



SAAB

ANNUAL AND SUSTAINABILITY REPORT **2016**

READY FOR
TAKE OFF



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SAAB IN THE WORLD	

Cover: Ellen Molin,
Head of Business Unit Gripen Support,
Support and Services.

Right: GlobalEye – Saab's new airborne early
warning & control (AEW&C) system. See page 45.



MARKET

A strong local presence built on
collaborations, partnerships, longevity
and responsible business strengthens
our market position and growth.



PERFORMANCE

Our focus is on making functional
processes more efficient, creating a more
business-oriented culture and
developing leaders and employees.



INNOVATION

We concentrate our product portfolio
on innovations in systems integration and in
five core areas. We strongly believe that
diversity and engaged employees drive
innovation.

As of 2016 Saab publishes an integrated annual
and sustainability report. The formal annual
report comprises pages 56–139. Certain figures
have been rounded off, due to which tables and
calculations do not always add up. A printed
copy of the annual report can be ordered from
servicecenter@servistik.se.

CALENDAR

Annual General Meeting	5 April 2017
Interim Report Jan–Mar	26 April 2017
Interim Report Jan–Jun	20 July 2017
Interim Report Jan–Sep	24 October 2017
Year-end report Jan–Dec	16 February 2018

Some of the images are enhanced with
Augmented Reality (AR) technology.
Download the 'Saab AR' app, and hold
your mobile device over images with the
icon for a three-dimensional experience.





MISSION

To make people safe by pushing intellectual and technological boundaries.

VISION

It is a human right to feel safe.

It is a basic human need and a human right to feel safe. Safety is subjected to many different types of threats, however. This includes military threats, terrorism, accidents or natural disasters.

Saab develops innovative, cost-efficient high-tech systems to increase security for societies and individuals. At the same time, there is a realisation throughout the business that some of the systems and solutions that contribute to greater security are not only used in a state of peace, but can also be used in conflict. This entails a large responsibility. By acting responsibly in everything we do, we build the confidence of customers, employees and society and contribute to a safer world.

SAAB IN BRIEF

Saab supplies the global market with world-leading products, services and solutions for military defence and civil security. Saab has operations and customers on every continent.

FIVE MARKET AREAS

To ensure a presence in key local markets, Saab has five market areas: Europe, Middle East & Africa, North America, Latin America and Asia Pacific



10%
NORTH AMERICA

7%
LATIN AMERICA

61%
EUROPE

9%
MIDDLE
EAST & AFRICA

13%
ASIA PACIFIC

Share of Saab's total sales 2016.
The organisational structure applies as of 1 January 2017.

SIX BUSINESS AREAS

Saab's operations are divided into business areas based on products and technologies.

9%
INDUSTRIAL
PRODUCTS AND
SERVICES

23%
AERONAUTICS

17%
DYNAMICS

17%
SUPPORT AND
SERVICES

Share of Saab's
total sales 2016.
The organisational
structure applies as
of 1 January 2017.

26%
SURVEILLANCE

8%
KOCKUMS

Cobra for Gripen C/D with a helmet-mounted display (HMD) is integrated with other systems on Gripen. The pilot is better able to effectively combat targets on the ground and in the air.





SAAB 2016

Saab further strengthened its market position in 2016. It is clear that demand is growing for cost-efficient systems and solutions that quickly increase operational capabilities.

LAUNCH OF GLOBALEYE

In February, Saab introduced the GlobalEye system, which combines Saab's Erieye ER radar system with Bombardier's Global 6000 jet aircraft. GlobalEye is a world-leading system that further improves Saab's offering.

ENHANCED CAPABILITIES FOR GRIPEN

A major enhancement of the operational capabilities of the Gripen C/D was implemented during the spring. Gripen is now the world's first and only fighter aircraft equipped with the Meteor. The next step in Gripen's development was taken in May with the rollout of the next generation Gripen. Gripen E is a totally new platform with more sophisticated capabilities and has been ordered by Sweden and Brazil. Deliveries begin in 2019.

ORDER FOR AEW&C RADAR SYSTEM

In the spring, Saab received an order for the airborne early warning and control system AEW&C, which provides detailed situational awareness and can be used for border surveillance and rescue operations at sea and on land. Deliveries will be made during the period 2016–2018.

