

**SAAB**

INFORMATION

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Lars Jagerfelt

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## INTERIM REPORT

### January - June 1999

- Sales increased 23 % to SEK 4,810 m.
- Operating income increased 60 % to SEK 549 m.
- Net income amounted to SEK 486 m. (332) and earnings per share to SEK 4.57 (3.11).
- The outlook for the full year remains encouraging.
- During July, Saab acquired Barracuda Technologies AB, which is active in the field of countermeasures technology.
- Survey Systems, Pronesto and Combitech Electronics have been divested.

### Comment by the President

"Operative business is developing favorably. Projects are progressing according to plan and work on cost rationalization is proving successful. The phase-out of regional aircraft production has gone better than planned. Altogether, both sales and income show a positive trend and are considerably better than in the same period last year. Operating income for the whole year is also expected to be better than last year.

Training Systems is maintaining its leading position in its niche. During the period, two new product areas received their first orders - Gamer (Gunnery and Maneuver Exercise System) for the American 7th Army, to which the first delivery has already been made, and the new BT47 small arms simulator for Austria.

Renegotiation of the delivery contract for the Gripen has enabled FMV to purchase warning and countermeasures systems, and an initial order valued at SEK 100 million was received in July. The systems are very similar to those being offered with the export version of Gripen.

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The phase-out of regional aircraft production is continuing as planned and is well within the framework of the allocated reserves, at the same time as it has been possible to maintain the value of the existing aircraft fleet on a satisfactory level. The last regional aircraft were produced during the second quarter. Now that production has been terminated, it has been possible to make a more reliable assessment of the costs, which has enabled reversal of reserves of SEK 174 million in the financial statements for mid-year. Further structural measures remain to be made according to plan.

The acquisition of Barracuda Technologies, which works on protection against detection and identification through signature adaptation, will strengthen our competence in countermeasures technology, with applications to several of our other military product areas.

The streamlining of Combitech is continuing and a further three companies have been divested.

The recently acquired Nyge Aero has been combined with Saab Helikopter. Nyge Aero is already making a positive contribution to income, even after acquisition costs.

On 15 June, the Swedish Armed Forces presented their proposals for a new materiel plan. The proposals entail among other things that the role of the Gripen as a cornerstone in a defense based on rapid information and command warfare is confirmed. However, the plan at present allocates no funds to participation in certain related development projects, including the development of the Meteor air-to-air missile, a project which has high priority and has been carried on internationally for several years with Swedish involvement. Following the political process, a final decision will be made by Parliament.

In regard to the export version of Gripen, expenditures for development and adaptation of in-flight refueling, tropicalization and NATO adaptation have increased during the year. As planned, the expenditures have had an effect on income of Military Aerospace.

Cooperation with the Swedish Government has opened up the possibility of leasing Gripen aircraft to export customers, conditional to subsequent purchases of new aircraft. In July, Poland received an offer for the renting of 18 Gripen aircraft and later delivery of 60 new aircraft. As part of the long-term work of marketing Gripen abroad, Saab-BAe has replied to a formal request from Chile for information, while a similar request from the Czech Republic is currently being processed. Since November 1998, final negotiations have been in progress with South Africa, which has decided to negotiate with Saab-BAe on the delivery of 28 aircraft."

## Business Areas

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.

**Military Aerospace.** During 1999, business unit *Gripen* has delivered 9 (9) Gripen aircraft, bringing the total to 74 out of the 204 aircraft ordered by the Defence Materiel Administration, FMV. *Dynamics'* operations comprise high technology products in guided weapons and optronic systems. *Avionics*, which is owned to 50.1%, develops and builds display, reconnaissance and electronic warfare systems. Order bookings for **Military Aerospace** during the second quarter amounted to SEK 440 m. and included development orders and spare parts for 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 second quarter, order bookings amounted to SEK 172 m. and included computer systems for the unmanned cargo vehicle being developed for the new international space station. Negotiations are in progress for additional systems.

**Training Systems** leads the world in simulation systems based on laser technology for direct fire weapons. During the second quarter, order bookings amounted to SEK 113 m. and included the first order for the new small arms simulator BT47.

