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Agneta Kammeby

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## INTERIM REPORT

### January – June 2000

- **Sales amounted to SEK 8,337 m. (4,810, pro forma 8,484).**
- **Operating income increased 19% to SEK 656 m. (549, pro forma 598).**
- **Earnings per share amounted to SEK 3.90 (4.57, pro forma 3.69).**
- **After-tax return on shareholders' equity 16.7% and pre-tax return on capital employed 13.1%**
- **Decision on Swedish participation in the Meteor missile project.**
- **Several important orders received during the second quarter, including a mobile combat training center for the Netherlands and an order from FMV to conduct a study in the field of RMA and in July a serial production order for the Bamse air defense missile.**
- **As part of the structuring of Saab, Bofors Weapon Systems has been divested to United Defense.**

#### Comment by the President

"The second quarter was another eventful quarter for Saab. We have received several very significant orders and our core activities have developed according to plan. At the same time, we have continued to maintain a high tempo in the restructuring of the Group.

In May, the British Government announced that it had chosen the European beyond visual range air-to-air missile, Meteor, and in June Sweden's Defense Minister stated that the country would be taking part in this six-nation project. For Saab, this means a share of about 12 percent in a project with an estimated total value of almost SEK 100 billion over its lifetime. Saab's work in the project will be carried out both on prime systems level and on subsystem level, mainly in the sensor and signal processing areas. The decision on the Meteor is also extremely important for the long-term export potential of the Gripen.

The second quarter also brought a number of very significant orders. The Netherlands chose Saab Training Systems as supplier of its mobile combat training center, an order worth over SEK 560 million. With this order, Saab Training Systems is taking a major step upwards in the value chain. Looking to the future, we are pleased to state that several countries are interested in similar training centers and the breakthrough in the Netherlands will create prospects for a renewed period of growth for the company. We also received the first serial production order for the Bamse air defense missile systems from FMV. With the order for Bamse and the decision on the Meteor, the foundation has been laid for an internationally robust, long-term missile industry within Saab.

Postadress/Postal address

**Saab AB (publ)**  
Koncernstab Information  
Corporate Communications and Public Affairs  
SE-581 88 Linköping  
Sweden

Besöksadress/  
Office address

Bröderna Ugglas gata  
Linköping

Telefon/Telephone

Nat 013 - 18 00 00  
Int +46 13 18 00 00

Telefax

Nat 013 - 18 71 70  
Int +46 13 18 71 70

Styrelsens säte/  
Registered office  
Linköping

Organisationsnr/  
Reg. No.  
556036-0793

Momsreg-nr/  
V.A.T. No.  
SE556036079301



Work on streamlining the Group in accordance with our strategy is proceeding with high intensity. During the second quarter, divestment has taken place of Bofors Weapons Systems, a number of properties and the electronics production in Karlskoga. We have also divested Combitech Network to CSC and at the same time agreed about long-term co-operation and substantial increase in productivity for our IT infrastructure. In addition to this we have also signed an agreement on selling one of the two oil rigs. We expect to achieve our goal of completing the major part of this streamlining before the end of the year. During the year, we have also made minor acquisitions and our core activities will continue to grow both organically and through acquisitions.

The first six months of the year have meant major changes for Saab. We have created northern Europe's leading high technology company and captured several very important orders. We also have several interesting challenges ahead of us, such as the increasingly likely launching of the A3XX Super Jumbo and our participation in this project. Income during the first six months has been on a level with our expectations. During the second half of this year, we expect to see an increase in sales and thereby a positive influence on operating income."

## Business areas

Saab consists of the core business areas **Infomatics**, **Aerospace**, **Technical Support & Services**, **Dynamics** and **Space**, in addition to Aviation Services and Other operations. The process of finding other owners for Aviation Services is ongoing.

## Infomatics

Business area Infomatics focuses on command and control systems, simulation systems and avionics as well as commercial operations in IT and electronics.

Sales amounted to SEK 2,080 m. (pro forma 2,062). Operating income was SEK 100 m. (pro forma 56), corresponding to an operating margin of 4.8 percent. The increased operating income is mainly attributable to improved income in several of the companies and lower investments in commercial development projects.

