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## INTERIM REPORT

### January – March 2000

- Sales increased 125% to SEK 4,498 m. (1,995, pro forma 4,182).
- Operating income increased 53% to SEK 256 m. (167, pro forma 196).
- Net income amounted to SEK 170 m. (150) and earnings per share to SEK 1.60 (1.41).
- Order bookings amounted to SEK 13.8 bn, of which 9.3 bn related to the order of 28 Gripen from South Africa
- The acquisition of Celsius has now been completed and the new organization is in operation since March.

#### Comment by the President

"During the last five years, Saab has shown uninterrupted growth in its core activities. With the acquisition of Celsius, which doubles our size, we are taking a quantum leap in this development. The merger creates the breadth of high technology competence needed to continue supporting our customers in the future and to be their natural first choice. We will continue to take part in international joint programs and occupy a strong position in the rapid restructuring currently in progress internationally, while creating prospects for considerable cost and market synergies.

We are now in an intensive process of integration that demands both financial and personnel resources, nevertheless our goal is to regain our operating margin targets in this new constellation within about three years.

At present, we are working to streamline the Group, partly through divestments of operations outside the core activities, in order to release both capital and management resources. During the first quarter, Traffic Systems has been divested together with two ship repair yards and in April, Combitech Network was sold to the American IT group Computer Sciences Corporation when we formed a partnership in the IT field. However, we will also continue to grow both organically and through acquisitions in our core operations. The markets where we are active have good growth prospects, some in the short term, others in the long term.

This is our first report for the new constellation and although only a short time has elapsed since the acquisition, our expectations so far have already been fulfilled."

## Business areas

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

### Infomatics

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

Sales amounted to SEK 1,027 m. (886). Almost every unit in the business area increased its sales compared with the previous year, in particular those operations in the areas of command and control systems, simulation systems and electronic warfare. Operating income was SEK 61 m. (pro forma -13), corresponding to an operating margin of 5.9 percent. The increased operating margin is mainly attributable to considerably lower investments in certain commercial development projects.

Order bookings totaled SEK 955 m. (pro forma 444) and included combat management systems for an additional two "Visby" class corvettes for the Swedish Armed Forces and laser simulators for the USA. In mid-April, an order valued at over SEK 200 m. was received for upgrading the HeliTOW anti-tank system on Danish army helicopters.

### 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 923 m. (pro forma 861), of which Commercial Programs including sales of spare parts to Saab Aircraft was SEK 69 m. (64). The increase is mainly due to the delivery during the period of four Gripen aircraft, compared with three during the corresponding period last year, and larger deliveries of spare parts and support. A total of 85 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 94 m. (pro forma 82), corresponding to an operating margin of 10.2 (9.5) percent. The improvement in income is due to higher number of Gripen delivered and the larger deliveries of spare parts and support. The period's expenditures on the export program for the Gripen were higher than for the corresponding period in the preceding year and are expected to be higher also on a whole-year basis.

Order bookings was SEK 10,329 m. (pro forma 723), including the South African order for 28 Gripen aircraft with related equipment, training, etc. of SEK 9.3 bn.

**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 572 m. (pro forma 678). Sales decreased in all parts of the operation, mainly due to large deliveries of STRIX during 1999. Operating income continued to be negative and amounted to SEK -23 m. (pro forma -12). Intensive integration work has started in the business area with the aim of realizing planned cost synergies.

Order bookings totaled SEK 438 m. (pro forma 618) and included Swedish orders for the AK4, Carl Gustaf ammunition for various countries, and orders for the RBS 70 from countries such as Australia and the USA.

**Technical Support & Services**

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, which has an option of purchasing the remaining 43 percent, currently owned by TietoEnator, during autumn 2001. 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 includes Saab Nyge Aero, which is active in aircraft maintenance, aerial target towing and special flight operations, in addition to upgrading and retrofit work on earlier Saab aircraft.

Sales amounted to SEK 622 m. (pro forma 548). The increase compared with the preceding year is mainly due to the acquisition of Nyge during the second quarter of 1999 and acquisitions within Aerotech Telub earlier this year. 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. Operating income was SEK 46 m. (pro forma 44), corresponding to an operating margin of 7.4 (8.0) percent. The decrease in operating margin is attributable to normal variations between the quarters.

