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INTERIM REPORT

January – September 2000

- **Order bookings after nine months amounted to SEK 23 billion, of which SEK 5 billion during the third quarter**
- **Sales amounted to SEK 12,313 m. (pro forma 12,399).**
- **Operating income increased to SEK 876 m. (pro forma 725).**
- **Earnings per share amounted to SEK 4.81 (pro forma 4.42).**
- **After-tax return on shareholders' equity 14.5% and pre-tax return on capital employed 12.0%**

Comment by the President

"The acquisition of Celsius took place at the beginning of March this year. Since then, operations have been characterized by intensive, internal integration work with major structural changes, as well as considerable activity and success in our markets.

Order bookings after nine months amounted to SEK 23 billion, an all-time high, and the order backlog at the end of the same period was SEK 41 billion. This corresponds to over two years' invoicing and at least one year's invoicing for all individual business areas.

Several of the orders obtained represent important breakthroughs, either in markets or products. Examples include the mobile combat training center for the Netherlands, the first serial order for the Bamse air defense missile, the Gripen aircraft for South Africa, a new generation of marine command and control systems, and equipment for a new generation of telecommunications satellites.

We now have an internationally competitive product portfolio in all our future-oriented business areas.

In connection with the extensive structural measures necessitated through the acquisition of Celsius, a detailed review has been made of certain major projects. We have found that a number of development projects in the torpedo and missiles operations from the former Celsius Group have required further provisions due to cost overruns. This will have no influence on the long-term earnings capability. However, the third quarter also contains a positive extraordinary item through the revenue from SPP's surplus, which in total means a small positive effect on the period's income.



Normally, the third quarter is affected by some seasonal fluctuations and a somewhat lower sales in our type of operations and this year is no exception. The income has also, in addition to above mentioned costs, been burdened with certain other extraordinary expenditures such as integration costs in AertechTelub. The fourth quarter is expected to be strong also this year.

The integration and structuring process has so far entailed streamlining with the aid of divestments and outsourcing; focusing and rationalization in the business areas, mainly Dynamics; closure of the head office functions in Celsius; new management structures and changes on managerial level, and various other measures. This work is closely following the plan which aims at generating at least SEK 400 million a year in cost savings within three years."

Business areas

Saab consists of the business areas **Infomatics, Aerospace, Technical Support & Services, Dynamics, Space, Aviation Services** and **Other operations**.

Infomatics

Business area Infomatics focuses on command and control systems, simulation systems and avionics as well as commercial operations in IT and electronics. During the quarter, operations were acquired in the area of EMC, Electromagnetic Coexistence, which will further strengthen Infomatics' know-how in the field of undesirable interaction between electronics systems.

Sales amounted to SEK 2,995 m. (pro forma 2,875). Operating income was SEK 158 m. (pro forma 58), corresponding to an operating margin of 5.3 percent. The improvement is mainly attributable to the systems business and to the phasing out of certain development projects.

Order bookings, which during the first nine months have been very good for most of the business units, totaled SEK 3,266 m. (pro forma 1,702). During the third quarter order bookings were SEK 808 m. and included among others orders from FMV regarding further development of the environment simulator, STRIC, for the Air Force and for multispectral, mobile camouflage systems for the Leopard 2 tanks, an order from the Brazil oil company Petrobras for radar-based level gauging systems for tank terminals and an order from Ericsson regarding a radio link for military use. In addition to this, an order was received in the beginning of October for a digital recorder to the upgrade of the display systems in the Spanish F-18.

Aerospace

Business area Aerospace develops and manufactures military aircraft systems and is a partner and supplier in subsystems for manufacturers of large commercial aircraft.

Sales amounted to SEK 2,717 m. (pro forma 2,973), of which Commercial Programs including sales of spare parts to Saab Aircraft was SEK 164 m. (141). The decrease is



mainly due to less work on the Swedish further development program for Gripen. During the first nine months, 12 (12) Gripen aircraft have been delivered. A total of 93 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 238 m. (pro forma 261), corresponding to an operating margin of 8.8 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 11,596 m. (pro forma 1,647), including the South African order for 28 Gripen aircraft with related equipment, training, etc. of SEK 9.3 bn. Order bookings during the third quarter amounted to SEK 908 m. and included among others an order worth close to SEK 600 m. from FMV for upgrading of earlier delivered Gripen aircraft.