Order bookings, which during the first six months have been very good for most of the business units, totaled SEK 2,458 m. (pro forma 1,107). During the second quarter order bookings were SEK 1,503 m. and included a mobile combat training center for the Netherlands worth over SEK 560 m., electronics units for the Gripen worth about SEK 250 m. and an order valued at about SEK 200 m. for upgrading the HeliTOW anti-tank system on Danish army helicopters. In July, Barracuda received an important order from FMV for multispectral, mobile camouflage systems for the Leopard 2 tanks with an order value of SEK 75 m.



## **Aerospace**

Business area Aerospace develops and manufactures military aircraft systems and is a partner and supplier in subsystems for manufacturers of large commercial aircraft. Business unit Gripen is the largest unit in the business area. Gripen is the world's only fourth generation air combat system in operational service.

Sales amounted to SEK 1,871 m. (pro forma 2,146), of which Commercial Programs including sales of spare parts to Saab Aircraft was SEK 113 m. (105). The decrease is mainly due to less work on the further development program for Gripen. During the first six months, 9 (9) Gripen aircraft have been delivered. A total of 90 aircraft have thus been delivered out of the total of 204 ordered by the Swedish Defence Materiel Administration, FMV. Gripen is currently being delivered to FMV at a rate of 17 aircraft per year. Operating income was SEK 174 m. (pro forma 194), corresponding to an operating margin of 9.3 (9.0) percent. The period's investments in the export program for the Gripen were higher than last year and are expected to be higher also on a whole-year basis. The cost for this effort has been charged to income.

Order bookings was SEK 10,688 m. (pro forma 1,167), including the South African order for 28 Gripen aircraft with related equipment, training, etc. of SEK 9.3 bn. Order bookings during the second quarter amounted to SEK 343 m. and included a small order from FMV for studies in the field of RMA, Revolution in Military Affairs.

## **Technical Support & Services**

In recent years, Saab has grown both organically and through acquisitions in the field of advanced services, which is considered to be an interesting future market. Business area Technical Support & Services provides advanced services for both commercial and military customers.

The business area is dominated by AerotechTelub, which was formed on January 1 this year and is owned to 57 percent by Saab and to 43 percent by TietoEnator. AerotechTelub is an advanced service company primarily oriented towards technical services, operation and maintenance, and systems for testing, simulation, traffic management and customized information systems. The business area also includes Saab Nyge Aero, which is active in aircraft maintenance, aerial target towing and special flight operations.

Sales amounted to SEK 1,171 m. (pro forma 1,136). Operating income was SEK 72 m. (pro forma 86), corresponding to an operating margin of 6.1 percent.

Order bookings totaled SEK 1,530 m. (pro forma 999), of which SEK 823 m. in the second quarter including an order worth about SEK 140 m. from Telia Mobile for involvement in the building and installation of new base-radio stations for mobile telephony in Sweden. The business area also received an order worth about SEK 180 m. from Bombardier to Nyge Aero for rebuilding and modification of amphibious aircraft and an order from FMV for a new command and control system to the Tactical Air Command.



## **Dynamics**

Saab's activities in precision engagement have been gathered in business area Dynamics, which develops and produces missile systems, portable anti-armor systems and underwater systems for land, sea and air applications.

Sales amounted to SEK 1,018 m. (pro forma 1,543). Sales decreased in several parts of the operation, but the decrease is mainly due to large deliveries of STRIX during 1999. Operating income continued to be negative and amounted to SEK -27 m. (pro forma -49). Intensive integration work is ongoing in the business area to realize cost synergies and focus the business.

Order bookings totaled SEK 909 m. (pro forma 1,249), of which SEK 471 m. in the second quarter including among others several orders for Carl Gustaf ammunition. In July the first serial production order for the Bamse air defense missile was received from FMV.

## **Space**

Space, which is owned to 60 percent by Saab and 40 percent by Ericsson, develops and manufactures onboard computers, antennas and other electronic and mechanical equipment for the space industry.

