acquisition value of the assets	2,623	2,121		
Leasing fees paid during the fiscal year	253	246		
Contracted future leasing fees	2,243	1,930		

Note 21 Construction in progress and advance payments for tangible fixed assets

	Group		Parent Company	
	1998	1997	1998	1997
At beginning of year	48	9	17	
Reclassified expenditure for material and own work	-13	-9	-13	
Accrued expenses during the year	56	48	19	17
At year-end	91	48	23	17

Note 22 Participations in Group companies

	Parent Company	
	1998	1997
Accumulated acquisition values		
At beginning of year	2,473	726
New issues/shareholders' contribution	47	1,500
Purchases		247
Sales	-25	
Total	2,495	2,473
Accumulated write-downs		
At beginning of year	-59	
Write-downs for the year	-62	-59
Total	-121	-59
Book value at year-end	2,374	2,414

Specification of Parent Company's participations in Group companies

No. of Subsidiary/Corp. ID no/Reg. Office	Share in %	Book value
Saab Dynamics AB, 556055-9691, Linköping	100,000	100
Saab Survey Systems AB, 556258-8854, Jönköping	1,000	20.0
Saab Training Systems AB, 556030-2746, Huskvarna	150,000	100.0
Saab Training Systems GmbH, Germany	4,000	100.0
Saab Training Systems UK Ltd, England	100,000	100.0
Saab Training Inc., USA	200	100.0
Saab Aircraft AB, 556062-7647, Linköping	100,000	100.0
Saab Combitech AB, 556108-8799, Jönköping	500,000	100.0
Combitech Traffic Systems AB, 556042-6289, Jönköping	80,000	100.0
Combitech Traffic Systems (H.K.) Ltd, Hong Kong	98	98.0
Combitech Traffic Systems Australia P/L, Australia	10	100.0
Combitech Traffic Systems Sdn Bhd, Malaysia	-	60.0
Combitech Electronics AB, 556258-7930, Jönköping	5,000	100.0
Saab Marine Electronics AB, 556043-5124, Göteborg	15,000	100.0
Saab Marine (UK) Ltd., England	1	80.0
Saab Tank Control Vertriebs GmbH, Germany	1	100.0
Saab Marine RU, Russia	1	54.0
Combitech Innovation AB, 556055-1342, Jönköping	4,000	100.0
Combitech Software AB, 556258-8862, Jönköping	3,250	65.0
Combitech Network AB, 556261-3942, Jönköping	8,000	100.0
Combitech Network Norge AS, Norway	1,000	100.0
Saab Far East Sdn Bhd, Malaysia	100,000	100.0
Pronesto AB, 556112-6755, Stockholm	20,000	100.0
Fastighets AB Strömögatan 3, 556258-8870, Jönköping	1,000	100.0
Fastighets AB Bataljonsgatan, 556378-6267, Jönköping	2,000	100.0
Gårb Teknik AB, 556226-6899, Linköping	1,000	100.0
Saab Ericsson Space AB, 556134-2204, Göteborg	90,000	60.0
Saab Ericsson Space Fastighets AB, 556230-7404, Göteborg	1,000	100.0
Saab Ericsson Space Inc., USA	1,000	100.0
Austrian Aerospace GmbH, Austria		77.5
Saab Survey Systems AB, 556258-8854, Jönköping	7,000	70.0
Saab Systems Inc., USA	300,000	100.0
Saab Holdings U.S. Inc., USA	1,000	100.0
Saab Aircraft of America Inc., USA	1,001,000	100.0
Saab Aircraft Holdings Inc., USA	100	100.0
Saab Aircraft Ltd., England	100	100.0
Saab Aircraft International Ltd., England	100,000	100.0
Saab Aircraft Leasing Ltd., England	1,000	100.0
Saab Aircraft Leasing AB, 556020-4231, Stockholm	11,000	100.0
Fairbrook Inc., USA	100	100.0
Fairbrook Leasing Inc., USA	100	100.0
Lambert Leasing Inc., USA	100	100.0
Saab Aircraft Leasing Inc., USA	100	100.0
Saab Aircraft Financing Inc., USA	10	100.0
Saab Finance Inc., USA	100	100.0
Aero Three AB, 556258-8920, Linköping	1,000	100.0
2000 Aircraft Credit AB, 556464-6031, Stockholm	787,000	100.0
Swedish Aircraft Two KB, 916691-8194, Linköping		50.3
Swedish Aircraft Three KB, 916694-4364, Linköping		49.7
Swedish Aircraft Four KB, 916694-4372, Linköping		50.3
Saab Helikopter AB, 556026-9945, Nyköping	40,000	100.0

Note 22, cont.

