

**SAAB**

INFORMATION

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Lars Jagerfelt

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## INTERIM REPORT

### January - March 1999

- Sales increased 10 % to SEK 1,995 m. (1,817).
- Export development efforts concerning Gripen has been intensified and has resulted in a higher R&D expenditure in accordance with plan.
- Net income amounted to SEK 150 m. (245) and earnings per share to SEK 1.41 (2.30). The lower income is mainly the result of lower capital gains and lower income of a non-recurring nature compared to the exceptionally good first quarter last year. The outlook for the full year remains encouraging.
- The acquisition of the aircraft maintenance company Nyge Aero will strengthen Saab's maintenance and modification operations.
- Investment in systems for safer air and sea navigation through the acquisition of GP&C Sweden.

Saab shares have been traded on the Stockholm Stock Exchange since 1998. Saab's principal owners are Investor AB, British Aerospace, US funds, the Wallenberg foundations and AMF.

Saab is active primarily in the aerospace and defense industry, and supplies advanced products and systems based on sophisticated information technology. The business areas are **Military Aerospace, Space, Training Systems, Commercial Aircraft and Combitech**. Regional Aircraft is currently being phased out and production will come to an end during the second quarter of 1999.

Saab has acquired the Nyge Aero aircraft maintenance company. The acquisition will enable Saab to strengthen its activities in the market for maintenance and modification of military and commercial aircraft, in addition to related services. Nyge Aero will be used to expand Saab's activities in the maintenance field and will provide a complement to the heavier military maintenance and complex modifications on Saab products which are carried on in *General Military Programs*.

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

Saab and Celsius are continuing their joint investment in systems for safer air and sea navigation through the acquisition of GP&C Sweden AB. GP&C Sweden AB develops and markets a satellite navigation system for commercial aviation and shipping. The system combines the GPS positioning system with data link communication in order to provide aircraft and ships with exact information on position. Initially, the market will consist of larger aircraft and vessels, and is expected to grow rapidly as a result of continuously increasing traffic which sets high demands on safety and efficiency.

In consequence of the earlier decision to terminate production of regional aircraft, Saab has served redundancy notices to 111 workshop employees. The notices that were given last autumn to 475 staff have been greatly reduced through proactive measures such as alternative employment within the Saab Group, as well as training and early retirement. Originally, over 1,800 persons were occupied in regional aircraft.

**Military Aerospace.** During the first quarter, business unit *Gripen* delivered 3 (5) Gripen aircraft, bringing the total to 68 out of the 204 aircraft ordered by the Defence Materiel Administration, FMV. Two wings of the world's first fourth generation combat aircraft are now operative in the Swedish Air Force. Fourth generation aircraft are characterized partly by exclusive reliance on digital technology and communication between subsystems, offering unique flexibility and higher capacity than earlier generations. Final negotiations are in progress with the South African Government on the export of 28 Gripen aircraft to the South African Air Force. *Dynamics'* operations comprise high technology products in guided weapons and optronic systems. During the first quarter, the industrial team behind the Meteor, which includes *Dynamics*, submitted a final bid for the Meteor to the British Ministry of Defence, MoD. Several countries have shown an interest in the RBS15 anti-ship missile system, which combines an advanced homing device with an autonomous navigation system. Following the acquisition on January 1 of the share majority in *Avionics* from Ericsson, *Avionics* is now owned to 50.1 percent by Saab, in which it is consolidated. *Avionics* develops and builds display, reconnaissance and electronic warfare systems, and is the largest supplier of avionics systems to the Gripen. On 9 March, the first flight of a Viggen with a prototype of the new color display took place and recently *Avionics* received an order from FMV for the delivery of 34 such units. Experience from using the display in the Viggen will be of benefit in the Gripen. In addition, it will be possible to transfer color displays to the Gripen when the Viggen is phased out. Order bookings for **Military Aerospace** during the first quarter amounted to SEK 809 m. and included development orders as well as equipment and spare parts for the Gripen.

**Space**, which is owned to 60 percent by Saab and 40 percent by Ericsson, develops and manufactures onboard computers, antennas and other equipment for the space industry. During the first quarter, the 200th separation system from **Space** was used to place a satellite in orbit. The satellite was launched with a Proton rocket from Baikonur in Kazakhstan. During the period, **Space** made final deliveries to Hughes Space & Communications of antennas for the Thuraya satellite, which is intended for mobile telephony via satellite in Africa and the Middle East. Order bookings amounted to SEK 216 m. and included a new batch of 20 onboard computers for Ariane 4 launch vehicles.