Sales amounted to SEK 339 m. (329) and included in the second quarter among others separation systems and equipment to the European meteorological satellite program METOP. Close to 50 percent of sales went to the commercial telecom market and 95 percent of total sales were to markets outside Sweden. Operating income was SEK 30 m. (33), giving an operating margin of 8.8 percent.

Order bookings amounted to SEK 329 m. (388), of which SEK 162 m. in the second quarter including electronic equipment to telecom satellites and further orders for the scientific satellite, Rosetta. More than half the order bookings related to markets outside the institutional sector.

## **Aviation Services**

Celsius Aviation Services, CAS, is a commercial aircraft maintenance company focused on the USA. CAS operations lies outside the strategy and orientation chosen by Saab for the future and the divestment process is on going.

Sales during the first six months amounted to SEK 1,565 m. (1,445) and operating income was SEK 66 m. (100). The decrease in income is to seasonal variations, but has also cyclical reasons. A strike in one part of the business has also affected the income. Order bookings amounted to SEK 1,727 m. (1,451).



## Other operations

Other operations include long-term commitments in the form of the leasing portfolio and maintenance operations for Saab's regional aircraft, as well as a number of niche companies. To handle the long-term provision of capital for these companies and to realize values, we are seeking structural solutions for several of these operations. Among other things, negotiations have been in progress for some time for the sale of Celsius Materialteknik, oil rigs and properties. During the first six months of the year, have among others Bofors Weapon Systems, Combitech Network, Combitech Traffic Systems, properties and two repair yards been divested.

## Sales, income and orders

### Sales

Group sales increased by 73 percent to SEK 8,337 m. (4,810, pro forma 8,484). Sales of core business was SEK 6,016 m. (pro forma 6,820). Growth in several of the core business areas has been offset by the shrinking sales in Dynamics and lower sales in Aerospace. For other operations, the increase is mainly attributable to CAS and Saab Aircraft.

### Income

Operating income increased 19 percent to SEK 656 m. (549, pro forma 598), corresponding to an operating margin of 7,9 percent. Operating income of the core business amounted to SEK 678 m. (pro forma 343), equal to an operating margin of 11.3 (5.0) percent. The improved operating income is mainly attributable to lower investments in certain commercial development projects in Infomatics and to capital gains totaling SEK 353 m. from the divestments of Combitech Network and Traffic Systems. Project interest on non-utilized advance payments, accounted for in gross margin, amounted to SEK 82 m. (127). The repayment of surplus funds from SPP will be accounted for in the third quarter and is accordingly not included in the half-year financial statements.

The period's losses for closing Regional Aircraft of SEK -304 m. (-409) and in Saab Aircraft Leasing of SEK -72 m. (-59) have according to plan been charged against the termination reserve and loss risk reserve respectively.

Marketing activities in general have been higher during the first quarter this year compared to the corresponding period last year, while the activities have been on almost the same level compared to 1999 during the second quarter. Research and development costs amounted to SEK 433 m. (pro forma 395). The increase is partly attributable to development work on the export version of Gripen. Other operating income consists among others of capital gains from divesting operations of SEK 353 m. (19). The result from the divestment of Bofors Weapon Systems has been taken as an adjustment against the purchase analysis and has therefore not affected the income.

Net financial income and expenses amounted to SEK -27 m. (pro forma 2). The decrease is mainly due to lower liquid funds and a lower interest rate. The share in income of HDW, which amounted to SEK 19 m., is being reported as financial income. The average return



on liquid funds was 3.6 (5.2) percent. Income after financial income and expenses amounted to SEK 629 m. (pro forma 600). Current and deferred taxes amounted to SEK -183 m. (pro forma -180), corresponding to an effective tax rate of 29 percent on income after financial income and expenses.

### **Order bookings**

Group order bookings during the first six months amounted to SEK 17,889 m. (pro forma 6,548), including among others 28 Gripen aircraft with related equipment, training, etc. to South Africa to an order value of SEK 9.3 bn. Order bookings during the second quarter was SEK 4,214 m. The order backlog at the end of the period was SEK 40,124 m., compared to SEK 29,891 m. at the beginning of the year.