Saab Credit AB, 556047-7779, Linköping	30,000	100.0	4
Lansen Försäkrings AB, 516401-8656, Linköping	100,000	100.0	10
Saab Air AB, 556061-1732, Linköping	25,000	100.0	3
Saab Treasury AB, 556147-5939, Linköping	30,000	100.0	3
Saab Service Partner AB, 556083-5836, Linköping	100,000	100.0	12
Saab-Scania Rental AB, 556056-9807, Linköping	1,000	100.0	
Investor Fond AB, 556025-1356, Linköping	10,000	100.0	1
Saab International AB, 556378-6275, Linköping	2,000	100.0	
Saab International AB (Chile) Ltda., Chile		100.0	
Saab South Africa (Pty) Ltd	200,000	100.0	
Saab Aerospace Marketing Service GmbH, Austria		100.0	
Dormant companies			177
Book value at year-end			2,374

Note 23 Receivables from Group companies

	Group		Parent Company	
	1998	1997	1998	1997
Accumulated acquisition value				
At beginning of year	0	2,293	140	4
Additional receivables			22	136
Reclassification		-2,293		
Book value at year-end	0	0	162	140

Note 24 Participations in associated companies

	Group		Parent Company	
	1998	1997	1998	1997
Accumulated acquisition value				
At beginning of year	30	7	16	4
Purchases	4	21	1	12
Net income of the year	45	2		
Total	79	30	17	16
Book value at year-end	79	30	17	16

Specification of the company's participations in associated companies

Associated company/ Corp. ID No./Reg Office	Share in % ¹	Adjusted net income of the year ²	Book value
Ericsson Saab Avionics AB, 556460-1655, Stockholm	49.9	56/44	56
CSM Materialteknik AB, 556517-3951, Linköping	50.0	9/2	9
Industrigruppen JAS AB, 556147-5921, Stockholm	20.0	1/0	1
Industrikompetens i Östergötland AB, 556060-5478, Linköping	30.0	2/0	2
Aviation Financial Services AG, Switzerland	20.0	0/0	
Saab-BAe Gripen AB, 556227-6721, Linköping	50.0	0/0	
Scanjet Clean AB, 556291-2427, Sjöbo	50.0	4/0	9
Saab Bofors Missile Corp AB, 556147-5905, Linköping	50.0	1/0	1
Transponder Tech i Skandinavien AB, 556168-6923, Järfälla	35.0	1/0	
Saab Smaaland Project Venture AB, 556509-1956, Jönköping	33.0	0/0	
Intermec Scandinavia AB, 556552-9756, Jönköping	49.0	1/-2	1
Book value at year-end			79

¹Share in relates to equity. This is equal to the share of the votes of the total number of shares.

²Adjusted equity relates to the owned share of the company's equity, including equity in untaxed reserves. Net income of the year relates to the owned proportion of the company's income after tax, including the portion of equity in the year's change in untaxed reserves.

Note 25 Other securities held as fixed assets

	Group		Parent Company	
	1998	1997	1998	1997
Accumulated acquisition value				
At beginning of year	36	35	6	2
Assets sold	-12			
Additional assets		1	1	4
Book value at year-end	24	36	7	6

Note 26 Other long-term receivables

	Group		Parent Company	
	1998	1997	1998	1997
Accumulated acquisition value				
At beginning of year	532	531		
Additional receivables	189	1		
Book value at year-end	721	532	0	0

Note 27 Deferred tax receivable/tax liability

Deferred tax receivable/tax liability relates to the tax result arising from the assumption that assets and liabilities are disposed of at book residual values. The deferred tax relates to the following assets and liabilities:

	Group		Parent Company	
	1998	1997	1998	1997
Deferred tax receivables				
Investments in subsidiaries	353	353	353	353
Reserves for future expenses	1,375	1,542	1,097	1,387
Losses in leasing operation	149		149	
Re-classification of leasing contracts	117	102		
Loss carry-forward	109			
Other	33			
Total	2,136	1,997	1,599	1,740
Deferred tax liabilities				
Revaluation of building	185	195	185	195
Fiscal excess depreciation	1,179	918		
Tax allocation reserves	33	15		
Other	5	3		
Total	1,402	1,131	185	195
Deferred tax receivable net	734	866	1,414	1,545

Deferred tax liability on untaxed reserves in the Parent Company amounted to SEK 158 m. (146).