**Commercial Aircraft** consists of three business units, *Collaborative Programs, Customer Support (Saab Aircraft AB)* and *Saab Aircraft Leasing*. During the second quarter, no changes have taken place in the leasing portfolio administered by *Saab Aircraft Leasing*. At the end of the period, it comprised 314 Saab 340 and Saab 2000 aircraft, compared with 316 at year-end 1998. At the end of the period, six aircraft were not contracted to any operator, compared with eight at year-end. Order bookings for **Commercial Aircraft** during the second quarter amounted to SEK 204 m.

**Combitech's** operations comprise products in commercial high technology niches. During the second quarter, Pronesto and Survey Systems have been divested with a positive effect on income and an agreement has been reached with the Norwegian company Kitron on the sale of Combitech Electronics. Marine Electronics has signed a worldwide delivery agreement for radar-based level-gauging systems for oil tanker terminals with one of the world's largest independent tanker terminal companies, van Ommeren. During the second quarter, **Combitech's** order bookings amounted to SEK 297 m.

**Regional Aircraft** delivered three Saab 2000 to Crossair and one Saab 340 AEW to FMV during the second quarter. Remaining deliveries for 1999 consist of two completed Saab 340 to Japan Air Commuter.

### Sales

Sales of the Group increased 23 percent to SEK 4,810 m. (3,921). The improvement is related to *Dynamics*, partly deliveries of Strix to Switzerland, and **Training Systems** through large deliveries of simulators to Germany. Within **Combitech**, sales increased mainly in Traffic Systems for the Melbourne project, and in the software companies Software and Network. Sales also increased through the consolidation of *Avionics* in Group sales from 1999 and the acquisition of Nyge Aero.

### Income

Operating income increased 60 percent to SEK 549 m. (344). All business areas improved their income, except **Military Aerospace** as a result of higher planned development costs for the export version of Gripen. The increases in Space and Training Systems are mainly the result of higher volumes. The increase in income of **Combitech** is mainly due to the fact that Traffic Systems has had no negative impact on income during the first half of 1999 as provisions were made already in 1998 for the anticipated deficit. The performance of Traffic Systems has however improved compared to last year. Capital gains in Combitech from divesting operations were lower, SEK 19 m. compared to SEK 70 m. the previous year. Income for the period has been improved by SEK 174 m. through reversal of the reserve for phasing out Regional Aircraft. Other operating income of SEK 86 m. (191) consists mainly of capital gains from divesting operations, SEK 19 m. (70), reversal of provision corresponding to the loss in *Customer Support*, SEK 14 m. (61) and trading income from Treasury business and exchange rate gains, etc., SEK 53 m. (60). Project interest on non-utilized advance payments amounted to SEK 113 m. (115).

Net financial income and expenses amounted to SEK 172 m. (131). In the previous year, the financial net was burdened by a non-recurrent item of SEK 44 m. The average return on liquid funds was 5.17 (5.25) percent. Income after financial income and expenses amounted to SEK 721 m. (475). Current and deferred taxes amounted to SEK -209 m. (-133), corresponding to an effective tax rate of 29 percent on income after financial income and expenses.

### Finance and Liquidity

Since January 1, cash and marketable securities, less liabilities to credit institutions, have decreased by SEK 1,533 m. to SEK 11,458 m. (12,991). The decrease is mainly due to the utilization of advances as the projects progress within Gripen, phasing out of Regional Aircraft, large VAT payments and payment of dividend of SEK 213 m. The Group's financial position is strong and net liquidity after deduction for provision for pensions amounted to SEK 9,526 m., compared to SEK 11,026 m.

### Orders

Group order bookings during the first six months amounted to SEK 2,565 m. (3,289). The order backlog at the end of the period was SEK 23,485 m. (25,683).

### Capital expenditures

The Group's capital expenditures in property, plant and equipment, excluding leasing assets, amounted to SEK 294 m. (223).

