

**SAAB**

INFORMATION

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Lars Jagerfelt

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INTERIM REPORT

January - September 1999

- Sales increased 27 % to SEK 6,733 m. (5,288)
- Operating income increased to SEK 725 m. (400)
- Net income amounted to SEK 640 m. (427) and earnings per share to SEK 6.01 (4.01).
- The outlook for the full year remains encouraging.

Comment by the President

The third quarter of 1999 was another good quarter with continued favorable development of operations in all business areas. The phase-out of regional aircraft production has proceeded considerably better than planned. I expect that both sales and operating income for the whole year will also be considerably better than last year. In addition, there is the positive effect of the surplus funds from SPP.

On 15 September, an important milestone was passed when South Africa decided to purchase 28 Gripen aircraft including equipment, training, etc., the first nation outside Sweden to choose Gripen. The agreement is currently under final negotiation and is intended to form part of a larger agreement that includes 24 Hawk aircraft from British Aerospace. Intensive activities in export markets are also being conducted by other business areas, and during the quarter several co-operation agreements have been signed with foreign partners.

Another important event was the first delivery to Aérospatiale Matra intended for the Airbus A340-500/600.

Our acquisitions have strengthened us in areas that we consider to be interesting growth areas. This includes maintenance, modification and flight services, as well as signature management technology which is part of information warfare. At the same time, we have continued to streamline Combitech, which has increased the focus on core business and improved profitability.

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We are continuing to invest substantially in research and development on the cutting edge of technology. This is an important reason why the Group is able to achieve a high level of profitability in supplying advanced products and systems based on sophisticated information technology. Applications include military and commercial aviation, defense electronics, industrial electronics and information technology, missile systems as well as space applications. Our intention is to identify further growth potentials in these areas that can be achieved both organically and/or through acquisitions.

Business Areas

Today, Saab consists of five business areas: **Military Aerospace, Space, Training Systems, Commercial Aircraft** and **Combitech**. Regional Aircraft is in the process of being phased out.

Military Aerospace. By the end of September, Business unit *Gripen* had delivered 12 (11) Gripen aircraft, making a total of 77 deliveries out of the 204 ordered by the Defence Materiel Administration, FMV. During the third quarter, *Dynamics*, with operations comprising high technology products for guided weapons and optronic systems, signed an agreement with German BGT on export collaboration concerning the RBS15 anti-ship missile. *Avionics*, which develops and manufactures display and surveillance systems as well as electronic warfare systems, had good order bookings during the third quarter. Order bookings for **Military Aerospace** during the third quarter totaled SEK 614 m. and included electronic warfare systems and jamming equipment for *Avionics*.

Space develops and manufactures onboard computers, antennas and other equipment for the space industry. Order bookings continued to be good and amounted to SEK 170 m. during the third quarter, including a computerised sensor for use on board the new American satellite system for weather monitoring.

Training Systems leads the world in simulation systems based on laser technology for direct fire weapons. Order bookings during the third quarter amounted to SEK 86 m. and consisted mainly of further orders from the German and American armies.

Commercial Aircraft consists of three business units, *Collaborative Programs*, *Customer Support (Saab Aircraft AB)* and *Saab Aircraft Leasing*. The sale of four aircraft during the third quarter and the expiry during the year of leasing contracts for two aircraft, now returned to the investor, reduced the *Saab Aircraft Leasing* portfolio to 310 Saab 340 and Saab 2000 at the end of the period, compared with 316 aircraft at the beginning of the year. By the end of the period, eleven aircraft remained uncontracted with airlines, compared with eight at the beginning of the year. Order bookings for **Commercial Aircraft** during the third quarter amounted to SEK 181 m. and mainly concerned additional orders from Airbus and spare parts for the Saab 340 and Saab 2000.

Combitech's operations comprise products in commercial high technology niches. The group now consists of five companies since *Combitech Electronics* was divested to the Norwegian company Kitron during the third quarter. The largest company in the business area, *Saab Marine Electronics*, is continuing to develop favorably with increasing market

shares in both the marine and oil terminal markets. Order bookings for **Combitech** during the third quarter amounted to SEK 247 m.