**Training Systems** leads the world in simulation systems based on laser technology for direct fire weapons. Orders for simulators have been received from several countries, including Italy, which purchased both simulators and target equipment. Like many other users of the Leopard battle tank, Italy chose BT 46 simulators from **Training Systems** for gunnery and combat training. The BT 46 has become the de facto standard in NATO for gunnery and combat training simulators for armored vehicles and anti-tank weapons. During the first quarter, order bookings amounted to SEK 110 m. On March 1, President Hans Robertsson left **Training Systems** and Johan Olsson, previously Purchasing and Logistics Manager in the same company, was appointed in his place.

**Commercial Aircraft** consists of three business units, *Collaborative Programs*, *Customer Support* and *Saab Aircraft Leasing*. *Collaborative Programs* supplies components and sub-assemblies to internal and external customers. At the end of the period, the leasing portfolio administered by *Saab Aircraft Leasing* comprised 314 Saab 340 and Saab 2000 aircraft, compared with 316 at year-end 1998. The reduction is due to the expiry of leasing contracts for two aircraft, which have been returned to the investors. Work is in progress on evaluating various alternatives for the leasing portfolio and customer service operation. Order bookings for **Commercial Aircraft** amounted to SEK 225 m.

**Combitech's** operations comprise products in commercial high technology niches. Work on structuring **Combitech** and realizing inherent values is continuing. During the period, a real estate company has been divested with a positive effect on income. During the quarter, Traffic Systems has had good order bookings, which totaled SEK 90 m. and included major orders for transponders and roadside equipment for France and Malaysia. An agreement has been reached with the customer in Melbourne which has reduced the financial risks in that project. Marine Electronics has established a new marine trading company in Singapore for marketing its own and other companies' products for tankers. Software has continued to have good order bookings and is developing well. **Combitech's** order bookings totaled SEK 360 m.

**Regional Aircraft** delivered one Saab 2000 to Crossair during the first quarter. Remaining deliveries for 1999 consist of three Saab 340 and three Saab 2000. Phase-out is proceeding according to plan.

## Sales

Sales of the Group increased 10 percent to SEK 1,995 m. (1,817). The improvement is attributed to higher sales of *Dynamics*, partly in development of the IRIS-T and deliveries of the EOS 450 fire control system to Brazil, more deliveries from **Space** of data systems and antennas to several different projects and higher sales for most of the companies within **Combitech**. Sales also increased since *Avionics* is consolidated in Group sales from 1999. Sales of business unit *Gripen* decreased somewhat as a result of fewer aircraft invoiced; three compared to five during the first quarter last year.

## Income

Operating income decreased to SEK 167 m. (281). The lower income for **Military Aerospace** is mainly due to fewer aircraft delivered, higher planned development costs for the export version of Gripen and lower income for *Avionics*, which last year had an exceptionally good first quarter, owing among other things to the termination of a large development project. The decrease in income of **Combitech** is mainly due to higher capital gains from divesting operations in 1998, SEK 70 m. compared to SEK 5 m. in the corresponding period in 1999. Traffic Systems has had no negative impact on income in the first quarter of 1999. The period's losses in **Regional Aircraft** of SEK -89 m. and in *Saab Aircraft Leasing* of SEK -22 m. have according to plan been charged against the termination reserve and loss risk reserve respectively. Other operating income consists mainly of capital gains from divesting operations, SEK 5 m. (70), reversal of provision corresponding to the loss in *Customer Support*, SEK 2 m. (21) and trading income from Treasury business and exchange rate gains, etc., SEK 24 m. (28). Project interest on non-utilized advance payments amounted to SEK 58 m. (60).

Net financial income and expenses amounted to SEK 60 m. (68), of which *Saab Aircraft Leasing* accounted for SEK 15 m. (19). The deterioration is mainly due to a lower interest level. The average return on liquid funds was 4.6 (5.2) percent. Income after financial income and expenses amounted to SEK 227 m. (349).

Current and deferred taxes amounted to SEK -66 m. (-98), corresponding to an effective tax rate of 29 percent on income after financial income and expenses. The effective tax rate is higher than the Swedish rate of 28 percent due to permanent differences between book and tax income and the fact that the Group has operations in certain countries, mainly the USA, with higher tax rates than those in Sweden.

## Finance and Liquidity

Since January 1, cash and marketable securities, less liabilities to credit institutions, have decreased by SEK 771 m. to SEK 12,220 m. (12,991). The decrease is mainly due to lower accounts payable and large VAT payments as a result of the high sales during the fourth quarter last year 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 10,248 m.,

compared to SEK 11,026 m. The Group equity/assets ratio increased to 14.0 percent, compared to 13.3 percent, including *Avionics*, on January 1. The equity/assets ratio excluding Regional Aircraft and *Saab Aircraft Leasing* was 26.4 (25.2) percent.