**Personnel**

At the end of the period, the number of employees in the Group was 8,214, compared with 8,577 at January 1, 1999.

**Parent Company**

During the first six months, parent company sales amounted to SEK 2,764 m. (3,536). Operating income was SEK 321 m. (217) and income after financial income and expenses was SEK 463 m. (424).

Cash and marketable securities, less liabilities to credit institutions, amounted to SEK 11,160 m., compared with SEK 12,487 m. at year-end. Capital expenditures in property, plant and equipment amounted to SEK 88 m. (89). The number of employees at the end of the period was 4,863.

**Ownership**

Saab's principal owners are Investor AB, British Aerospace, US funds, the Wallenberg foundations and AMF.

**Accounting Principles**

The report has been drawn up in accordance with earlier accounting principles, but with the exception that Recommendation No. 8 of the Financial Accounting Standards Council has now been applied. The change consists of translating integrated foreign operations in accordance with the monetary method. No restatement has been made for earlier periods since the effect of the change of accounting method has been considered immaterial.

Linköping, August 20, 1999

Bengt Halse  
President and CEO

We have performed a review of this interim report and thereby followed the recommendations set out by the Swedish Institute of Authorized Public Accountants, FAR. A review is significantly limited in scope 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 Companies Acts.

Linköping, August 20, 1999

Gunnar Widhagen  
Authorized Public Accountant

Caj Nackstad  
Authorized Public Accountant

***Dates for financial information***

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

*The 1999 Report will be published on February 18, 2000*

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

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*(President Bengt Halse will be available for questions by phone today between 2.30 pm and 3.30 pm.)*

**Income Statement**

<b>SEK m.</b>	<b>6 months 1999</b>	<b>6 months 1998</b>	<b>Whole year 1998</b>
Sales	4,810	3,921	8,248
Cost of goods sold	-3,573	-2,876	-6,105
<b>Gross margin</b>	<b>1,237</b>	<b>1,045</b>	<b>2,143</b>
Marketing expenses	-369	-436	-795
Administrative expenses	-292	-284	-532
Research and development costs	-270	-179	-378
Items affecting comparability	174	-	200
Other operating income	86	191	206
Other operating expenses	-18	-40	-34
Share in income of associated companies	1	47	65
<b>Operating income <sup>1)</sup></b>	<b>549</b>	<b>344</b>	<b>875</b>
Result from financial investments	172	131	343
<b>Income after financial items</b>	<b>721</b>	<b>475</b>	<b>1,218</b>
Taxes	-209	-133	-279
Minority interest	-26	-10	-27
<b>Net income for the period</b>	<b>486</b>	<b>332</b>	<b>912</b>
Earnings per share, SEK <sup>2)</sup>	4.57	3.11	8.55
<sup>1)</sup> Includes depreciation of of which depreciation on leasing assets	-443 -237	-369 -212	-773 -439

<sup>2)</sup> Number of shares: 106,459,675 as per June 30, 1999

**Sales by business area**

<b>SEK m.</b>	<b>6 months 1999</b>	<b>6 months 1998</b>	<b>Whole- year 1998</b>	<b>2<sup>nd</sup> quarter 1999</b>
Military Aerospace	2,876	2,261	4,572	1,703
Space	329	278	607	153
Training Systems	319	241	621	185
Commercial Aircraft	412	492	908	180
Combitech	715	519	1,057	390
Internal sales	-148	-118	-226	-92
<b>Saab</b>	<b>4,503</b>	<b>3,673</b>	<b>7,539</b>	<b>2,519</b>
Regional Aircraft	497	1,315	2,698	405
Internal sales	-190	-1,067	-1,989	-109
<b>Saab Group</b>	<b>4,810</b>	<b>3,921</b>	<b>8,248</b>	<b>2,815</b>



**Operating income by business area**

SEK m.	6 months	6 months	Whole year	2 <sup>nd</sup> quarter
	1999	1998	1998	1999
Military Aerospace <sup>1)</sup>	237	286	628	124
Space	33	26	59	16
Training Systems	61	30	167	38
Commercial Aircraft	0	0	-15	0
Combitech	34	-2	-166	27
Corporate	10	4	2	3
<b>Saab</b>	<b>375</b>	<b>344</b>	<b>675</b>	<b>208</b>
Regional Aircraft	0	0	0	0
Saab Aircraft Leasing	0	0	0	0
Items affecting comparability	174	-	200	174
<b>Saab Group</b>	<b>549</b>	<b>344</b>	<b>875</b>	<b>382</b>

<sup>1)</sup> Whole year 1998 includes reversal of loss risk reserve of SEK 100m.