Note 28 Prepaid expenses and accrued income

Prepaid expenses and accrued income in the Group amounted to SEK 223 m. (223) and in the Parent Company to SEK 54 m. (22). The amount for the Group is mainly attributable to SAL and relates to accrued leasing fees.

Note 29 Short-term investments

	Group		Parent Company	
	1998	1997	1998	1997
Interest-bearing securities	12,435	5,672	12,410	5,672
Total	12,435	5,672	12,410	5,672

The market value on interest-bearing securities amounted to SEK 12,513 m. (5,761) in the Group and SEK 12,488 m. (5,761) in the Parent Company. The market value is higher than the book value since the securities were acquired at higher interest levels than those in force at year-end.

Financial investments are made in Swedish Government bonds and housing bonds. The investment policy means that the fixed interest term must be about 11–21 months to avoid excessive fluctuations as a result of interest changes. At year-end, the average fixed interest term was 14 months.

Note 30 Equity

The shares in the Parent Company are divided into two series, class A and class B. Both classes of shares carry equal rights, with the exception that each class A share is entitled to ten votes and each share of class B is entitled to one vote. Each share carry a nominal value of SEK 16 (25).

	Number of shares and nominal value				
	Class A	Class B	Class C	Total	Nominal value
December 31, 1997	58,195,022	9,699,170	240,000	68,134,192	1,703,354,800
Conversion of shares	-54,064,268	54,304,268	-240,000	0	0
Change of the nominal value	2,323,549	36,001,934		38,325,483	0
December 31, 1998	6,454,303	100,005,372	0	106,459,675	1,703,354,800

During 1998, the Parent Company issued a convertible debenture loan with a nominal value of SEK 254 m. The conversion price is set to SEK 91 and conversion to shares of class B is possible from December 4, 2001 to July 15, 2004. After full conversion the number of class B shares will increase by 2,787,500 and the capital stock will increase by SEK 45 m.

Equity in the Group has changed as follows during the year:

	Capital stock	Re-stricted reserves	Profit or loss brought forward	Net income for the year	Total
At beginning of year	1,703	1,832	-444		3,091
Utilization of statutory reserve		-119	119		0
Allocation to share premium reserve		21			21
Allocation to equity method reserve		47	-47		0
Change in equity in untaxed reserves		170	-170		0
The year's translation differences etc.		18	-9		9
Net income for the year				912	912
Total at year-end	1,703	1,969	-551	912	4,033

Specification of restricted reserves

	Share premium reserve	Equity method reserve	Revaluation reserve	Legal reserve	Equity share of untaxed reserves	Translation differences etc.	Total
At beginning of year		4	500	386	770	172	1,832
Utilization of statutory reserve				-119			-119
Allocation to share premium reserve	21						21
Allocation to equity method reserve		47					47
Change in equity in untaxed reserves					170		170
The year's translation differences etc.						18	18
Total at year-end	21	51	500	267	940	190	1,969

Allocation to restricted reserves are required for SEK 71 m. A portion of unrestricted equity in foreign subsidiaries will be subjected to taxation in the event it is transferred to Sweden.

Note 30, cont.

Equity in the Parent Company has changed as follows during the year:

	Capital stock	Re-stricted reserves	Profit or loss brought forward	Net income for the year	Total
At beginning of year	1,703	868	-119		2,452
Utilization of statutory reserve		-119	119		0
Allocation to share premium reserve		21			21
Group contribution given to subsidiaries, net after tax etc.			-228		-228
Net income for the year				1,077	1,077
Total at year-end	1,703	770	-228	1,077	3,322

Note 31 Untaxed reserves

	Group		Parent Company	
	1998	1997	1998	1997
Accumulated excess depreciation				
Land and buildings	558	596	340	364
Machinery and equipment	233	261	170	159
Lease assets	2,653	2,422		
Tax allocation reserves				
Allocated 1994	16	16		
Allocated 1995	23	23		
Allocated 1996	5	5		
Allocated 1997	8	8		
Allocated 1998	67		56	
Contingency reserve	16	15		
Foreign untaxed reserves	1	1		
Total	3,580	3,347	566	523

Of the untaxed reserves, SEK 1,002 m. (937) consists of deferred tax.