Order bookings totaled SEK 723 m. (pro forma 556) and contain a large number of small orders.

**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 163 m. (176) and included a number of onboard computers for satellites and launch rockets. Just over 50 percent of sales went to the commercial telecom market and 95 percent of total sales went to markets outside Sweden. The slight

decrease in sales compared with the preceding year is attributable to normal variations between the quarters. Operating income was SEK 16 m. (17), giving an operating margin of 9.8 percent, which is on a level with the preceding year.

Order bookings amounted to SEK 167 m. (216) and included further orders for both the European and American meteorological satellite programs and the scientific satellite, Rosetta. 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 work has already been started on finding another owner.

Sales during the first quarter amounted to SEK 820 m. (629) and operating income was SEK 26 m. (47). The decrease in income is partly due to seasonal variations and as reported earlier an increased competition in the American market. Order bookings during the quarter amounted to SEK 836 m. (631).

### **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 Bofors Weapon Systems and a number of small 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 Bofors Weapon Systems and during April, Combitech Network was divested.

### **B2B**

In March, we announced together with nine other leading companies the largest European initiative in electronic trading solutions between companies, known as B2B. Our primary motive for investing EUR 10 million, almost SEK 90 million, in this field is to enable both future growth potential and cost savings through knowledge exchange.

## **Sales, income and orders**

### **Sales**

Group sales increased by 125 percent to SEK 4,498 m. (1,995, pro forma 4,182). Sales of core business was SEK 3,094 m. (pro forma 2,950). Growth in several of the core business areas has been offset by the shrinking sales in Dynamics. For other operations, the increase is mainly attributable to CAS and Saab Aircraft.

**Income**

Operating income increased 53 percent to SEK 256 m. (167, pro forma 196), corresponding to an operating margin of 5.7 percent. Operating income of the core business amounted to SEK 255 m. (pro forma 133), equal to an operating margin of 8.2 (4.5) percent. The improved operating income is mainly attributable to lower investments in certain commercial development projects in Infomatics, to the capital gain of SEK 55 m. from the sale of Traffic Systems and to lower overhead costs. Project interest on non-utilized advance payments, accounted for in gross margin, amounted to SEK 48 m. (71).

The period's losses for closing Regional Aircraft of SEK -105 m. (-89) and in Saab Aircraft Leasing of SEK -35 m. (-22) 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. Research and development costs amounted to SEK 210 m. (pro forma 177). 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 55 m. (5).

Net financial income and expenses amounted to SEK 12 m. (pro forma -25). The income improvement is mainly attributable to the income portion of HDW, which amounted to SEK 21 m., being reported as financial income. The average return on liquid funds was 3.14 (4.6) percent. Income after financial income and expenses amounted to SEK 268 m. (pro forma 171). Current and deferred taxes amounted to SEK -77 m. (pro forma -52), corresponding to an effective tax rate of 29 percent on income after financial income and expenses.

**Order bookings**

Group order bookings during the first three months amounted to SEK 13,790 m. (pro forma 3,485), including among others 28 Gripen aircraft with related equipment, training, etc. to South Africa to an order value of SEK 9.3 bn. The order backlog at the end of the period was SEK 41,914 m., compared to SEK 31,871 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 791 m. to SEK 5,633 m. (6,424). The decrease is mainly due to the utilization of advances as the projects progress within Gripen and the phasing out of Regional Aircraft. The Group's financial position is strong and net liquidity after deduction for provision for pensions amounted to SEK 2,025 m., compared to SEK 2,820 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 85 m. (pro forma 128). The decrease is mainly due to lower investments in buildings and a few major investments within Commercial programs during 1999.

**Personnel**

At the end of the period, the number of employees in the Group was 16,795, compared with 17,213 at the beginning of the year.

**Ownership**

Saab's principal owners are Investor AB, BAE SYSTEMS, US funds, the Wallenberg foundations, Fifth National Pension Insurance Fund, AMF and Skandia.

**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 first quarter of 1999. The pro forma figures will be adjusted in pace with the restructuring of the Group.