**Sales and income per quarter**

SEK m.	1999		1998			
	1 <sup>st</sup> Q	2 <sup>nd</sup> Q	1 <sup>st</sup> Q	2 <sup>nd</sup> Q	3 <sup>rd</sup> Q	4 <sup>th</sup> Q
Sales						
Saab	1,984	2,519	1,817	1,856	1,359	2,507
Regional Aircraft	92	405	572	743	377	1,006
Internal sales	-81	-109	-572	-495	-369	-553
	1,995	2,815	1,817	2,104	1,367	2,960
Operating income	167	382	281	63	56	475
of which items affecting comparability	-	174	-	-	-	200
<i>Operating margin excl items affecting comparability</i>						
<i>before depreciation, percent</i>	13.1	12.6	19.8	7.6	9.9	14.5
<i>after depreciation, percent</i>	8.4	8.3	15.5	3.4	4.1	11.0
Net financial income	60	112	68	63	84	128
Income after financial items	227	494	349	126	140	603
Net income	150	336	245	87	95	485
Earnings per share, SEK <sup>1)</sup>	1.41	3.16	2.30	0.81	0.90	4.54

<sup>1)</sup> Number of shares: 106,459,675 as per June 30, 1999

**Key ratios**

	6 months 1999	6 months 1998	Whole year 1998
<b>Saab</b>			
Operating margin before depreciation	12.9%	13.6%	13.4%
Operating margin after depreciation	8.3%	9.4%	9.0%
Equity / assets ratio	28.0%	24.9%	25.2% <sup>1)</sup>
<b>Saab Group</b>			
Return on capital employed	24.6%	-	21.4%
Return on shareholders' equity	27.7%	-	25.6%
Equity / assets ratio	15.1%	11.9%	13.3% <sup>1)</sup>

1) January 1, 1999 including Avionics.

**Balance sheet**

SEK m.	June 30, 1999	Jan. 1, 1999 <sup>2)</sup>	Dec. 31, 1998	June 30, 1998
<b>Assets</b>				
Goodwill and other intangible assets	383	328	108	115
Property, plant and equipment, etc.	2,754	2,685	2,620	2,539
Lease assets	8,502	8,664	8,664	7,833
Shares	43	44	103	101
Inventories, etc.	4,174	4,849	4,285	4,800
Receivables	2,702	3,201	3,062	2,692
Receivables on Investor AB	-	0	0	6,576
Cash and marketable securities	11,747	13,270	12,946	6,231
<b>Total assets</b>	<b>30,305</b>	<b>33,041</b>	<b>31,788</b>	<b>30,887</b>
<b>Shareholders' equity and liabilities</b>				
Shareholders' equity	4,285	4,033	4,033	3,412
Minority interest in subsidiaries	161	148	92	162
Provision for pensions	1,932	1,965	1,948	2,233
Other provisions	5,502	6,226	6,226	6,774
Liabilities to credit institutions	74	69	69	51
Convertible debenture loan	215	210	210	-
Lease obligations	4,790	4,953	4,953	5,082
Advance payments from customers <sup>1)</sup>	6,911	7,799	6,989	6,732
Other liabilities	6,435	7,638	7,268	6,441
<b>Total shareholders' equity and liabilities</b>	<b>30,305</b>	<b>33,041</b>	<b>31,788</b>	<b>30,887</b>
1) Of which portion used	1,945	2,608	2,108	2,164

