# YEAR-END REPORT 1995

## THE SAAB GROUP [1]

Saab today is an aircraft and defense group with advanced high-technology products. The Group also includes Saab Combitech, which is active in several commercial high-technology niches.

Over a period of many years, Saab has developed the ability to combine different technologies and apply them in practical solutions. Major, targeted research and development investments have been a prerequisite for creating competitive products. Investments in recent years have resulted in products such as the JAS 39 Gripen and Saab 2000.

Defense operations are dominated at present by the JAS 39 Gripen, though they also comprise guided weapons, defense electronics, optronics and military training materiel. The comprehensive development program behind the JAS 39 Gripen is now shifting into the series production phase for the Swedish Air Force, at the same as export activities are being intensified. Other defense operations in recent years have noted significant success in export markets and major deliveries of laser simulators have been made, particularly in 1995.

Deliveries of the Saab 340 and Saab 2000 increased significantly in 1995 compared with the previous year. The Saab 340 has a strong, established position, with a share of approximately 30% in its market segment. The Saab 2000 is a turboprop aircraft with jet-like performance, qualities that are very valuable in a commercial aircraft market that remains extremely difficult. Because of the saturated market that exists today among manufacturers of regional aircraft, an emphasis is placed on efficiency and product features. Saab has been working actively to meet these demands, and further measures are planned.

Commercial operations, aside from the aircraft sector, comprise the space technology, industry, traffic systems and information systems businesses of the Combitech Group. The focus in recent years on new high-technology niches has led, among other things, to acquisitions in the information systems area and the development of innovative free-flow traffic systems for road tolls. The earlier established areas of space technology and industry have been successful and strengthened their positions in 1995.

[1] Formally, Saab AB remains the owner of 50 percent of the shares of Saab Automobile. It is intended, however, that this interest will be transferred to Investor or one of Investor's subsidiaries.

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## Income statement

| SEK million | 1995 | Pro forma 1994 | Change % |
|---|---|---|---|
| Sales | | | |
| - Saab Military Aircraft | 2,547 | 1,870 | 36 |
| - Saab Dynamics | 632 | 826 | -23 |
| - Saab Training Systems | 727 | 491 | 48 |
| - Saab Aircraft | 3,391 | 1,360 | 249 |
| - Saab Combitech | 1,175 | 758 | 55 |
| Less inter-company sales | -547 | -453 | |
| **Total sales** | **7,925** | **4,852** | **63** |
| Manufacturing, selling and administrative expenses | -7,622 | -5,026 | |
| Other income and expenses | -111 | 30 | |
| **Operating income before depreciation** | **192** | **-144** | |
| Depreciation according to plan | -547 | -378 | |
| Share in income of associated companies | 1 | | |
| **Operating income after depreciation** | **-354** | **-522** | |
| Financial income and expenses | 670 | 541 | |
| **Income after financial items** | **316** | **19** | |
| Taxes | -121 | -9 | |
| Minority interest | -11 | -10 | |
| **Net income** | **184** | **0** | |

## Sales and earnings

Group sales rose during the year by 63 percent to SEK 7,925 m. (4,852). Sales outside Sweden amounted to SEK 4,777 m. (2,375), or 60 (49) percent of total sales. The increase in sales is attributable primarily to the delivery of a higher number of commercial aircraft, 15 (10) Saab 340 and 20 (5) Saab 2000, a high level of deliveries from Saab Training Systems and the delivery by Saab Military Aircraft of 9 (3) JAS 39 Gripen. A total of 14 aircraft have been delivered to the Swedish Air Force. Sales of Saab Dynamics decreased compared with the previous year, due mainly to a lower volume of missile sales, a new generation of which is under development. Saab Combitech's sales rose, owing mainly to the increased sales of Saab Ericsson Space and Saab Marine and acquisitions in information systems.