Linköping, April 27, 2000

Bengt Halse  
President and CEO

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

**Dates for financial information:**

*Interim Report for January - June will be published on July 13, 2000.*

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

**For further information, please contact:**

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*(President Bengt Halse will be available for questions by phone today between 5.30 pm and 6.00 pm)*

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

**Income statement**

SEK m.	3 months 2000	3 months 1999	Pro forma 3 months 1999	Pro forma 12 months 1999
<b>Sales</b>	<b>4,498</b>	<b>1,995</b>	<b>4,182</b>	<b>19,264</b>
Cost of goods sold	-3,398	-1,431	-3,209	-14,841
<b>Gross margin</b>	<b>1,100</b>	<b>564</b>	<b>973</b>	<b>4,423</b>
Marketing expenses	-405	-169	-328	-1,528
Administrative expenses	-331	-147	-348	-1,333
Research and development costs	-210	-113	-177	-893
Items affecting comparability	0	0	0	255
Other operating income	132	31	88	347
Other operating expenses	-28	0	-1	-65
Share in income of associated companies	-2	1	-11	24
<b>Operating income <sup>1)</sup></b>	<b>256</b>	<b>167</b>	<b>196</b>	<b>1,230</b>
Result from financial investments	12	60	-25	-31
<b>Income after financial items</b>	<b>268</b>	<b>227</b>	<b>171</b>	<b>1,199</b>
Taxes	-77	-66	-52	-380
Minority interest	-21	-11	-11	-29
<b>Net income</b>	<b>170</b>	<b>150</b>	<b>108</b>	<b>790</b>
Earnings per share, SEK <sup>2)</sup>	1.60	1.41	1.01	7.42
Earnings per share after full conversion, SEK <sup>3)</sup>	1.56	1.37	0.99	7.23
<sup>1)</sup> Includes depreciation of of which depreciation on leasing assets	-330 -140	-214 -118	-319 -118	-1,349 -511

<sup>2)</sup> Number of shares: 106,459,675 as per March 31, 2000

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

**Sales by business area**

SEK m.	3 months 2000	Pro forma 3 months 1999	Change	Pro forma Whole year 1999
Infomatics	1,027	886	16%	4,294
Aerospace	923	861	7%	3,803
Dynamics	572	678	-16%	3,393
Technical Support & Services	622	548	14%	2,528
Space	163	176	-7%	676
Internal sales	-213	-199		-797
	<b>3,094</b>	<b>2,950</b>	<b>5%</b>	<b>13,897</b>
CAS	820	629	30%	3,009
Other operations	584	603	-3%	2,358
<b>Saab Group</b>	<b>4,498</b>	<b>4,182</b>	<b>8%</b>	<b>19,264</b>

**Operating income by business area**

<b>SEK m.</b>	<b>3 months 2000</b>	<b>Pro forma 3 months 1999</b>	<b>Pro forma Whole year 1999</b>
Infomatics	61	-13	199
Aerospace	94	82	422
Dynamics	-23	-12	-39
Technical Support & Services	46	44	174
Space	16	17	65
Corporate	61	15	-40
	<b>255</b>	<b>133</b>	<b>781</b>
CAS	26	47	212
Other operations	-25	16	237
<b>Saab Group</b>	<b>256</b>	<b>196</b>	<b>1,230</b>

**Balance sheet**

<b>SEK m.</b>	<b>Mar. 31, 2000</b>	<b>Mar. 31, 1999</b>	<b>Pro forma Dec. 31, 1999</b>
<b>Assets</b>			
Goodwill and other intangible assets	1,831	330	1,835
Property, plant and equipment, etc.	4,258	2,660	4,365
Lease assets	8,830	8,611	8,963
Long-term interest bearing receivables	1,237		1,240
Shares, etc.	1,233	44	1,215
Deferred tax receivables	964	676	959
Inventories, etc.	4,097	2,760	3,965
Short-term interest bearing receivables	336		243
Other receivables	6,123	2,282	6,845
Cash and marketable securities	6,777	12,476	8,281
<b>Total assets</b>	<b>35,686</b>	<b>29,839</b>	<b>37,911</b>
<b>Shareholders' equity and liabilities</b>			
Shareholders' equity	4,872	4,186	4,700
Minority interest in subsidiaries	760	149	752
Provision for pensions	3,608	1,972	3,604
Other provisions	6,502	6,093	6,876
Liabilities to credit institutions	2,499	46	3,123
Convertible debenture loan	218	210	217
Lease obligations	4,544	4,901	4,591
Advance payments from customers, net	4,432	5,430	4,954
Other liabilities	8,251	6,852	9,094
<b>Total shareholders' equity and liabilities</b>	<b>35,686</b>	<b>29,839</b>	<b>37,911</b>