### **Orders**

Group order bookings during the first three months amounted to SEK 1,555 m. (1,419). The order backlog at the end of the period was SEK 25,261 m. (26,248).

### **Capital expenditures**

The Group's capital expenditures in property, plant and equipment, excluding leasing assets, amounted to SEK 94 m. (99). Net investments including leasing assets and intangible fixed assets amounted to SEK 138 m. (654), of which leasing assets accounted for SEK 65 m. (677).

### **Personnel**

At the end of the period, the number of employees in the Group was 8,245, compared with 8,577 at January 1, 1999.

### **Accounting Principles**

This Interim Report has been drawn up in accordance with earlier accounting principles.

Linköping, April 27, 1999

Bengt Halse

President and CEO

This Interim Report has not been subject to review by the Company's auditors.

### ***New dates for financial information***

*Interim Report for January - June will be published on August 20, 1999*

*Interim Report for January - September will be published on  
November 9, 1999*

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

*Lars Jagerfelt, Vice President, Corporate Communications and Public Affairs,  
tel +46 13 18 71 65*

*Lars Wahlund, Senior Vice President, Corporate Financial Control,  
tel +46 13 18 71 35*

*Agneta Kammeby, Investor Relations, tel +46 13 18 71 25*

The Interim Report is also published on the Internet **www.saab.se**

**Income Statement**

SEK m.	3 months 1999	3 months 1998	Whole year 1998
Sales	1,995	1,817	8,248
Cost of goods sold	-1,431	-1,261	-6,105
<b>Gross margin</b>	<b>564</b>	<b>556</b>	<b>2,143</b>
Marketing expenses	-169	-189	-795
Administrative expenses	-147	-152	-532
Research and development costs	-113	-88	-378
Items affecting comparability			200
Other operating income	31	119	206
Other operating expenses	0	-4	-34
Share in income of associated companies	1	39	65
<b>Operating income <sup>1)</sup></b>	<b>167</b>	<b>281</b>	<b>875</b>
Result from financial investments	60	68	343
<b>Income after financial items</b>	<b>227</b>	<b>349</b>	<b>1,218</b>
Taxes	-66	-98	-279
Minority interest	-11	-6	-27
<b>Net income for the period</b>	<b>150</b>	<b>245</b>	<b>912</b>
Earnings per share, SEK <sup>2)</sup>	1.41	2.30	8.55
<sup>1)</sup> Includes depreciation of of which depreciation on leasing assets	-214 -118	-176 -97	-773 -439

<sup>2)</sup> Number of shares: 106,459,675 as per March 31, 1999

**Sales by business area**

SEK m.	3 months 1999	3 months 1998	Change	Whole year 1998
Military Aerospace	1,173	1,115	5%	4,572
Space	176	136	29%	607
Training Systems	134	136	-1%	621
Commercial Aircraft	232	267	-13%	908
Combitech	325	215	51%	1,057
Internal sales	-56	-52		-226
<b>Saab</b>	<b>1,984</b>	<b>1,817</b>	<b>9%</b>	<b>7,539</b>
Regional Aircraft	92	572		2,698
Internal sales	-81	-572		-1,989
<b>Saab Group</b>	<b>1,995</b>	<b>1,817</b>	<b>10%</b>	<b>8,248</b>



**Operating income by business area**

<b>SEK m.</b>	<b>3 months 1999</b>	<b>3 months 1998</b>	<b>Whole year 1998</b>
Military Aerospace	113	197	528
Space	17	15	59
Training Systems	23	19	167
Commercial Aircraft	0	0	-15
Combitech	7	42	-166
Corporate	7	8	2
<b>Saab</b>	<b>167</b>	<b>281</b>	<b>575</b>
Reversal of loss risk reserve	-	-	100
Saab	167	281	675
Regional Aircraft	0	0	0
Saab Aircraft Leasing	0	0	0
Total	167	281	675
Items affecting comparability	-	-	200
<b>Saab Group</b>	<b>167</b>	<b>281</b>	<b>875</b>

**Sales and income per quarter**

<b>SEK m.</b>	<b>1999</b>	<b>1998</b>			
	<b>1<sup>st</sup> Q</b>	<b>1<sup>st</sup> Q</b>	<b>2<sup>nd</sup> Q</b>	<b>3<sup>rd</sup> Q</b>	<b>4<sup>th</sup> Q</b>
Sales					
Saab	1,984	1,817	1,856	1,359	2,507
Regional Aircraft	92	572	743	377	1,006
Internal sales	-81	-572	-495	-369	-553
	1,995	1,817	2,104	1,367	2,960
Operating income					
Saab	167	281	63	56	275
Regional Aircraft	0	0	0	0	0
Saab Aircraft Leasing	0	0	0	0	0
Items affecting comparability	-	-	-	-	200
	167	281	63	56	475
<i>Operating margin for Saab before depreciation, percent</i>	<i>13.1</i>	<i>19.8</i>	<i>7.6</i>	<i>9.9</i>	<i>14.5</i>
<i>after depreciation, percent</i>	<i>8.4</i>	<i>15.5</i>	<i>3.4</i>	<i>4.1</i>	<i>11.0</i>
Net financial income	60	68	63	84	128
Income after financial items	227	349	126	140	603
Net income	150	245	87	95	485
Earnings per share, SEK <sup>1)</sup>	1.41	2.30	0.81	0.90	4.54

1) Number of shares: 106,459,675 as per March 31, 1999.