AWARD-WINNING GENDER EQUALITY WORK

Saab was awarded the Industry Equality Prize for 2016 for strategic work with gender equality and the progress we have made in a traditionally male-dominated industry.

SAAB AND LFV ESTABLISH COMPANY

In June, Saab and LFV signed an agreement to establish a new company – Saab Digital Air Traffic Solutions AB – which will market, sell, develop and operate products and services for remote air traffic control.

BOEING AND SAAB PRESENT T-X

In early autumn, Boeing and Saab revealed the T-X, an all-new aircraft and training system designed specifically for the U.S. Air Force's training mission for the pilots of the future. The first flight was completed in December. The U.S. Air Force is expected to select a contractual partner at the end of 2017 or in early 2018.

SAAB A POPULAR EMPLOYER

Saab climbed to sixth place in Universum's ranking of Sweden's most popular places to work among engineering students. Interest in Saab has especially increased among female students.

DIVIDEND

For 2016, the Board of Directors is proposing that the Annual General Meeting approve a dividend to shareholders of SEK 5.25 (5.00) per share, corresponding to 49 per cent (39) of net income.

5%

Organic sales growth
Goal: 5 per cent per year over a business cycle

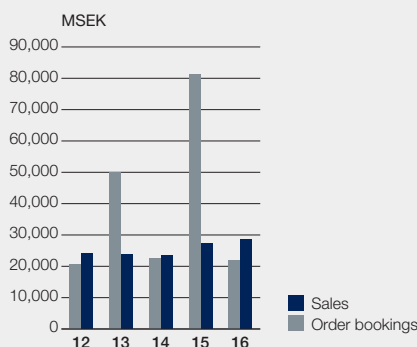
6.3%

Operating margin
Goal: At least 10 per cent per year over a business cycle

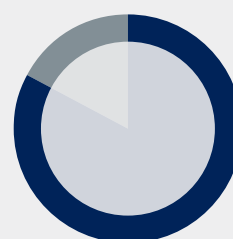
#6

During the year, Saab climbed from eighth to sixth place in **Universum's ranking** of the most popular employers among engineering students in Sweden. The goal is to be among the top five.

Order bookings and sales



Share of sales



Financial highlights (MSEK)

	2016	2015	2014
Order backlog at year-end	107,606	113,834	60,128
Sales	28,631	27,186	23,527
Operating income (EBIT)	1,797	1,900	1,659
Operating margin (EBIT), %	6.3	7.0	7.1
Net income	1,175	1,402	1,168
Earnings per share after dilution, SEK	10.60	12.79	10.78
Free cash flow	2,359	-726	-1,094
Dividend per share, SEK	5.25*	5.00	4.75
Equity/assets ratio, %	32.3	36.8	38.5
Internally funded R&D, share of sales, %	7.2	6.5	5.7
Number of employees at year-end	15,465	14,685	14,716

*Board of Directors' proposal 2016.

INNOVATIVE SOLUTIONS FOR A SAFER FUTURE

My fellow shareholders and others with an interest in Saab, for 80 years Saab's products and solutions have helped to maintain security and to make people safe, promote democracy and encourage development in the world. This is a role that is becoming increasingly important in a turbulent environment.

The past year has been one of conflicts, political turmoil and, for many people, an increased sense of insecurity. Defending basic human freedoms and rights is most important at times like these.

For Saab, global relationships and partnerships are a way to bring people, technology and businesses together, but also to contribute to national and international security. Building long-term industrial partnerships better enables us to develop technologies and finished products. Relationships and partnerships also give Saab new knowledge and experience that are invaluable to future business. Saab is a strong proponent of openness and results-oriented partnerships, and working closely with customers and local businesses – whether in Brazil, Poland or India – is a key element in our long-term business strategy.

While partnerships are a common theme throughout our business, essentially what drives Saab is its cutting-edge technological expertise and business strategy. It is thanks to Saab's technological strength and innovation that we in a year like 2016 were able to unveil the new Gripen E, a completely new jet trainer together with Boeing, and a new generation of airborne radar in GlobalEye.