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



**Subdivided summary of income statement, January - June 1999**

SEK m.	Saab	Regional Aircraft	SAL	Elimi- nations	Group
Sales	4,503	497		-190	4,810
Cost of goods sold	-3,266	-906		599	-3,573
<b>Gross margin</b>	<b>1,237</b>	<b>-409</b>		<b>409</b>	<b>1,237</b>
Operating expenses	-863		-59	59	-863
Share in income of associated companies	1				1
Settle of termination reserve		409	59	-468	0
<b>Total</b>	<b>375</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>375</b>
Reversal of termination reserve		174			174
<b>Operating income</b>	<b>375</b>	<b>174</b>	<b>0</b>	<b>0</b>	<b>549</b>
Income from financial items	137		35		172
<b>Income after financial items</b>	<b>512</b>	<b>174</b>	<b>35</b>	<b>0</b>	<b>721</b>

**Subdivided summary of balance sheet, June 30 1999**

SEK m.	Saab	Regional Aircraft	SAL	Elimi- nations	Group
<b>Assets</b>					
Fixed assets	4,679		1	-1,500	3,180
Lease assets			8,502		8,502
Deferred tax receivables	188	789		-492	485
Inventories, etc.	4,031	143			4,174
Receivables	1,250	11	956		2,217
Cash and marketable securities	6,932	3,304	1,511		11,747
<b>Total assets</b>	<b>17,080</b>	<b>4,247</b>	<b>10,970</b>	<b>-1,992</b>	<b>30,305</b>
<b>Shareholders' equity and liabilities</b>					
Shareholders' equity	4,238		1,547	-1,500	4,285
Minority interest in subsidiaries	148		13		161
Provision for pensions	1,932				1,932
Other provisions	70	2,819	3,105	-492	5,502
Liabilities to credit institutions	74				74
Convertible debenture loan	215				215
Lease obligations	44		4,746		4,790
Advance payments from customers	6,871	40			6,911
Other liabilities	3,488	1,388	1,559		6,435
<b>Total shareholders' equity and liabilities</b>	<b>17,080</b>	<b>4,247</b>	<b>10,970</b>	<b>-1,992</b>	<b>30,305</b>

**Summary of cash flow statement**

SEK m.	6 months 1999 <sup>1)</sup>	6 months 1998	Whole year 1998
<b>Cash flow from operating activities</b>			
Income after financial items excl. Share in income of associated companies	720	428	1,154
Depreciation and write-down charged to income	443	369	773
Items affecting comparability	-174	-	-200
Tax	15	-3	-95
<b>Cash flow from operating activities before changes in working capital</b>	<b>1,004</b>	<b>794</b>	<b>1,632</b>
<b>Working capital</b>			
Inventories etc.	675	196	711
Receivables	294	341	-35
Advance payments from customers	-888	-806	-549
Other liabilities	-1,203	-286	541
Lease obligations	-163	-125	-254
Provisions	-550	-94	-442
<b>Change in working capital</b>	<b>-1,835</b>	<b>-774</b>	<b>-28</b>
<b>Cash flow from operating activities</b>	<b>-831</b>	<b>20</b>	<b>1,604</b>
Investments in intangible fixed assets	-80	12	12
Investments in tangible fixed assets	-248	-109	-348
Investments in lease assets	-74	-1,126	-2,184
Change in long-term receivables	-29	-173	-189
<b>Cash flow from investments</b>	<b>-431</b>	<b>-1,396</b>	<b>-2,709</b>
<b>Operating cash flow</b>	<b>-1,262</b>	<b>-1,376</b>	<b>-1,105</b>

<sup>1)</sup> From January 1 to June 30.

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

SEK m.	Saab	Regional Aircraft	SAL	Group
Cash flow from operating activities before changes in working capital	732		272	1,004
Change in working capital	-1,347	-267	-221	-1,835
Cash flow from operating activities	-615	-267	51	-831
Investment activities	-361	4	-74	-431
<b>Operating cash flow</b>	<b>-976</b>	<b>-263</b>	<b>-23</b>	<b>-1,262</b>

The Interim Report is also published on the Internet [www.saab.se](http://www.saab.se)