Regional Aircraft delivered the last two regional aircraft, two Saab 340 to Japan Air Commuter, during the third quarter.

Sales

Sales of the Group increased 27 percent to SEK 6,733 m. (5,288). The improvement is related to *Gripen* as well as **Training Systems** and **Space** through higher volumes. Within **Combitech**, sales increased mainly through increased volumes in *Traffic Systems* and through growth in the information technology companies. Sales also increased through the consolidation of *Avionics* in Group sales from 1999 and the acquisition of *Nyge Aero* and *Barracuda Technologies*.

Income

Operating income increased to SEK 725 m. (400). All business areas improved their income, except **Military Aerospace** which, according to plan, shows higher development costs for the export version of *Gripen*. The increase in **Space** is the result of higher volumes with maintained margins and in **Training Systems** it is the result of both higher volumes and margins. The increase in income of **Combitech** is mainly due to higher volumes and margins for all units and the fact that *Traffic Systems* has had no negative impact on income during the nine months of 1999 as provisions were made already in 1998 for the anticipated deficit. The result in **Combitech** from divesting operations was lower, SEK -6 m. compared to SEK 71 m. the previous year. Income for the period has also been improved by SEK 174 m. through reversal of the reserve for phasing out Regional Aircraft in connection with the closing of the production.

Other operating income of SEK 144 m. (200) consists mainly of capital gains from divesting operations, SEK 32 m. (71), reversal of provision corresponding to the loss in *Customer Support*, SEK 25 m. (60) and trading income from Treasury business and exchange rate gains, etc., SEK 87 m. (69). Other operating expenses of SEK -52 m. (-43) consists among others of the capital loss from divesting *Combitech Electronics*. Project interest on non-utilized advance payments amounted to SEK 166 m. (173).

Net financial income and expenses amounted to SEK 239 m. (215). In the previous year, the financial net was burdened by a non-recurrent item of SEK 45 m. The average return on liquid funds was 4.85 (5.35) percent. Income after financial income and expenses amounted to SEK 964 m. (615). Current and deferred taxes amounted to SEK -289 m. (-172), corresponding to an effective tax rate of 30 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 1,241 m. to SEK 11,750 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 9,787 m., compared to SEK 11,026 m. at the beginning of the year.

Saab has been notified that the Group will receive SEK 372 m. in surplus funds from SPP.

Orders

Group order bookings during the first nine months amounted to SEK 3,674 m. (4,309). The order backlog at the end of the period was SEK 22,739 m. (25,032).

Capital expenditures

The Group's capital expenditures in property, plant and equipment, excluding leasing assets, amounted to SEK 367 m. (319). Net investments during the period amounted to SEK 353 m., of that SEK 75 m. is goodwill related to the acquisitions of Nyge Aero, Barracuda Technologies and Saab Celsius Transpondertech.

Personnel

At the end of the period, the number of employees in the Group was 8,003, compared with 8,577 at January 1, 1999.

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, November 9, 1999

Bengt Halse
President and CEO

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

Dates for financial information

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 5.45 pm and 6.15 pm.)

Income Statement

SEK m.	9 months 1999	9 months 1998	Whole year 1998
Sales	6,733	5,288	8,248
Cost of goods sold	-4,934	-3,873	-6,105
Gross margin	1,799	1,415	2,143
Marketing expenses	-553	-576	-795
Administrative expenses	-408	-388	-532
Research and development costs	-378	-251	-378
Items affecting comparability	174	-	200
Other operating income	144	200	206
Other operating expenses	-52	-43	-34
Share in income of associated companies	-1	43	65
Operating income ¹⁾	725	400	875
Result from financial investments	239	215	343
Income after financial items	964	615	1,218
Taxes	-289	-172	-279
Minority interest	-35	-16	-27
Net income for the period	640	427	912
Earnings per share, SEK ²⁾	6.01	4.01	8.55
Earnings per share after full conversion, SEK ³⁾	5.86	3.91	8.35
¹⁾ Includes depreciation of of which depreciation on leasing assets	-668 -353	-562 -326	-773 -439

