

Handläggare *Handled by*

Agneta Kammeby

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INTERIM REPORT January – June 2002

- **Order bookings during the first half-year were more than SEK 12 billion, of which SEK 6 billion in the second quarter. Order backlog amounted thereby to SEK 44 billion.**
- **Sales SEK 8,284 m. (7,458), an increase of 11%.**
- **Operating income SEK 474 m. (409 m., excluding capital gains) and income after financial items SEK 374 m.**
- **Earnings per share SEK 2.47 (7.47).**
- **Breakthrough order for next generation anti-armor weapon, confirming Saab's world leading position.**
- **Germany has decided to order serial production of the Taurus standoff missile.**

Statement by the CEO

"Order bookings continued to be very good during the second quarter and the order backlog has thereby increased to SEK 44 billion, which once again is an all-time high and equals more than two and a half years' sales. The largest individual order during the quarter was for the supply of the next generation light anti-armor weapon program for the British and Swedish armies. This order confirms that we are world leaders in the area of light anti-armor weapons and the product has a significant export potential. And last week, Germany decided to order serial production of the Taurus standoff missile, which Saab and LFK of Germany have developed together.

So far this year, we have seen a good growth in the defense related business.

The customary variation in income over the year normally means that the first half-year is usually weaker than the second. This picture is reinforced by the costs we took in the first quarter for restructuring our space activities. For the whole year, however, I continue to anticipate further improvement in operating income and operating margin, excluding capital gains."

Structural changes

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With effect from January 1 this year, Nyge Aero has been transferred from Saab Technical Support and Services to Saab Aerospace as part of the co-ordination of the Group's aero structures activities.

During the second quarter, the US DoD granted Saab necessary approvals for takeover of the signature management operation acquired from BAE SYSTEMS. Earlier this year, Saab also acquired the remaining 35 percent in Combitech Systems.

Operations

Saab is one of the world's leading high-technology companies, with its main activities focusing on aerospace and defense. The operation covers clearly defined areas within defense electronics, missile systems and space electronics as well as military and civil aviation. Saab also focuses on high technology services and maintenance. Saab comprises the business areas **Saab Systems & Electronics, Saab Aerospace, Saab Technical Support & Services, Saab Bofors Dynamics, Saab Ericsson Space** and **Saab Aviation Services**. For a brief description of the business areas see the end of the report.

Sales, income and orders

Sales

Group sales increased organically during the first half-year by 11 percent to SEK 8,284 m. (7,458). Seventyfour percent of sales were related to defense and 40 percent of total sales were export. Sales during the second quarter increased by 16 percent to SEK 4,754 m. (4,096).

Sales of all operations in Systems & Electronics have increased compared with the same period last year. The increase in Aerospace is mainly attributable to defense, but sales of the commercial operations have also increased through more deliveries to Airbus and the internal acquisition of Nyge Aero. Sales for the first half-year included 12 (8) Gripen aircraft, of which 9 (6) in the second quarter. The changes compared with the previous year for Technical Support & Services are mainly due to the transfer of Nyge Aero and lower volumes for the aircraft maintenance operation in Saab Aviocomp. Total sales for Dynamics have increased compared to the first half-year of the preceding year, which also applies to most of the constituent business units. The decrease in sales for Space is mainly attributable to the situation in the commercial telecom market, as well as to reduced public funding of space research. The decrease in Aviation Services is related to the customer support activities and is a result of the general situation for air travel.

**Income and profitability**

Operating income amounted to SEK 474 m. (1,059), of which SEK 328 m. (256) in the second quarter. The result for the previous year included a capital gain from the divestment of Saab Marine Electronics of SEK 650 m. Operating income before capital gains was thus SEK 474 m. (409), corresponding to a margin of 5.7 percent (5.5). The six-month income has compared to the previous year been positively affected by SEK 120 m. related to capitalization of development costs and negatively affected by SEK 40 m. related to structural costs in the space operation. Income from the defense business has improved compared to the previous year, but the total income has been affected by the general market situation for the space business and Aviation Services.