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 1,660 m. (pro forma 1,649). Operating income was SEK 106 m. (pro forma 101), corresponding to an operating margin of 6.4 percent.

Order bookings amounted to SEK 2,087 m. (pro forma 1,616), of which SEK 557 m. in the third quarter related to a computerized test system for the Swedish Army's Leopard 2 battle tanks and a new radio system for the Gripen, among other projects. In addition, an outline agreement has been signed with the National Police Board in the area of IT security.

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 1,502 m. (pro forma 1,999). Sales decreased in several parts of the operation, but the decrease is mainly due to large deliveries of STRIX during 1999. An intensive integration work is ongoing in the business area to realize cost synergies and focus the business. This has produced effect as from the third quarter, which showed a



positive operating income of SEK 28 m. Operating income for the first nine months by that amounted to SEK 1 m. (pro forma -23).

Order bookings totaled SEK 2,608 m. (pro forma 1,631), of which SEK 1,699 m. in the third quarter including among others the first serial production order for the Bamse air defense missile from FMV worth above SEK 1 billion, an order worth over SEK 300 m. from France regarding the new version of the AT 4 CS, anti armor weapon system, an order from FMV for advanced mobile underwater data acquisition systems and several orders for Carl Gustaf ammunition.

At the end of September, a further successful test flight was performed with the autonomous stand-off missile TAURUS KEPD 350, which is being developed together with the German company LFK (Lenkflugkörpersysteme GmbH) for the German Air Force.

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 518 m. (506). Close to 50 percent of sales went to the commercial telecom market and 94 percent of total sales were to markets outside Sweden. Operating income was SEK 44 m. (51), giving an operating margin of 8.5 percent. The deterioration in earnings is due to internally financed development costs related to the intensified focus on the commercial telecom market.

Order bookings amounted to SEK 501 m. (558), of which SEK 172 m. in the third quarter including onboard computers and antennas to Alcatel concerning Eutelsat's Atlantic Bird 2 and HotBird 6 spacecraft and microwave electronics to Hughes for the new high-speed multimedia satellite system called Spaceway. Close to half of the order bookings related to markets outside the institutional market and in September the second sales office in the USA was opened in Los Angeles in order to be closer to customers.

Aviation Services

Celsius Aviation Services, CAS, is active in commercial aircraft maintenance with the focus on the USA. Partly as a result of the economic cycle, the work of finding a new owner for CAS has been more complex than expected. A review of the business structure is now ongoing and discussions have started with potential purchasers of individual companies in the business among other things.

Sales during the first nine months amounted to SEK 2,356 m. (2,170) and operating income was SEK 105 m. (150). The deterioration in earnings is mainly due to a general cyclical downturn in the markets processed by CAS. Order bookings amounted to SEK 2,516 m. (2,078). During the third quarter, a new outline agreement for jet engine maintenance valued at SEK 1,020 m. was signed with the American defense.



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. During the third quarter the 30 percent stake in the drilling rig Louisiana was divested.

Sales, income and orders

Sales

Group sales increased by 83 percent to SEK 12,313 m. (6,733, pro forma 12,399). This is on the level with pro forma last year except for Dynamics due to the fact that last year several contracts were finalized and this year includes the development phase of several new projects and for Aerospace due to decreased pace in the Swedish further development program for Gripen. The increase in Other operations is mainly attributable to sales of spares in Saab Aircraft.

Income

Operating income increased 21 percent to SEK 876 m. (725, pro forma 725), corresponding to an operating margin of 7.1 percent. The improved operating income is mainly attributable to Infomatics, the structural work within Dynamics 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 128 m. (183).

The ongoing termination of the regional aircraft business is still better than plan. The period's losses for Regional Aircraft of SEK -361 m. (-607) and in Saab Aircraft Leasing of SEK -72 m. (-90) have as previously been charged against the termination reserve and loss risk reserve respectively.

Marketing activities have in general been higher in all business areas this year compared to the corresponding period last year. Research and development costs amounted to SEK 603 m. (pro forma 570). 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. (32). The divestment of the drill rig Louisiana had no effect on income.

Items affecting comparability amounted to SEK 33 m. (212) and related this year to funds of SEK 521 m. received from SPP and provisions of SEK 488 m. for certain development projects in the torpedo and missiles operations from the former Celsius Group. Items affecting comparability for the previous year relate mainly to dissolution of provisions regarding Regional Aircraft.