Note 32 Provisions for pensions and similar commitments

Provisions for pensions in the balance sheet correspond to the equivalent pension obligations actuarially computed.

	Group		Parent Company	
	1998	1997	1998	1997
Provision for pensions				
FPG/PRI pensions	1,701	1,995	1,333	1,416
Other pensions	119	129	113	113
Other pension liabilities	128	119	128	119
Total	1,948	2,243	1,574	1,648

Of which with credit guarantees in Försäkringsbolaget Pensionsgaranti (FPG)

	Group	Parent Company
	1998	1997
	1,739	2,034
	1,371	1,455

Assets pledged for this liability amounted to SEK 784 m. (396). See Note 40.

The Pensions Registration Institute (PRI) is a public organization responsible for the administration of employee pensions. Other pension liabilities relate to conditional commitments not covered by social security legislation.

Note 33 Other provisions

	Group		Parent Company	
	1998	1997	1998	1997
Costs of restructuring	3,402	4,079	3,402	4,079
Reserves for anticipated deficit in future leasing operations	2,672	2,728		
Other	152	61	10	
Total	6,226	6,868	3,412	4,079

In 1998, a decrease of SEK 677 m. has been made in the reserve for terminating production of regional aircraft. SEK 417 m. of the decrease relates to losses in production, customer and supplier commitments and transfer of personnel. The loss in Customer Support amounted to SEK 60 m. A new assessment has been made with reference to remaining costs, which has meant a reverse of the reserve by SEK 200 m.

Note 34 Long-term liabilities to credit institutes

	Group		Parent Company	
	1998	1997	1998	1997
Due date 1–5 years from closing day	17	30		
Due date more than 5 years from closing day				
Total	17	30	0	0

Note 35 Convertible debenture loan

During 1998, the Parent Company issued a convertible debenture loan with a nominal value of SEK 254 m. Of the total loan, debentures amounting to SEK 231 m. were sold to employees while SEK 23 m. were sold to the wholly owned subsidiary Saab Hangaren AB. This is to enable sale of convertible debentures at current market value to new employees. The convertible debenture loan, which bears a fixed annual interest rate equal to STIBOR less 0.45 percent, will be possible to convert to Saab shares of class B from December 4, 2001 to July 15, 2004 at a conversion price set to SEK 91. The loan will fall due on July 30, 2004 if not converted. A capital discount amounting to SEK 21 m. has been calculated compared to a fixed market rate of 5 percent. The capital discount has in the financial statements of both the Group and the Parent Company been accounted for as restricted reserves, share premium reserve. The capital discount is expensed as interest during the term of the loan.

	Group		Parent Company	
	1998	1997	1998	1997
Convertible debenture loan	254		254	
Capital discount	-21		-21	
Holdings within the Group	-23			
Total	210		233	

Note 36 Other long-term liabilities

	Group		Parent Company	
	1998	1997	1998	1997
Lease obligations	4,618	4,922		
Other long-term liabilities	995	760		
Total	5,613	5,682	0	0

Liabilities with due date more than 5 years from closing day amount to SEK 3,710 m. (4,122).

Security provided for leasing commitments amounted to SEK 2,389 m. (2,551) and for other liabilities SEK 571 m. (393). See Note 40. Other liabilities consist mainly of prepaid leasing fees.

Note 37 Short-term liabilities to credit institutes

	Group		Parent Company	
	1998	1997	1998	1997
Approved credit limit	40	39	40	39
Unutilized portion	-36	-39	-36	-39
Utilized portion	4	0	4	0
Short-term borrowing	48	918	11	984
Total	52	918	15	984

Note 38 Other liabilities

	Group		Parent Company	
	1998	1997	1998	1997
Value Added Tax (VAT)	259	114	252	99
Personnel liabilities	89	75	46	45
Spare parts credit	58	56		
Other	62	112	2	8
Total	468	357	300	152