Operating income per business area is reported before goodwill amortization, see table on page 7. Operating income for Systems & Electronics has improved mainly as a result of volume increases and higher margins for Saab Training Systems and Saab Avionics. Operating income for Aerospace has improved as a result of volume increases and capitalization of development costs. Operating margin excluding capitalization is on level with previous years. Operating income for Technical Support & Services is on a level with last year with an improved margin mainly due to higher utilization ratio and cost reductions. During the first half-year, the product mix has affected operating income and margin for Dynamics. Operations in Space have been affected both by the situation in the telecom industry and by a decrease in public-funded orders and by the provision made in the first quarter of SEK 40 m. for structural changes. Lower volumes have affected operating income for Aviation Services, but the margin continues to be above 8 percent, the same level as for the whole year 2001. Operating income for Corporate/Other operations has improved as a result of continued structuring.

Administration and marketing expenses are on level with previous year. Of the period's research and development costs, a total of SEK 120 m. (0) has been capitalized in accordance with new accounting principles and SEK 216 m. (369) has been charged to income. Capitalized development costs are mainly related to the export version of Gripen. If these rules had been applied in 2001, SEK 90 m. would have been capitalized in the balance sheet for the first half-year of that year. Other operating income during both the present and previous years consist mainly of trading income in Treasury and currency gains etc. The previous year also included a capital gain of SEK 650 m. Other operating expenses consist mainly of currency and capital losses. The present year also include the provision made for structural changes in Space of SEK 40 m. Project interest on non-utilized advance payments, which has decreased financial net and is reported as gross margin, amounted to SEK 83 m. (49).

Net financial income and expenses amounted to SEK -100 m. (-8). The average return on external investments was 3,09 percent (4,89). The decrease in return is mainly attributable to revaluation of the obligation portfolio due to increasing market interests. The financial net has also been negatively affected by a major increase in the interest level on the pension debt. Income after financial items amounted to SEK 374 m. (1,051). Current and deferred taxes amounted to SEK -122 m. (-215). Minority interest in income is positive as a result of the negative income in Saab Ericsson Space and as a result of the acquisition of the outstanding minority in Combitech Systems.



Net income for the period was SEK 263 m. compared with SEK 795 m. for the same period previous year including the capital gain from the divestment of Saab Marine Electronics. This corresponds to an income per share of SEK 2.47 (7.47). Pre-tax return on capital employed was 9.9 percent (17.9). After-tax return on shareholders' equity was 9.3 percent (25.4).

Orders

Group order bookings amounted to SEK 12,456 m. (7,544), of which SEK 6,396 m. (3,750) in the second quarter. Of order bookings, seventy-five percent came from customers outside Sweden. Order bookings during the second quarter included development and serial production of next generation anti-armor weapon, further development of command and control systems for air and army forces, separate orders and spare parts for Gripen, sensors and anti-armor weapons and ammunition for the Carl-Gustaf system. In addition, Saab Training Systems has signed a 10-year agreement with the US army regarding gunnery and training ranges. The order backlog at the end of the period amounted to SEK 44,004 m. compared to SEK 40,034 m. at the beginning of the year.

Liquidity, finance and investments**Finance and liquidity**

Liquid funds less liabilities to credit institutions compared to the beginning of the year have decreased by SEK 349 m. to 4,214 m. (4,563). The decrease is mainly related to payment of dividend and the decrease of the pension liability. The Group's net liquidity after deduction for allocations to pensions decreased to SEK 788 m., compared with SEK 885 m. at the beginning of the year.

Group equity/assets ratio amounted to 22.1 percent (20.4), compared to SEK 22.3 percent at the beginning of the year. Shareholders' equity amounted to SEK 6,476 m. (6,295), corresponding to SEK 60.83 (59.13) per share, compared with SEK 62.74 at the beginning of the year.

Cash flow

Operating cash flow was positive during the first half-year by SEK 373 m. Working capital has increased mainly due to increase in inventory related to the A380 project and payments related to utilization of previously made provisions. Operating cash flow of SEK 373 m. is distributed between cash flow from the operations of SEK 444 m., acquisitions SEK -77 m. and from the regional aircraft leasing business SEK 6 m.

Capital expenditures

The period's capital expenditures in property, plant and equipment, excluding lease assets, amounted to SEK 276 m. (197).