The Saab Group has received a total of SEK 1,262 m. from SPP, of which SEK 722 m. has been paid in cash. The remaining SEK 540 m. has been reported as a long-term receivable. The proportion of SPP's surplus which relates to Saab has been taken to income in the third quarter and has influenced earnings by SEK 521 m. after discounting the receivable at present value. The portion totaling SEK 741 m. which relates to the former Celsius Group is included in the purchase analysis and has not affected earnings.

Net financial income and expenses amounted to SEK -67 m. (pro forma -11). The decrease is mainly due to lower liquid funds and a lower interest rate. The deterioration of the financial net compared to the outcome last year is primarily due to the cash acquisition of Celsius, which corresponds to a decreased interest income of about SEK 250 m. The share in income of HDW, which amounted to SEK 40 (0) m., is being reported as financial income. The average return on externally invested liquid funds was 4.76 (4,85) percent. Income after financial income and expenses amounted to SEK 809 m. (pro forma 714). Current and deferred taxes amounted to SEK -234 m. (pro forma -214), corresponding to an effective tax rate of 29 percent on income after financial income and expenses.

Order bookings

Group order bookings during the first nine months amounted to SEK 23,098 m. (pro forma 9,582). Order bookings during the third quarter was SEK 5,209 m. The order backlog at the end of the period was SEK 41,381 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 increased by SEK 98 m. to SEK 5,874 m. (5,776). The increase is mainly a net of the SEK 1,262 m. received from SPP and payments related to the phasing out of Regional Aircraft of SEK 361 m. and the payment of dividend of SEK 266 m. and to continued high utilization of advances within Gripen. However, the Group's financial position is strong and net liquidity after deduction for provision for pensions amounted to SEK 2,375 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 304 m. (pro forma 559). 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 15,646, compared with 16,665 at the beginning of the year.

Ownership

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

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. The sales pro forma figures for 1999 have been changed since the half-year report.

Linköping, October 25, 2000

Bengt Halse
President and CEO

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

Dates for financial information:

The 2000 Report will be published on February 16, 2001.

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The interim report can also be accessed on the Internet at www.saab.se



Income statement

| SEK m. | 9 months 2000 | 9 months 1999 | Pro forma 9 months 1999 | Pro forma 12 months 1999 |
|---|------------------|------------------|-------------------------------|--------------------------------|
| Sales | 12,313 | 6,733 | 12,399 | 18,018 |
| Cost of goods sold | -9,304 | -4,934 | -9,535 | -13,882 |
| Gross margin | 3,009 | 1,799 | 2,864 | 4,136 |
| Marketing expenses | -1,094 | -553 | -990 | -1,390 |
| Administrative expenses | -838 | -408 | -962 | -1,309 |
| Research and development costs | -603 | -378 | -570 | -858 |
| Items affecting comparability | 33 | 174 | 212 | 255 |
| Other operating income | 454 | 144 | 239 | 347 |
| Other operating expenses | -81 | -52 | -67 | -65 |
| Share in income of associated companies | -4 | -1 | -1 | 9 |
| Operating income ¹⁾ | 876 | 725 | 725 | 1,125 |
| Result from financial investments | -67 | 239 | -11 | -9 |
| Income after financial items | 809 | 964 | 714 | 1,116 |
| Taxes | -234 | -289 | -214 | -352 |
| Minority interest | -63 | -35 | -29 | -29 |
| Net income | 512 | 640 | 471 | 735 |
| Earnings per share, SEK ²⁾ | 4.81 | 6.01 | 4.42 | 6.90 |
| Earnings per share after full conversion, SEK ³⁾ | 4.69 | 5.86 | 4.31 | 6.73 |
| ¹⁾ Includes depreciation of of which depreciation on leasing assets | -919 -391 | -668 -353 | -944 -353 | -1,311 -511 |