Note 39 Accrued expenses and deferred income

	Group		Parent Company	
	1998	1997	1998	1997
Accrued expenses				
Cost of customer commitments	1,095	754		
Losses on regional aircraft orders	555	967		
Reserve for remaining costs in military business	443	441	240	377
Vacation pay liability	276	271	165	164
Social security expenses	187	187	103	112
Expected invoices	146	268	121	126
Guarantee reserve	85	50	16	23
Personnel liabilities	83		83	
Earlier redundancy	51		47	
Accrued interests	35	40	7	6
Other	254	186	33	7
Deferred income				
Leasing fees ¹	317	300		
Advance invoicing	896	854	865	756
Total	4,423	4,318	1,680	1,571

¹Assets pledged for this liability amounted to SEK 61 m. (61). See Note 40.

Customer commitments relate to costs of future commitments linked with products already delivered, mainly in regional aircraft. Reserves for remaining costs in military business relate to calculated costs and product commitments, mainly in military aircraft.

Note 40 Assets pledged

	Group		Parent Company	
	1998	1997	1998	1997
Guarantees provided for own liabilities and provisions				
for pensions commitments				
Chattel mortgages	396	396	350	350
Real estate mortgages	388		388	
to credit institutes	none	none	none	none
for lease obligations				
Lease assets	2,389	2,551		
for other liabilities				
Long-term receivables	571	393		
Bank deposits	210		210	
for accrued expenses				
Accrued expenses	61	61		
for advance payments from customers				
Chattel mortgages	1,751	1,751	1,751	1,751
Bonds and other securities	5,070	5,520	5,070	5,520
Subtotal	6,821	7,271	6,821	7,271
Total	10,836	10,672	7,769	7,621

Note 41 Definitions of key ratios

Pre-tax return on capital employed

Operating income increased by financial income as a percentage of average total assets less non-interest-bearing liabilities and deferred tax liability.

After-tax return on equity

Net income for the year as a percentage of average equity. When calculating return on equity before items affecting comparability, a tax rate of 28% has been used.

Profit margin

Operating income before items affecting comparability increased with financial income as a percentage of sales.

Capital turnover

Sales divided by average capital employed.

Equity/assets ratio

Equity in relation to total assets, after deduction for utilized part of advance payments from customers.

Interest coverage

Operating income before items affecting comparability increased with financial income, divided by financial expenses.

Earnings per share

Net income for the year divided by the number of shares.

Linköping, February 23, 1999



Anders Scharp
Chairman



Marcus Wallenberg



Kevin Smith



Anthony Rice



Björn Svedberg



George Rose



Erik Belfrage



Lars Erik Englund



Lars Olsson



Lennart Hedlund

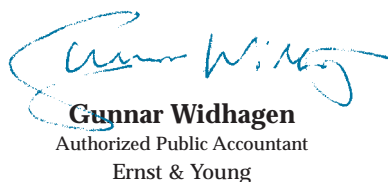


Ragnar Ludvigsson



Bengt Halse
President and CEO

Our auditors' report was submitted on March 12, 1999



Gunnar Widhagen
Authorized Public Accountant
Ernst & Young



Caj Nackstad
Authorized Public Accountant
KPMG Bohlins

AUDITORS' REPORT

To the general meeting of
the shareholders of Saab AB

Corporate Identity No 556036-0793

We have audited the parent company and the consolidated financial statements, the accounts and the administration of the board of directors and the managing director of Saab AB for the financial year 1998. These accounts and the administration of the Company are the responsibility of the board of directors and the managing director. Our responsibility is to express an opinion on the financial statements and the administration based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. Those Standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director, as well as evaluating the overall presentation of information in the financial statements. We examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the possible liability to the Company of any board member or managing director or whether they have in some other way acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

In our opinion, the parent company and the consolidated financial statements have been prepared in accordance with the Annual Accounts Act, and, consequently we recommend

that the income statements and the balance sheets of the Parent Company and the Group be adopted, and

that the profit of the Parent Company be dealt with in accordance with the proposal in the Administration Report.

In our opinion, the board members and the managing director have not committed any act or been guilty of any omission, which could give rise to any liability to the Company. We therefore recommend

that the members of the board of directors and the managing director be discharged from liability for the financial year.

Linköping, March 12, 1999



Gunnar Widhagen
Authorized Public Accountant
Ernst & Young



Caj Nackstad
Authorized Public Accountant
KPMG Bohllins