Value-creating relationships are built on lasting trust, which in turn is built on long-term rules and regulations. International trade is a pillar of development and growth around the world. For the defence market, the international harmonisation of export laws is extremely important. Saab is therefore strongly engaged in the discussion of global trade rules for defence materiel.

Sustainable business, in accordance with international and national law, is a non-negotiable demand when Saab competes in the challenging market for defence and security products around the world. Saab has zero tolerance for any form of business that fails to live up to ethical standards.

Taking responsibility for people and the environment is a strategic choice for modern companies. We are borrowing the world from future generations, and our promise to them is to manage and develop it in the very best way. Therein lies a strong incentive for Saab: to stay on the forefront of innovative solutions.

Technological development is accelerating and competition is growing. This in turn requires an organisation that can help us meet future challenges. The company continues to develop and improve



efficiencies, and to deliver on an order backlog four times higher than sales. Saab's sales growth was 5 per cent in 2016, in line with the long-term goal. This is a result of conscious choices over several years, with strategic investments in the development of new technologies and products and a new strategy to closely partner with customers through the marketing organisation we launched just over four years ago. Taken together, this has laid a stable foundation for profitable growth, which is also a prerequisite to creating long-term value for shareholders, customers, employees and the communities that we serve.

On behalf of the Board of Directors, I would like to express my heartfelt thanks to Saab's CEO, Group Management and all of our employees. For 80 years, thousands of fantastic employees have found new technological ways forward. Technological development is and has been the core of the company's operations and success. Our mission has been to contribute to a safer society through modern defence and civil security. That was the case in 1937, and it remains so in 2017. This is what we contribute to Sweden and to many other countries around the world.

Stockholm, February 2017

Marcus Wallenberg
Chairman



Taking responsibility for
people and the environment
is a strategic choice for
modern companies.



POSITIONED FOR CONTINUED GROWTH

Saab continued to develop in the right direction in 2016. We have a strong order backlog, we have more tenders being evaluated by customers than ever before, and our product portfolio and the way we collaborate are seeing growing interest in global markets. Our position for continued profitable growth is strong and our way forward to create value for our owners and customers is clear.

OUR JOURNEY OF GROWTH CONTINUES

Many of our biggest programmes made significant progress in 2016. In February, we launched the airborne surveillance system GlobalEye, in May we rolled out the Gripen E, and in September the two prototype jet trainers developed together with Boeing were unveiled. The first T-X trainer also flew in December in St. Louis, in the US. We signed the first contracts for the new generation of Carl-Gustaf, the M4 version, and the Swedish Defence Materiel Administration (FMV) ordered the development and production of the New Lightweight Torpedo system, an important order to develop our capabilities in this area.

At year-end, Saab's order backlog was SEK 108 billion. With a backlog nearly four times higher than sales, we are positioned for further growth in 2017 and beyond. Sales increased to SEK 28.6 billion.

Operating income amounted to MSEK 1,797 with an operating margin of 6.3 per cent. Operational cash flow amounted to MSEK 2,603, which is a result of a conscious focus on cash flow in recent years. We saw important payments relating to our major projects and a high level of activity, including in Business Area Dynamics.

A safer world enriched by differences

Many places in the world are unsafe. War, conflicts, migration and unpredictable terrorism are disconcerting and horrifying. Terrorism in particular is intended to spread fear in people. This is why we remain steadfast in defending equal rights and the right of people to feel safe. With our products and services, we contribute to a more secure world.

As CEO of Saab, I know how important and positive diversity is in a team, in a management group or in a workplace. We do not get stronger in spite of our differences, but because of them. Our work with gender equality was awarded the Swedish Industry Equality Prize in autumn 2016, and in the same spirit, we will continue to work with diversity in a broader sense in 2017.

FROM IDEA TO CAPABILITY

In recent years, we have focused on developing our product portfolio and investing to strengthen our position in the market. This has made Saab one of the most competitive companies in the industry. Investments in research and development will continue, since they are a key to remaining competitive.

To stay a step ahead and meet our customers' needs in the best way, we have a strategy built on three areas: marketing, performance and innovation.