**Key ratios Saab, excl. Regional Aircraft and Saab Aircraft Leasing**

	1 <sup>st</sup> Q 1999	1 <sup>st</sup> Q 1998	Whole year 1998	Long-term objective
Operating margin before depreciation	13.1%	19.8%	13.4%	15%
Operating margin after depreciation	8.4%	15.5%	9.0%	10%
Equity / assets ratio	26%	24%	25% <sup>1)</sup>	30%

1) January 1, 1999 including Avionics.

**Balance sheet**

SEK m.	Mar. 31, 1999	Jan. 1, 1999 <sup>2)</sup>	Dec. 31, 1998	Mar. 31, 1998
<b>Assets</b>				
Goodwill and other intangible assets	330	328	108	118
Property, plant and equipment, etc.	2,660	2,685	2,620	2,497
Lease assets	8,611	8,664	8,664	7,499
Shares	44	44	103	95
Inventories, etc.	4,849	4,849	4,285	4,848
Receivables	2,958	3,201	3,062	2,685
Receivables on Investor AB	0	0	0	8,825
Cash and marketable securities	12,476	13,270	12,946	5,686
<b>Total assets</b>	<b>31,928</b>	<b>33,041</b>	<b>31,788</b>	<b>32,253</b>
<b>Shareholders' equity and liabilities</b>				
Shareholders' equity	4,186	4,033	4,033	3,332
Minority interest in subsidiaries	149	148	92	159
Provision for pensions	1,972	1,965	1,948	2,235
Other provisions	6,093	6,226	6,226	6,855
Liabilities to credit institutions	46	69	69	819
Convertible debenture loan	210	210	210	-
Lease obligations	4,901	4,953	4,953	5,154
Advance payments from customers <sup>1)</sup>	7,519	7,799	6,989	7,104
Other liabilities	6,852	7,638	7,268	6,595
<b>Total shareholders' equity and liabilities</b>	<b>31,928</b>	<b>33,041</b>	<b>31,788</b>	<b>32,253</b>
1) Of which portion used	2,089	2,608	2,108	2,196

2) Including Ericsson Saab Avionics, which is consolidated in the Saab Group from January 1, 1999.



**Summary of cash flow statement**

SEK m.	3 months 1999 <sup>1)</sup>	3 months 1998	Whole year 1998
<b>Cash flow from operating activities</b>			
Income after financial items excl. Share in income of associated companies	226	310	1,154
Depreciation and write-down charged to income	214	176	773
Items affecting comparability	-	-	-200
Tax	-2	-7	-95
<b>Cash flow from operating activities before changes in working capital</b>	<b>438</b>	<b>479</b>	<b>1,632</b>
<b>Working capital</b>			
Inventories etc.	0	148	711
Receivables	228	201	-35
Advance payments from customers	-280	-434	-549
Other liabilities	-786	-132	541
Lease obligations	-52	-53	-254
Provisions	-133	-13	-442
<b>Change in working capital</b>	<b>-1,023</b>	<b>-283</b>	<b>-28</b>
<b>Cash flow from operating activities</b>	<b>-585</b>	<b>196</b>	<b>1,604</b>
Investments in fixed assets	-73	23	-336
Change in long-term receivables	-15	7	-189
Investments in lease assets	-65	-677	-2,184
<b>Cash flow from investments</b>	<b>-153</b>	<b>-647</b>	<b>-2,709</b>
<b>Operating cash flow</b>	<b>-738</b>	<b>-451</b>	<b>-1,105</b>

<sup>1)</sup> From January 1 to March 31.

**Subdivided summary of cash flow statement, January- March 1999**

SEK m.	Saab	Regional Aircraft	SAL	Group
Cash flow from operating activities before changes in working capital	303	2	133	438
Change in working capital	-809	-27	-187	-1,023
Cash flow from operating activities	-506	-25	-54	-585
Investment activities	-88	0	-65	-153
<b>Operating cash flow</b>	<b>-594</b>	<b>-25</b>	<b>-119</b>	<b>-738</b>