### **Liquidity, finance and investments**

#### **Finance and liquidity**

Cash and marketable securities, less liabilities to credit institutions, have compared to pro forma opening balance decreased by SEK 530 m. to SEK 5,246 m. (5,776). The decrease is mainly due to the utilization of advances as the projects progress within Gripen, payments related to the phasing out of Regional Aircraft of SEK 304 m., the net effect of the divestment of Bofors Weapon Systems of SEK 237 m. and the payment of dividend of SEK 266 m. The Group's financial position is strong and net liquidity after deduction for provision for pensions amounted to SEK 1,792 m., compared to SEK 2,370 m. in the pro forma opening balance.

#### **Capital expenditures**

The Group's capital expenditures in property, plant and equipment, excluding leasing assets, amounted to SEK 175 m. (pro forma 424). The decrease is mainly due to lower investments in buildings and a few major investments during 1999.

#### **Personnel**

At the end of the period, the number of employees in the Group was 16,037, compared with 16,665 at the beginning of the year.

#### **Parent Company**

During the first six months, parent company sales amounted to SEK 1,871 m. (2,764). Operating income was SEK 179 m. (321) and income after financial income and expenses was SEK 455 m. (463).

Cash and marketable securities, less liabilities to credit institutions, amounted to SEK 3,123 m., compared with SEK 6,392 m. at year-end. Capital expenditures in property, plant and equipment amounted to SEK 59 m. (88). The number of employees at the end of the period was 4,259, compared with 4,298 at the beginning of the year.



## Ownership

Saab's principal owners are Investor AB, BAE SYSTEMS, the Wallenberg foundations, US funds, Fifth National Pension Insurance Fund, AMF, UBS Schweiz and Skandia, which together represents about 85 percent of the capital and 90 percent of the votes.

## Accounting Principles

This Interim Report has been drawn up in accordance with earlier accounting principles. Celsius is included in the Saab Group as from January 1, 2000. For comparability pro forma figures are published, which refers to the Saab Group including Celsius for the whole year 1999 and the quarters of 1999. The pro forma figures will be adjusted in pace with the restructuring of the Group and has accordingly been adjusted for the divestment of Bofors Weapon Systems.

Linköping, July 13, 2000

Bengt Halse  
President and CEO

We have reviewed this interim report in accordance with the recommendation issued by the Swedish Institute of Authorised Public Accountants, FAR. A review is significantly limited compared to an audit. We have found nothing to suggest that this interim report does not comply with the requirements set out in the Exchange and Annual Accounts Acts.

Linköping, July 13, 2000

Gunnar Widhagen  
Authorized Public Accountant  
Ernst & Young AB

Caj Nackstad  
Authorized Public Accountant  
KPMG Bohlins AB

## **Dates for financial information:**

*Interim Report for January - September will be published on October 25, 2000.*

## **For further information, please contact:**

*Lars Jagerfelt, Vice President, Corporate Communications tel. +46 13 18 71 65*  
*Agneta Kammeby, Manager Investor Relations, tel. +46 13 18 71 25*

*The interim report can also be accessed on the Internet at [www.saab.se](http://www.saab.se)*



## Income statement

SEK m.	6 months 2000	6 months 1999	Pro forma 6 months 1999	Pro forma 12 months 1999
<b>Sales</b>	<b>8,337</b>	<b>4,810</b>	<b>8,484</b>	<b>17,350</b>
Cost of goods sold	-6,284	-3,573	-6,486	-13,214
<b>Gross margin</b>	<b>2,053</b>	<b>1,237</b>	<b>1,998</b>	<b>4,136</b>
Marketing expenses	-757	-369	-655	-1,390
Administrative expenses	-658	-292	-693	-1,309
Research and development costs	-433	-270	-395	-858
Items affecting comparability	0	174	212	255
Other operating income	505	86	158	347
Other operating expenses	-45	-18	-23	-65
Share in income of associated companies	-9	1	-4	9
<b>Operating income <sup>1)</sup></b>	<b>656</b>	<b>549</b>	<b>598</b>	<b>1,125</b>
Result from financial investments	-27	172	2	-9
<b>Income after financial items</b>	<b>629</b>	<b>721</b>	<b>600</b>	<b>1,116</b>
Taxes	-183	-209	-180	-352
Minority interest	-31	-26	-27	-29
<b>Net income</b>	<b>415</b>	<b>486</b>	<b>393</b>	<b>735</b>
Earnings per share, SEK <sup>2)</sup>	3.90	4.57	3.69	6.90
Earnings per share after full conversion, SEK <sup>3)</sup>	3.80	4.45	3.60	6.73
<sup>1)</sup> Includes depreciation of of which depreciation on leasing assets	-581 -287	-443 -237	-632 -237	-1,311 -511