Personnel

At the end of the period, the number of employees in the Group was 14,226, compared with 14,028 at the beginning of the year. The increase is mainly due to the acquisition of the signature management business in the U.S.

**Parent Company**

During the first six months, parent company sales amounted to SEK 2,547 m. (1,800). Operating income was SEK 310 m. (113) and income after financial income and expenses was SEK 232 m. (132).

Cash and marketable securities, less liabilities to credit institutions, amounted to SEK 1,188 m., compared with SEK 1,617 m. at year-end. Capital expenditures in property, plant and equipment amounted to SEK 100 m. (54). The number of employees at the end of the period was 4,276, compared with 4,237 at the beginning of the year.

Ownership

Saab's principal owners are BAE SYSTEMS, Investor AB, the Wallenberg foundations, AMF, GMO International Funds, Third AP fund, Robur funds, Eikos fund, Fidelity funds, Skandia, SHB funds and several U.S. funds.

Accounting Principles

The Group follows all the recommendations of the Swedish Financial Accounting Standards Council which are applicable to 2002. This means that from 2002 onwards, the new accounting principles will be applied also in regard to intangible assets, allocations and depreciation, etc. Only the recommendation on intangible assets, RR 15, has been of material significance for the Group's income and financial position. In all other respects, the report has been drawn up in accordance with earlier applied accounting principles. Sales and operating income by business area for the year 2001 has not been adjusted for the internal re-organization regarding Saab Nyge Aero.

Linköping, July 11, 2002

Bengt Halse
President and Chief Executive Officer

Audit review

We have reviewed this interim report in accordance with the recommendation issued by the Swedish Institute of Authorised Public Accountants, FAR. A review is significantly limited 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 Annual Accounts Acts.

Linköping, July 11, 2002

Björn Fernström
Authorized Public Accountant
Ernst & Young AB

Caj Nackstad
Authorized Public Accountant
KPMG Bohlins AB

Income statement

SEK m.	Jul 2001					
	6 mos. 2002	6 mos. 2001	2 nd Q 2002	2 nd Q 2001	to 12 mos. Jun 2002	2001
Sales	8,284	7,458	4,754	4,096	16,515	15,689
Cost of goods sold	-6,396	-5,530	-3,706	-3,050	-12,563	-11,697
Gross margin	1,888	1,928	1,048	1,046	3,952	3,992
<i>Margin</i>	22.8%	25.9%	22.0%	25.5%	23.9%	25.4%
Marketing expenses	-676	-674	-373	-333	-1,387	-1,385
Administrative expenses	-535	-540	-275	-256	-1,057	-1,062
Research and development costs	-216	-369	-96	-181	-565	-718
Other operating income	91	749	38	-7	169	827
Other operating expenses	-78	-33	-14	-17	-139	-94
Share in income of assoc. comp.	0	-2	0	4	36	34
Operating income ¹⁾	474	1,059	328	256	1,009	1,594
<i>Margin</i>	5.7%	14.2%	6.9%	6.3%	6.1%	10.2%
Result from financial investments	-100	-8	-52	-7	-132	-40
Income after financial items	374	1,051	276	249	877	1,554
Taxes	-122	-215	-90	-71	-286	-379
Minority interest	11	-41	-1	-14	4	-48
Net income	263	795	185	164	595	1,127
Earnings per share, SEK ³⁾	2.47	7.47	1.74	1.54	5.59	10.59
after full conversion, SEK ⁴⁾	2.41	7.28	1.70	1.50	5.45	10.32

¹⁾ Includes depreciation of
 of which depr. on leasing assets -596 -592 -293 -292 -1,231 -1,227
 of which goodwill amortization of -268 -251 -133 -125 -536 -519
 -87 -80 -43 -42 -169 -162

³⁾ Number of shares: 106,459,675 as per June 30, 2002 ⁴⁾ after full conversion 109,247,175