²⁾ Number of shares: 106,459,675 as per September 30, 1999

³⁾ Number of shares after full conversion: 109,247,175

Sales by business area

SEK m.	9 months 1999	9 months 1998	Whole- year 1998	3rd quarter 1999	3rd quarter 1998
Military Aerospace	3,990	3,011	4,572	1,114	750
Space	506	415	607	177	137
Training Systems	487	340	621	168	99
Commercial Aircraft	600	686	908	188	194
Combitech	908	742	1,057	193	223
Internal sales	-219	-162	-226	-71	-44
Saab	6,272	5,032	7,539	1,769	1,359
Regional Aircraft	746	1,692	2,698	249	377
Internal sales	-285	-1,436	-1,989	-95	-369
Saab Group	6,733	5,288	8,248	1,923	1,367

Operating income by business area

SEK m.	9 months 1999	9 months 1998	Whole year 1998	3rd quarter 1999	3rd quarter 1998
Military Aerospace ¹⁾	314	349	628	77	63
Space	51	38	59	18	12
Training Systems	104	43	167	43	13
Commercial Aircraft	0	-13	-15	0	-13
Combitech	51	-26	-166	17	-24
Corporate	31	9	2	21	5
Saab	551	400	675	176	56
Regional Aircraft	0	0	0	0	0
Saab Aircraft Leasing	0	0	0	0	0
Items affecting comparability	174	0	200	0	0
Saab Group	725	400	875	176	56

¹⁾ Whole year 1998 includes reversal of loss risk reserve of SEK 100m.

Sales and income per quarter

SEK m.	1999			1998			
	1 st Q	2 nd Q	3 rd Q	1 st Q	2 nd Q	3 rd Q	4 th Q
Sales							
Saab excl regional aircraft	1,984	2,519	1,769	1,817	1,856	1,359	2,507
Regional Aircraft	92	405	249	572	743	377	1,006
Internal sales	-81	-109	-95	-572	-495	-369	-553
	1,995	2,815	1,923	1,817	2,104	1,367	2,960
Operating income	167	382	176	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	16.1	19.8	7.6	9.9	14.5
<i>after depreciation, percent</i>	8.4	8.3	9.9	15.5	3.4	4.1	11.0
Net financial income	60	112	67	68	63	84	128
Income after financial items	227	494	243	349	126	140	603
Net income	150	336	154	245	87	95	485
Earnings per share, SEK ¹⁾	1.41	3.16	1.44	2.30	0.81	0.90	4.54

1) Number of shares: 106,459,675 as per September 30, 1999

Key ratios

	9 months 1999	9 months 1998	Whole year 1998
Saab, excl regional aircraft			
Operating margin before depreciation	13.8%	12.6%	13.4%
Operating margin after depreciation	8.8%	7.9%	9.0%
Equity / assets ratio	28.8%	25.0%	25.2% ¹⁾
Saab, incl regional aircraft			
Return on capital employed	25.2%	-	21.4%
Return on shareholders' equity	28.4%	-	25.6%
Equity / assets ratio	15.9%	12.0%	13.3% ¹⁾

1) January 1, 1999 including Avionics.

Balance sheet

SEK m.	Sept. 30, 1999	Jan. 1, 1999 ²⁾	Dec. 31, 1998	Sept. 30, 1998
Assets				
Goodwill and other intangible assets	382	328	108	111
Property, plant and equipment, etc.	2,710	2,685	2,620	2,538
Lease assets	8,269	8,664	8,664	8,142
Shares	39	44	103	101
Deferred tax receivables	457	707	734	719
Inventories, etc.	4,117	4,849	4,285	5,140
Receivables	2,297	2,494	2,328	2,139
Receivables on Investor AB	-	0	0	3,120
Cash and marketable securities	12,003	13,270	12,946	9,342
Total assets	30,274	33,041	31,788	31,352
Shareholders' equity and liabilities				
Shareholders' equity	4,432	4,033	4,033	3,499
Minority interest in subsidiaries	191	148	92	168
Provision for pensions	1,963	1,965	1,948	2,246
Other provisions	5,366	6,226	6,226	6,647
Liabilities to credit institutions	37	69	69	96
Convertible debenture loan	216	210	210	-
Lease obligations	4,647	4,953	4,953	5,011
Advance payments from customers ¹⁾	6,837	7,799	6,989	7,168
Other liabilities	6,585	7,638	7,268	6,517
Total shareholders' equity and liabilities	30,274	33,041	31,788	31,352
1) Advance payments from customers, gross	6,837	7,799	6,989	7,168
Less portion used (inventories)	-2,354	-2,608	-2,108	-2,287
Advance payments from customers, net (cash and marketable securities)	4,483	5,191	4,881	4,881