<sup>2)</sup> Number of shares: 106,459,675 as per June 30, 2000

<sup>3)</sup> Number of shares after full conversion: 109,247,175

## Sales by business area

SEK m.	6 months 2000	Pro forma 6 months 1999	Change	Pro forma Whole year 1999	2 <sup>nd</sup> Q 2000
Infomatics	2,080	2,062	1%	4,294	1,053
Aerospace	1,871	2,146	-13%	3,964	909
Technical Support & Services	1,171	1,136	3%	2,367	588
Dynamics	1,018	1,543	-34%	3,393	446
Space	339	329	3%	676	176
Internal sales	-463	-396		-797	-250
	<b>6,016</b>	<b>6,820</b>	<b>-12%</b>	<b>13,897</b>	<b>2,922</b>
CAS	1,565	1,445	8%	3,009	745
Other operations	756	219		444	483
<b>Saab Group</b>	<b>8,337</b>	<b>8,484</b>	<b>-2%</b>	<b>17,350</b>	<b>4,150</b>





**Operating income by business area**

SEK m.	6 months 2000	Pro forma 6 months 1999	Pro forma Whole year 1999	2 <sup>nd</sup> Q 2000
Infomatics	100	56	199	39
Aerospace	174	194	450	74
Technical Support & Services	72	86	146	32
Dynamics	-27	-49	-39	-4
Space	30	33	65	14
Corporate	329	23	-40	268
	<b>678</b>	<b>343</b>	<b>781</b>	<b>423</b>
CAS	66	100	212	40
Other operations	-88	155	132	-54
<b>Saab Group</b>	<b>656</b>	<b>598</b>	<b>1,125</b>	<b>409</b>

**Balance sheet**

SEK m.	June 30, 2000	June 30, 1999	Pro forma Dec. 31, 1999
<b>Assets</b>			
Goodwill and other intangible assets	1,816	383	1,827
Property, plant and equipment, etc.	4,282	2,754	4,339
Lease assets	8,345	8,502	8,963
Long-term interest bearing receivables	1,048		1,180
Shares, etc.	971	43	999
Deferred tax receivables	949	485	959
Inventories, etc.	4,115	2,229	3,954
Short-term interest bearing receivables	178		231
Other receivables	6,615	2,217	6,474
Cash and marketable securities	6,318	11,747	7,705
<b>Total assets</b>	<b>34,637</b>	<b>28,360</b>	<b>36,631</b>
<b>Shareholders' equity and liabilities</b>			
Shareholders' equity	4,849	4,285	4,700
Minority interest in subsidiaries	773	161	752
Provision for pensions	3,454	1,932	3,406
Other provisions	5,995	5,502	6,596
Liabilities to credit institutions	2,071	74	3,123
Convertible debenture loan	227	215	217
Lease obligations	4,411	4,790	4,591
Advance payments from customers, net	3,930	4,966	4,631
Other liabilities	8,927	6,435	8,615
<b>Total shareholders' equity and liabilities</b>	<b>34,637</b>	<b>28,360</b>	<b>36,631</b>