The operating loss after depreciation was reduced by SEK 168 m. to SEK -354 m. (-522). The year's loss was affected by the depreciation of product development expenses for the Saab 2000 of SEK 206 m. (34). Other income and expenses amounted to SEK -111 m. (30) and was attributable to the loss incurred by Saab Aircraft's customer finance operations, which was affected negatively by loss provisions brought on by the financial problems of the U.S. airline Business Express. The operating result was affected positively by higher volume in defense operations. The commercial aircraft business is continuing to incur losses. Saturation in the industry is making operating conditions very difficult.

Net interest income amounted to SEK 670 m. (541). The improvement is mainly the result of higher interest rates and a higher net liquidity.

Income after financial items improved to SEK 316 m. (19).

Paid and deferred taxes amounted to SEK -121 m. (-9).

Net income for the year was SEK 184 m. (0).

The return on capital employed, before taxes, was 5.7 (2.3) percent.

## Orders

The Group's order bookings amounted to SEK 6,053 m. (3,806). During the year orders were received for 31 (3) Saab 340, of which 25 were ordered by AMR Eagle in the U.S., and for 5 (3) Saab 2000 from the Swiss airline Crossair.

The order backlog at year-end was SEK 20,509 m. (22,195), of which orders for batches 1 and 2 of the JAS 39 Gripen amounted to SEK 13,948 m. Saab Aircraft's order backlog amounted to SEK 3,057 m. (3,881). The order backlog comprises 25 (9) Saab 340 and 16 (31) Saab 2000.

## Saab Military Aircraft

Order bookings received by Saab Military Aircraft amounted to SEK 1,849 m. (1,136). Among other things, orders were received for service contracts on the JAS 39 Gripen and JAS 37 Viggen for 1995 and 1996, as well as for the integration of the AMRAAM air-to-air guided missile for the JAS 39 Gripen.

Sales rose by 36 percent to SEK 2,547 m. (1,870). During the year Saab Military Aircraft delivered 9 (3) JAS 39 Gripen to the Swedish Air Force.

Testing of the Gripen has continued successfully and at the end of December a total of more than 2,000 test flights had been conducted. During the year the production edition of the flight control system software was test-flown for the first time. The test flights with this edition have produced very good results. In 1996 the software will be introduced in all production aircraft.

In June Saab and British Aerospace (BAe) signed a cooperation agreement on the joint marketing of the Gripen in export markets. This cooperation improves the JAS 39 Gripen's prospects in the international market through BAe's strong marketing organization. The two-seater version of the Gripen, the JAS 39B, was introduced in a roll-out ceremony at the end of September. Among notable export activities during the year was the signing of a Memorandum of Understanding on the possible procurement of the Gripen and preparations for comprehensive industrial cooperation in Hungary.

## Saab Dynamics

Order bookings for Saab Dynamics amounted to SEK 484 m. (1,047). During the year orders included electronic counter-measure equipment as well as development work and equipment involved in the Swedish programs for the procurement of the Leopard 2 battle tank and AMRAAM guided missile. In addition, during the last quarter, an order was received for the EOS-400 electro-optic sighting system from the Brazilian Navy.

Sales decreased, owing primarily to lower deliveries of missile systems, to SEK 632 m. (826). The lower volume had a negative effect on income.

The company is now in an active period in terms of the export marketing of its existing products and positioning in future international alliances, including the area of missiles.

## Saab Training Systems

Order bookings were largely unchanged compared with the previous year at SEK 438 m. (473). Orders received during the year included simulators for the Leopard battle tank from the Swedish Defense Materiel Administration. In addition, options were exercised on simulators for tanks by the U.S. Army. The target materiel business area has achieved significant success, with major order bookings.

Sales rose substantially due to major deliveries of laser simulators to Sweden, the U.S. and the U.K., among other countries, and amounted to SEK 727 m. (491). Income improved in pace with the rise in volume.

## Saab Aircraft

Order bookings were significantly higher in 1995 than in 1994. During the year orders were received for 31 (3) Saab 340 and 5 (3) Saab 2000. The order backlog has been reduced by 20 Saab 340, with a value of SEK 1,077 m., previously intended for Business Express.