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

Subdivided summary of income statement, January - September 1999

SEK m.	Regional			Elimi-	
	Saab	Aircraft	SAL	nations	Group
Sales	6,272	746	-	-285	6,733
Cost of goods sold	-4,473	-1,353	-	892	-4,934
Gross margin	1,799	-607	-	607	1,799
Operating expenses	-1,247	-	-90	90	-1,247
Share in income of associated companies	-1	-	-	-	-1
Settle of termination reserve	-	607	90	-697	0
Total	551	0	0	0	551
Reversal of termination reserve	-	174	-	-	174
Operating income	551	174	0	0	725
Income from financial items	184	-	55	-	239
Income after financial items	735	174	55	0	964

Subdivided summary of balance sheet, September 30 1999

SEK m.	Regional			Elimi-	
	Saab	Aircraft	SAL	nations	Group
Assets					
Fixed assets	4,630	-	1	-1,500	3,131
Lease assets	-	-	8,269	-	8,269
Deferred tax receivables	218	734	-	-495	457
Inventories, etc.	4,106	11	-	-	4,117
Receivables	1,384	9	904	-	2,297
Cash and marketable securities	7,195	3,242	1,566	-	12,003
Total assets	17,533	3,996	10,740	-1,995	30,274
Shareholders' equity and liabilities					
Shareholders' equity	4,373	-	1,559	-1,500	4,432
Minority interest in subsidiaries	177	-	14	-	191
Provision for pensions	1,963	-	-	-	1,963
Other provisions	163	2,621	3,077	-495	5,366
Liabilities to credit institutions	37	-	-	-	37
Convertible debenture loan	216	-	-	-	216
Lease obligations	39	-	4,608	-	4,647
Advance payments from customers	6,837	-	-	-	6,837
Other liabilities	3,728	1,375	1,482	-	6,585
Total shareholders' equity and liabilities	17,533	3,996	10,740	-1,995	30,274

Summary of cash flow statement

SEK m.	9 months 1999 ¹⁾	9 months 1998	Whole year 1998
Cash flow from operating activities			
Income after financial items excl. share in income of associated companies	970	573	1,154
Depreciation and write-down charged to income	668	562	773
Items affecting comparability	-174	-	-200
Tax	-37	-4	-95
Cash flow from operating activities before changes in working capital	1,427	1,131	1,632
Working capital			
Inventories etc.	732	-144	711
Receivables	196	147	-35
Advance payments from customers	-962	-370	-549
Other liabilities	-1,053	-210	541
Lease obligations	-306	-196	-254
Provisions	-686	-221	-442
Change in working capital	-2,079	-994	-28
Cash flow from operating activities	-652	137	1,604
Investments in intangible fixed assets	-93	12	12
Investments in tangible fixed assets	-303	-187	-348
Investments in lease assets	43	-1,548	-2,184
Change in long-term receivables	0	-182	-189
Cash flow from investments	-353	-1,905	-2,709
Operating cash flow	-1,005	-1,768	-1,105

¹⁾ From January 1 to September 30.

Subdivided summary of cash flow statement, January- September 1999

SEK m.	Saab	Regional Aircraft	SAL	Group
Cash flow from operating activities before changes in working capital	1.019	-	408	1.427
Change in working capital	-1.454	-210	-415	-2.079
Cash flow from operating activities	-435	-210	-7	-652
Investment activities	-399	4	42	-353
Operating cash flow	-834	-206	35	-1.005

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