Sales by business area

SEK m.	Jul 2001						
	6 mos. 2002	6 mos. 2001	Change	2 nd Q 2002	2 nd Q 2001	to 12 mos. Jun 2002	2001
Saab Systems & Electr	2,138	1,767	21%	1,245	936	4,335	3,964
Saab Aerospace	2,588	1,800	44%	1,502	1,141	4,885	4,097
Saab Techn Supp & Serv	1,466	1,596	-8%	795	819	3,014	3,144
Saab Bofors Dynamics	1,357	1,221	11%	777	649	2,629	2,493
Saab Ericsson Space	300	425	-29%	165	221	675	800
Saab Aviation Services	698	789	-12%	336	397	1,448	1,539
Corporate/Other	263	313	-16%	127	152	565	615
Internal sales	-526	-453		-193	-219	-1,036	-963
Saab Group	8,284	7,458	11%	4,754	4,096	16,515	15,689

Operating income by business area

SEK m.	6 mos. 2002		6 mos. 2001		Jul 2001 to Jun 2002		12 mos. 2001	
		% of sales		% of sales		% of sales		% of sales
Saab Systems & Electr	153	7.2%	121	6.8%	362	8.4%	330	8.3%
Saab Aerospace	311	12.0%	164	9.1%	498	10.2%	351	8.6%
Saab Techn Supp & Serv	113	7.7%	109	6.8%	245	8.1%	241	7.7%
Saab Bofors Dynamics	27	2.0%	32	2.6%	80	3.0%	85	3.4%
Saab Ericsson Space	-40	neg	34	8.0%	-44	neg	30	3.8%
Saab Aviation Services	61	8.7%	107	13.6%	94	6.5%	140	9.1%
Corporate/Other	-64	N/a	-78	N/a	-57	N/a	-71	N/a
	561	6.8%	489	6.6%	1,178	7.1%	1,106	7.0%
Goodwill amortization	-87		-80		-169		-162	
Capital gains	-		650		-		650	
Saab Group	474	5.7%	1,059	14.2%	1,009	6.1%	1,594	10.2%

Quarterly information

SEK m.	January - March		April - June			
	2002	2001	2002	2001		
Sales						
Saab Systems & Electr	893	831	1,245	936		
Saab Aerospace	1,086	659	1,502	1,141		
Saab Techn Supp & Serv	671	777	795	819		
Saab Bofors Dynamics	580	572	777	649		
Saab Ericsson Space	135	204	165	221		
Saab Aviation Services	362	392	336	397		
Corporate/Other	136	161	127	152		
Internal sales	-333	-234	-193	-219		
	3,530	3,362	4,754	4,096		
Operating income						
Saab Systems & Electr	57	57	96	7.7%	64	6.8%
Saab Aerospace	136	64	175	11.7%	100	8.8%
Saab Techn Supp & Serv	50	55	63	7.9%	54	6.6%
Saab Bofors Dynamics	2	14	25	3.2%	18	2.8%
Saab Ericsson Space	-42	14	2	1.2%	20	9.0%
Saab Aviation Services	29	52	32	9.5%	55	13.9%
Corporate/Other	-42	-65	-22	N/a	-13	N/a
	190	191	371	7.8%	298	7.3%
Goodwill amortization	-44	-38	-43	-42		
Capital gains	-	650	-	-		
	146	803	328	6.9%	256	6.3%
Net financial income	-48	-1	-52	-7		
Income after financial net	98	802	276	249		
Net income	78	631	185	164		
Earnings per share ¹⁾	0.73	5.93	1.74	1.54		

¹⁾ Number of shares:

106,459,675

**Quarterly information, cont.**

SEK m.	July - September		October - December		
	2002	2001	2002	2001	
Sales					
Saab Systems & Electr		795		1,402	
Saab Aerospace		821		1,476	
Saab Techn Supp & Serv		591		957	
Saab Bofors Dynamics		476		796	
Saab Ericsson Space		185		190	
Saab Aviation Services		368		382	
Corporate/Other		92		203	
Internal sales		-181		-322	
		3,147		5,084	
Operating income					
Saab Systems & Electr		52	6.6%	158	11.3%
Saab Aerospace		68	8.3%	119	8.1%
Saab Techn Supp & Serv		50	8.5%	82	8.6%
Saab Bofors Dynamics		15	3.2%	38	4.8%
Saab Ericsson Space		10	5.4%	-14	-7.4%
Saab Aviation Services		25	6.8%	8	2.1%
Corporate/Other		-13	n/a	19	n/a
		207	6.6%	410	8.1%
Goodwill amortization		-36		-46	
Capital gains		-		-	
		171	5.4%	364	7.2%
Net financial income		-25		-7	
Income after financial net		146		357	
Net income		87		245	
Earnings per share ¹⁾		0.81		2.31	