²⁾ Number of shares: 106,459,675 as per Sept. 30, 2000

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

Sales by business area

| SEK m. | 9 months 2000 | Pro forma 9 months 1999 | Change | Pro forma Whole year 1999 | 3 rd Q 2000 |
|------------------------------|------------------|-------------------------------|------------|---------------------------------|---------------------------|
| Infomatics | 2,995 | 2,875 | 4% | 4,294 | 915 |
| Aerospace | 2,717 | 2,973 | -9% | 3,964 | 846 |
| Technical Support & Services | 1,660 | 1,649 | 1% | 2,367 | 489 |
| Dynamics | 1,502 | 1,999 | -25% | 3,393 | 484 |
| Space | 518 | 506 | 2% | 676 | 179 |
| Internal sales | -559 | -536 | | -797 | -96 |
| | 8,833 | 9,466 | -7% | 13,897 | 2,817 |
| CAS | 2,356 | 2,170 | 9% | 3,009 | 791 |
| Other operations | 1,124 | 763 | | 1,112 | 368 |
| Saab Group | 12,313 | 12,399 | -1% | 18,018 | 3,976 |



Operating income by business area

| SEK m. | 9 months 2000 | Per- centage of sales | Pro forma 9 months 1999 | Pro forma Whole year 1999 | 3 rd Q 2000 |
|------------------------------|------------------|-----------------------------|-------------------------------|---------------------------------|---------------------------|
| Infomatics | 158 | 5.3% | 58 | 199 | 58 |
| Aerospace | 238 | 8.8% | 261 | 450 | 64 |
| Technical Support & Services | 106 | 6.4% | 101 | 146 | 34 |
| Dynamics | 1 | 0.1% | -23 | -39 | 28 |
| Space | 44 | 8.5% | 51 | 65 | 14 |
| Corporate | 309 | | 18 | -40 | -20 |
| | 856 | 9.7% | 466 | 781 | 178 |
| CAS | 105 | 4.5% | 150 | 212 | 39 |
| Other operations | -85 | | 109 | 132 | 3 |
| Saab Group | 876 | 7.1% | 725 | 1,125 | 220 |

Balance sheet

| SEK m. | Sept. 30, 2000 | Sept. 30, 1999 | Pro forma Dec. 31, 1999 |
|---|-------------------|-------------------|----------------------------|
| Assets | | | |
| Goodwill and other intangible assets | 1,773 | 382 | 1,827 |
| Property, plant and equipment, etc. | 4,174 | 2,710 | 4,339 |
| Lease assets | 8,212 | 8,269 | 8,963 |
| Long-term interest bearing receivables | 1,559 | | 1,180 |
| Shares, etc. | 924 | 39 | 999 |
| Deferred tax receivables | 970 | 457 | 959 |
| Inventories, etc. | 4,056 | 1,763 | 3,954 |
| Short-term interest bearing receivables | 629 | | 231 |
| Other receivables | 6,045 | 2,297 | 6,474 |
| Cash and marketable securities | 6,169 | 12,003 | 7,705 |
| Total assets | 34,511 | 27,920 | 36,631 |
| Shareholders' equity and liabilities | | | |
| Shareholders' equity | 5,147 | 4,432 | 4,700 |
| Minority interest in subsidiaries | 821 | 191 | 752 |
| Provision for pensions | 3,499 | 1,963 | 3,406 |
| Other provisions | 5,999 | 5,366 | 6,596 |
| Liabilities to credit institutions | 2,255 | 37 | 3,123 |
| Convertible debenture loan | 228 | 216 | 217 |
| Lease obligations | 4,203 | 4,647 | 4,591 |
| Advance payments from customers, net | 3,886 | 4,483 | 4,631 |
| Other liabilities | 8,473 | 6,585 | 8,615 |
| Total shareholders' equity and liabilities | 34,511 | 27,920 | 36,631 |