Sales increased substantially with increased aircraft deliveries and higher volume in the after-sales market. During the year 15 (10) Saab 340 were delivered, including seven to the U.S. airline AMR Eagle, as well as the first Saab 340 AEW to the Defense Materiel Administration. A total of 20 (5) Saab 2000 were delivered and are now being flown by five carriers on three continents: Crossair, Deutsche BA, REGIONAL, Air Marshall Islands and General Motors.

In late January 1996 Chapter 11 bankruptcy proceedings were filed on Saab's initiative by Business Express in the U.S. as a result of overdue leasing payments on 32 Saab 340. This measure is intended to create conditions for a reconstruction of Business Express' operations.

Saab Aircraft's earnings continued to be negative, and further measures will be taken to improve profitability.

## Saab Combitech

Order bookings rose by 45 percent to SEK 1,254 m. (864). Saab Ericsson Space signed an agreement on antennas and electronics for telecommunication satellites for mobile telephony. Saab Marine Electronics strengthened its position during the year in the market for radar-based level gauging. During the last quarter Combitech acquired Innovativ Vision, another investment in the expansive field of information systems. Innovativ Vision is active in image-based information systems. During the year the world's first commercial road toll system with multi-lane traffic, developed by Combitech Traffic Systems, was placed in operation in Austria.

Sales rose to SEK 1,175 m. (758), up 55 percent. The increase was the result of higher volume for all companies in the group as well as acquisitions in information systems and space technology.

Essentially all the companies in the group improved their income. For the group as a whole, income rose compared with the previous year but was affected by the continued high development costs of Combitech Traffic Systems.

## Financing and liquidity

### Balance sheet

| SEK million | December 31, 1995 | Pro forma January 1, 1995 |
|---|---|---|
| **Assets** | | |
| Cash and marketable securities | 3,640 | 2,182 |
| Receivables from Group companies | 9,583 | 10,099 |
| Receivables | 1,813 | 1,736 |
| Inventories | 3,891 | 3,314 |
| Shares and participations | 23 | 14 |
| Goodwill | 141 | 43 |
| Property, plant and equipment, etc. | 3,488 | 3,833 |
| **Total assets** | **22,579** | **21,221** |
| | | |
| **Liabilities and shareholders' equity** | | |
| Loans | 710 | 625 |
| Provisions for pensions | 1,936 | 1,870 |
| Advance payments from customers | 6,862 | 6,036 |
| Other liabilities | 7,147 | 6,936 |
| Shareholders' equity | 5,924 | 5,754 |
| **Total liabilities and shareholders' equity** | **22,579** | **21,221** |

Cash and marketable securities, including intra-Group transactions and less external borrowings, increased by SEK 857 m. to SEK 12,513 m. (11,656). The increase is due to a reduction in working capital and a decrease in leasing assets reported on the Group's balance sheet.

## Capital expenditures - Research and development

The Group's gross capital expenditures for property, plant and equipment, excluding leasing assets, amounted to SEK 258 m. (272). Net capital expenditures, including leasing assets, amounted to SEK 340 m.

The year's allocations for research and development amounted to SEK 1,934 m. (1,748). More than 2,000 Group employees are engaged in research and development.

## Personnel

The number of employees in the Group rose by 549 to 8,426. The increase is primarily attributable to higher volume in the Parent Company and acquisitions by Saab Combitech.

## Parent Company Saab AB

The Parent Company comprises Saab Military Aircraft, Saab Aircraft and corporate staff units. Sales amounted to SEK 5,424 m. (2,912), an increase of 86 percent. An operating loss was reported in the amount of SEK 339 m., against a corresponding year-earlier loss of SEK 900 m. Net financial income amounted to SEK 938 m. (868) and income after financial items was SEK 599 m. (-32).

Linköping, February 15, 1996

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This year-end report has not been subject to special review by the Company's auditors.