¹⁾ Number of shares:

106,459,675

Goodwill amortization by business area

SEK m.	6 mos.	6 mos.	2 nd Q	2 nd Q	12 mos.
	2002	2001	2002	2001	2001
Saab Systems & Electronics	47	38	24	21	70
Saab Aerospace	5	-	2	-	-
Saab Technical Support & Services	18	20	9	10	46
Saab Bofors Dynamics	15	-	8	-	-
Saab Ericsson Space	-	-	-	-	1
Saab Aviation Services	-	2	-	2	3
Corporate/Other	2	20	-	9	42
Saab Group	87	80	43	42	162

Balance sheet

SEK m.	June 30, 2002	Dec. 31, 2001	June 30, 2001
Assets			
Goodwill and other intangible assets	2,127	1,978	1,532
Property, plant and equipment, etc.	4,270	4,369	4,511
Lease assets	5,798	6,103	5,711
Long-term interest bearing receivables	1,172	1,296	1,566
Shares, etc.	472	466	1,012
Deferred tax receivables	1,397	1,521	1,326
Inventories, etc.	3,854	3,729	3,978
Short-term interest bearing receivables	13	332	224
Other receivables	5,667	5,401	6,348
Cash and marketable securities	4,508	4,706	4,717
Total assets	29,278	29,901	30,925
Shareholders' equity and liabilities			
Shareholders' equity	6,476	6,679	6,295
Minority interest in subsidiaries	140	168	695
Provision for pensions	3,426	3,678	3,595
Other provisions	2,657	2,983	3,555
Liabilities to credit institutions	1,247	1,539	2,460
Convertible debenture loan	232	232	230
Lease obligations	3,217	3,121	3,311
Advance payments from customers, net	4,229	4,194	3,100
Other liabilities	7,654	7,307	7,684
Total shareholders' equity and liabilities	29,278	29,901	30,925

Shareholders' equity

Equity in the Group has changed as follows during the period:

SEK m.	Total
At the beginning of the year	6,679
Net income for the period	263
Dividend	-346
Translation differences etc.	-120
Total at the end of the period	6,476

Personnel by business area

Number	June 30, 2002	Dec 31, 2001	Change	June 30, 2001
Saab Systems & Electronics	2 970	2 744	226	2 717
Saab Aerospace	4 339	4 121	218	4 068
Saab Technical Supp & Serv	2 928	3 061	-133	3 134
Saab Bofors Dynamics	1 897	1 903	-6	1 905
Saab Ericsson Space	675	678	-3	659
Saab Aviation Services	794	842	-48	1 337
Corporate/Other operations	623	679	-56	732
Saab Group	14 226	14 028	198	14 552

Subdivided summary of balance sheet, June 30, 2002

SEK m.	Saab	Saab Aircraft Leasing	Elimi- nations	Saab Group
Assets				
Goodwill and other intangible assets	2,127			2,127
Property, plant and equipment, etc.	4,266	4		4,270
Lease assets		5,798		5,798
Long-term interest bearing receivables	1,172			1,172
Shares, etc.	1,972		-1,500	472
Deferred tax receivables	1,533		-136	1,397
Inventories, etc.	3,854			3,854
Short-term interest bearing receivables	13			13
Other receivables	4,628	1,039		5,667
Cash and marketable securities	4,508			4,508
Total assets	24,073	6,841	-1,636	29,278
Shareholders' equity and liabilities				
Shareholders' equity	6,022	1,954	-1,500	6,476
Minority interest in subsidiaries	138	2		140
Provision for pensions	3,426			3,426
Other provisions	2,228	565	-136	2,657
Liabilities to credit institutions	1,209	38		1,247
Convertible debenture loan	232			232
Lease obligations		3,217		3,217
Advance payments from customers, net	4,229			4,229
Other liabilities	6,589	1,065		7,654
Total shareholders' equity and liabilities	24,073	6,841	-1,636	29,278