Subdivided summary of balance sheet, September 30, 2000

| SEK m. | Saab | Regional Aircraft | SAL | Eliminations | Saab Group |
|---|---------------|-------------------|---------------|---------------|---------------|
| Assets | | | | | |
| Goodwill and other intangible assets | 1,773 | 0 | 0 | 0 | 1,773 |
| Property, plant and equipment, etc. | 4,173 | 0 | 1 | 0 | 4,174 |
| Lease assets | 652 | 0 | 7,560 | 0 | 8,212 |
| Long-term interest bearing receivables | 1,559 | 0 | 0 | 0 | 1,559 |
| Shares, etc. | 2,424 | 0 | 0 | -1,500 | 924 |
| Deferred tax receivables | 694 | 564 | 0 | -288 | 970 |
| Inventories, etc. | 4,056 | 0 | 0 | 0 | 4,056 |
| Short-term interest bearing receivables | 629 | 0 | 0 | 0 | 629 |
| Other receivables | 4,937 | 0 | 1,108 | 0 | 6,045 |
| Cash and marketable securities | 2,843 | 1,451 | 1,875 | 0 | 6,169 |
| Total assets | 23,740 | 2,015 | 10,544 | -1,788 | 34,511 |
| Shareholders' equity and liabilities | | | | | |
| Shareholders' equity | 4,815 | 0 | 1,832 | -1,500 | 5,147 |
| Minority interest in subsidiaries | 810 | 0 | 11 | 0 | 821 |
| Provision for pensions | 3,499 | 0 | 0 | 0 | 3,499 |
| Other provisions | 1,419 | 2,015 | 2,853 | -288 | 5,999 |
| Liabilities to credit institutions | 2,255 | 0 | 0 | 0 | 2,255 |
| Convertible debenture loan | 228 | 0 | 0 | 0 | 228 |
| Lease obligations | 113 | 0 | 4,090 | 0 | 4,203 |
| Advance payments from customers, net | 3,886 | 0 | 0 | 0 | 3,886 |
| Other liabilities | 6,715 | 0 | 1,758 | 0 | 8,473 |
| Total shareholders' equity and liabilities | 23,740 | 2,015 | 10,544 | -1,788 | 34,511 |

Sales and income per quarter

| SEK m. | 2000 | | | Pro forma 1999 | | | |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 1 st Q | 2 nd Q | 3 rd Q | 1 st Q | 2 nd Q | 3 rd Q | 4 th Q |
| Sales | 4,187 | 4,150 | 3,976 | 3,896 | 4,970 | 3,533 | 5,619 |
| Operating income | 247 | 409 | 220 | 192 | 406 | 127 | 400 |
| Operating margin | 5.9% | 9.9% | 5.5% | 4.9% | 8.2% | 3.6% | 7.1% |
| Net financial income | 8 | -35 | -40 | -28 | 30 | -13 | 2 |
| Income after financial items | 255 | 374 | 180 | 164 | 436 | 114 | 402 |
| Net income | 161 | 254 | 97 | 103 | 290 | 78 | 264 |
| Earnings per share, SEK ¹⁾ | 1.51 | 2.39 | 0.91 | 0.97 | 2.72 | 0.73 | 2.48 |

¹⁾ Number of shares: 106,459,675 as per Sept. 30, 2000.



Summary of cash flow statement

| SEK m. | 9 months 2000 ¹⁾ | 9 months 1999 | Whole year 1999 |
|--|--------------------------------|------------------|--------------------|
| Cash flow from operating activities | | | |
| Income after financial items excl. share in income of associated companies | 813 | 970 | 1,380 |
| Depreciation and write-down charged to income | 919 | 668 | 918 |
| Items affecting comparability | | -174 | -255 |
| Tax | -221 | -37 | -182 |
| Cash flow from operating activities before changes in working capital | 1,511 | 1,427 | 1,861 |
| Working capital | | | |
| Inventories etc. | -102 | 478 | 524 |
| Receivables | 459 | 196 | 8 |
| Advance payments from customers, net | -745 | -708 | -1,136 |
| Other liabilities | -142 | -1,053 | -554 |
| Lease obligations | -388 | -306 | -362 |
| Provisions | -597 | -686 | -929 |
| Change in working capital | -1,515 | -2,079 | -2,449 |
| Cash flow from operating activities | -4 | -652 | -588 |
| Investments in intangible fixed assets | -69 | -93 | -104 |
| Investments in shares etc. | 70 | -1 | -1,285 |
| Investments in tangible fixed assets | -240 | -302 | -280 |
| Investments in lease assets | 360 | 43 | -83 |
| Change in long-term receivables | -29 | 0 | -28 |
| Cash flow from investments | 92 | -353 | -1,780 |
| Operating cash flow | 88 | -1,005 | -2,368 |

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

Key ratios

| | 9 months 2000 | Pro forma 9 months 1999 | Pro forma 12 months 1999 |
|--|------------------|-------------------------------|--------------------------------|
| Operating margin before depreciation | 11,4% | 10,6% | 10,7% |
| Operating margin after depreciation | 7,1% | 5,8% | 6,2% |
| Pre-tax return on capital employed | 12,0% | - | - |
| After-tax return on shareholders' equity | 14,5% | - | - |
| Equity/assets ratio, excl. Regional aircraft and SAL | 20,3% | - | 18,2% |
| Equity/assets ratio | 14,9% | - | 12,8% |