**Subdivided summary of balance sheet, March 31, 2000**

SEK m.	Saab	Regional Aircraft	SAL	Elimi- nations	Saab Group
<b>Assets</b>					
Goodwill and other intangible assets	1,831	0	0	0	1,831
Property, plant and equipment, etc.	4,257	0	1	0	4,258
Lease assets	772	0	8,058	0	8,830
Long-term interest bearing receivables	1,237	0	0	0	1,237
Shares, etc.	2,733	0	0	-1,500	1,233
Deferred tax receivables	572	636	0	-244	964
Inventories, etc.	4,097	0	0	0	4,097
Short-term interest bearing receivables	336	0	0	0	336
Other receivables	5,159	0	964	0	6,123
Cash and marketable securities	3,453	1,635	1,689	0	6,777
<b>Total assets</b>	<b>24,447</b>	<b>2,271</b>	<b>10,712</b>	<b>-1,744</b>	<b>35,686</b>
<b>Shareholders' equity and liabilities</b>					
Shareholders' equity	4,527	0	1,845	-1,500	4,872
Minority interest in subsidiaries	756	0	4	0	760
Provision for pensions	3,608	0	0	0	3,608
Other provisions	1,629	2,271	2,846	-244	6,502
Liabilities to credit institutions	2,499	0	0	0	2,499
Convertible debenture loan	218	0	0	0	218
Lease obligations	110	0	4,434	0	4,544
Advance payments from customers, net	4,432	0	0	0	4,432
Other liabilities	6,668	0	1,583	0	8,251
<b>Total shareholders' equity and liabilities</b>	<b>24,447</b>	<b>2,271</b>	<b>10,712</b>	<b>-1,744</b>	<b>35,686</b>

**Key ratios**

	3 months 2000	Pro forma 3 months 1999	Pro forma 12 months 1999
Operating margin before depreciation	10.4%	9.5%	11.0%
Operating margin after depreciation	5.7%	4.7%	6.4%
Equity/assets ratio, excl. Regional aircraft and SAL	18.5%	-	17.3%
Equity/assets ratio	13.7%	-	12.4%

## Summary of cash flow statement

SEK m.	3 months 2000 <sup>1)</sup>	3 months 1999	Whole year 1999
<b>Cash flow from operating activities</b>			
Income after financial items excl. share in income of associated companies	270	226	1,380
Depreciation and write-down charged to income	330	214	918
Items affecting comparability			-255
Tax	-82	-2	-182
<b>Cash flow from operating activities before changes in working capital</b>	<b>518</b>	<b>438</b>	<b>1,861</b>
<b>Working capital</b>			
Inventories etc.	-132	-519	524
Receivables	722	228	8
Advance payments from customers	-522	239	-1,136
Other liabilities	-843	-786	-554
Lease obligations	-47	-52	-362
Provisions	-374	-133	-929
<b>Change in working capital</b>	<b>-1,196</b>	<b>-1,023</b>	<b>-2,449</b>
<b>Cash flow from operating activities</b>	<b>-678</b>	<b>-585</b>	<b>-588</b>
Investments in intangible fixed assets	-42	-13	-104
Investments in shares etc.	-20	-1	-1,285
Investments in tangible fixed assets	-37	-59	-280
Investments in lease assets	-7	-65	-83
Change in long-term receivables		-15	-28
<b>Cash flow from investments</b>	<b>-106</b>	<b>-153</b>	<b>-1,780</b>
<b>Operating cash flow</b>	<b>-784</b>	<b>-738</b>	<b>-2,368</b>

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