Order bookings and order backlog by business area

SEK m.	Order bookings			Order backlog		
	6 mos. 2002	6 mos. 2001	2 nd Q 2002	2 nd Q 2001	June 30, 2002	June 30, 2001
Saab Systems & Electr	2,735	2,180	739	1,320	9,387	8,591
Saab Aerospace	2,198	1,572	417	557	25,908	27,122
Saab Tech Supp & Serv	1,814	1,755	800	775	1,351	1,046
Saab Bofors Dynamics	5,191	1,355	4,269	873	7,920	4,088
Saab Ericsson Space	246	420	114	211	343	772
Saab Aviation Services	705	772	317	388	123	139
Corporate/Other	189	244	89	105	327	398
Internal	-622	-754	-349	-479	-1,355	-2,122
Saab Group	12,456	7,544	6,396	3,750	44,004	40,034

Summary of cash flow statement

SEK m.	6 mos. 2002	6 mos. 2001	12 mos. 2001
Cash flow from operating activities			
Income after financial items excl, Share in income of associated companies	374	1,053	1,520
Depreciation and write-down charged to income	596	592	1,227
Taxes	-11	-77	-95
Cash flow from operating activities before changes in working capital	959	1,568	2,652
Working capital			
Inventories etc.	-125	-294	-45
Receivables	-258	-256	671
Advance payments from customers, net	35	-519	575
Other liabilities	347	130	-247
Lease obligations	96	-605	-795
Provisions	-326	-266	-838
Change in working capital	-231	-1,810	-679
Cash flow from operating activities	728	-242	1,973
Investments in intangible fixed assets	-237	7	-568
Investments in shares etc.	-6	-68	506
Investments in tangible fixed assets	-141	-60	-156
Investments in lease assets	37	540	-120
Change in long-term receivables	-8	-13	7
Cash flow from investments	-355	406	-331
Operating cash flow	373	164	1,642

Key ratios

	6 mos. 2002	6 mos. 2001	12 mos. 2001
Operating margin before goodwill amortization and capital gains	6.8%	6.6%	7.0%
Operating margin before depreciation	9.7%	18.8%	14.7%
Operating margin after depreciation	5.7%	14.2%	10.2%
Earnings per share, SEK ¹⁾	2.47	7.47	10.59
after full conversion, SEK ¹⁾	2.41	7.28	10.32
Earnings per share before goodwill, SEK ¹⁾	3.29	8.22	12.11
Pre-tax return on capital employed	9.9%	17.9%	15.5%
After-tax return on shareholders' equity	9.3%	25.4%	18.3%
Equity/assets ratio	22.1%	20.4%	22.3%
Shareholders' equity per share, SEK ¹⁾	60.83	59.13	62.74

1) Number of shares: 106,459,675 and after full conversion: 109,247,175

**Business areas**

Saab Systems and Electronics focuses on command and control systems, simulation systems, avionics, electronic warfare and signature management, as well as commercial operations of IT.

Saab Aerospace, which has the overall system integration capability required for building complete aircraft and defense systems, develops and manufactures military aircraft systems and act as a partner in subsystems to manufacturers of large commercial aircraft.

Saab Technical Support and Services focuses on the growing market for high technology services in aviation, command and control, information, communications and sensors.

Saab Bofors Dynamics, gathers Saab's operations in precision engagement, develops and produces missile systems, portable anti-armor systems and underwater systems.

Saab Ericsson Space develops and produces computers, antennas, microwave electronics and mechanical systems for the space industry.

Saab Aviation Services core consists of Saab's leasing and customer support operation in regional aviation. The commercial risk in the leasing portfolio was eliminated in the year 2000 through an insurance solution.

Dates for financial information:

Interim Report for January - September will be published on October 16, 2002.

The 2002 Report will be published on February 14, 2003.

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Telephone interview with CEO Bengt Halse:

Today Thursday July 11.

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Contact Anders Stålhammar, Press Officer

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International teleconference:

*Today Thursday July 11, 16.00 (CET). Contact Marita Sidén
for registration and further information.*

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