## Subdivided summary of balance sheet, June 30, 2000

SEK m.	Saab	Regional Aircraft	SAL	Eliminations	Saab Group
<b>Assets</b>					
Goodwill and other intangible assets	1,816	0	0	0	1,816
Property, plant and equipment, etc.	4,281	0	1	0	4,282
Lease assets	579	0	7,766	0	8,345
Long-term interest bearing receivables	1,048	0	0	0	1,048
Shares, etc.	2,471	0	0	-1,500	971
Deferred tax receivables	613	580	0	-244	949
Inventories, etc.	4,115	0	0	0	4,115
Short-term interest bearing receivables	178	0	0	0	178
Other receivables	5,652	0	963	0	6,615
Cash and marketable securities	2,997	1,492	1,829	0	6,318
<b>Total assets</b>	<b>23,750</b>	<b>2,072</b>	<b>10,559</b>	<b>-1,744</b>	<b>34,637</b>
<b>Shareholders' equity and liabilities</b>					
Shareholders' equity	4,487	0	1,862	-1,500	4,849
Minority interest in subsidiaries	769	0	4	0	773
Provision for pensions	3,454	0	0	0	3,454
Other provisions	1,358	2,072	2,809	-244	5,995
Liabilities to credit institutions	2,071	0	0	0	2,071
Convertible debenture loan	227	0	0	0	227
Lease obligations	109	0	4,302	0	4,411
Advance payments from customers, net	3,930	0	0	0	3,930
Other liabilities	7,345	0	1,582	0	8,927
<b>Total shareholders' equity and liabilities</b>	<b>23,750</b>	<b>2,072</b>	<b>10,559</b>	<b>-1,744</b>	<b>34,637</b>

## Sales and income per quarter

Mkr	2000		Pro forma 1999	
	1 <sup>st</sup> Q	2 <sup>nd</sup> Q	1 <sup>st</sup> Q	2 <sup>nd</sup> Q
Sales	4,187	4,150	3,703	4,781
Operating income	247	409	192	406
Operating margin	5.9%	9.9%	5.2%	8.5%
Net financial income	8	-35	-28	30
Income after financial items	255	374	164	436
Net income	161	254	103	290
Earnings per share, SEK <sup>1)</sup>	1.51	2.39	0.97	2.72

<sup>1)</sup> Number of shares: 106,459,675 as per June 30, 2000.



## Summary of cash flow statement

SEK m.	6 months 2000 <sup>1)</sup>	6 months 1999	Whole year 1999
<b>Cash flow from operating activities</b>			
Income after financial items excl. share in income of associated companies	638	720	1,380
Depreciation and write-down charged to income	581	443	918
Items affecting comparability	0	-174	-255
Tax	-173	15	-182
<b>Cash flow from operating activities before changes in working capital</b>	<b>1,046</b>	<b>1,004</b>	<b>1,861</b>
<b>Working capital</b>			
Inventories etc.	-161	12	524
Receivables	-141	294	8
Advance payments from customers	-701	-225	-1,136
Other liabilities	312	-1,203	-554
Lease obligations	-180	-163	-362
Provisions	-601	-550	-929
<b>Change in working capital</b>	<b>-1,472</b>	<b>-1,835</b>	<b>-2,449</b>
<b>Cash flow from operating activities</b>	<b>-426</b>	<b>-831</b>	<b>-588</b>
Investments in intangible fixed assets	-78	-80	-104
Investments in shares etc.	37	4	-1,285
Investments in tangible fixed assets	-149	-252	-280
Investments in lease assets	332	-74	-83
Change in long-term receivables	-18	-29	-28
<b>Cash flow from investments</b>	<b>124</b>	<b>-431</b>	<b>-1,780</b>
<b>Operating cash flow</b>	<b>-302</b>	<b>-1,262</b>	<b>-2,368</b>

<sup>1)</sup> Change compared to pro forma balance sheet as per December 31, 1999.

## Key ratios

	6 months 2000	Pro forma 6 months 1999	Pro forma 12 months 1999
Operating margin before depreciation	12.0%	11.7%	11.3%
Operating margin after depreciation	7.9%	7.0%	6.5%
Pre-tax return on capital employed	13.1%	-	-
After-tax return on shareholders' equity	16.7%	-	-
Equity/assets ratio, excl. Regional aircraft and SAL	18.9%	-	18.2%
Equity/assets ratio	14.0%	-	12.8%