Being close to our customers, constantly looking for ways we can work more efficiently, and innovation are the guiding principles in all our businesses. At the same time, sustainability is part of everything we do, and engaged employees are the key to our continued journey of growth.

In 2017 and the years beyond, our focus will still be to develop, produce and deliver more efficiently and in a shorter time. Our customers, whether military or civilian, are aware that they have to improve their capabilities in a fairly short time, and Saab is well equipped to help them.

STRONGER THROUGH COLLABORATION

With the Swedish tradition of openness and our knowledge of how to collaborate on technological development, Saab is a sought-after partner. Today customers often require collaborative models as part





Our customers, whether military or civilian, are aware that they have to improve their capabilities in a fairly short time, and Saab is well equipped to help them. ”

of any deal, so that they can develop their domestic defence capabilities and industrial competence.

Throughout our history, our strategy has been to work closely with Swedish industry and academia. This has served us well and contributed to technological development and new business. As we have grown into a global company, our research and development collaborations have also grown internationally, in line with our strategy to have a strong anchor in every country where we do business. The sale of Gripen to Brazil, our largest export order ever, entails an extensive development cooperation and technological transfers. This applies not only to Saab, but also to many Swedish and Brazilian companies and institutions in various sectors. It is one of many examples of how we, with the so-called “triple helix” model, create collaborative value together with industry, academia and authorities.

SUSTAINABLE CHOICES

Sustainable business in a broad sense drives innovation and profitability. Our commitment to sound business is one of our competitive advantages. It also helps us when young people today and in the future choose where they want to work. To stay viable in the long term, we have to choose sustainably.

We act responsibly according to the company's values, code of conduct, regulations and processes. The UN Global Compact is an important base. Two areas of great importance are the rules and internal processes on anti-corruption as well as on defence exports. Saab has absolutely zero tolerance for any form of business that deviates from ethical standards.

Saab has identified four main focus areas for our sustainability work, which are integrated into our business strategy. We are continuously getting better at integrating sustainability in all our operations, and it was natural therefore that this year we publish an integrated annual and sustainability report.

Through Saab's products, innovation collaborations and social engagement, we are already contributing to several of the 17 global development goals that the UN adopted in 2015. Based on our established focus areas for sustainability and the opportunity we have to make a difference, we set five goals during the year. One concrete example is in education, where we in Sweden began working with schools in disadvantaged areas, with our employees serving as role models for young people there.

Our most important resources are our employees. We have just over 15,000 driven and highly skilled people, and together we are curious, want to learn and create. We know what customers need and how to deliver the highest quality and cost efficiency with the shortest lead times. Together with others, we are building national and international security. That is what we have done for 80 years. Saab's journey of growth will continue in 2017.

Stockholm, February 2017

Håkan Buskhe
President & CEO

VALUE CREATION



To create value in line with our vision to keep society and people safe, we have to be financially stable and on the forefront of technology. Always staying on the forefront and combining that with cost efficiency is part of Saab's DNA. After a period of investment in research and development and of improving our organisation and processes, we are now continuing to create growth by further strengthening our local positions and meeting the demands of new customers with innovative ideas and sustainable solutions.



EXTERNAL FACTORS

Saab sells products and services in around 100 countries. The geopolitical landscape is turbulent and unpredictable, and the need to defend borders and maintain functionality and security in society is growing. The most important drivers in the market are tied to these changing threat scenarios and security needs, as well as the increased demand for cost efficiency and flexibility.



GEOPOLITICAL PREREQUISITES AND MACRO FACTORS

The geopolitical landscape in 2016 forced many countries around the world to reassess their defence capabilities, both nationally and in multinational alliances. The European defence market has been impacted by, among other things, Russia's military build-up. This perceived threat, coupled with the challenges facing European society due to terrorism, has led to increased defence budgets. At the same time that budgets are growing, more resources are being allocated to protecting important infrastructure and resource flows of various kinds. In 2016, Europe saw a continued high stream of refugees.



IMPACT AND OUR POSITION:

When new economic and geopolitical conditions arise, sources of conflict and security needs change. Customers want integrated solutions from suppliers that understand the global context as well as specific situations in local markets. Saab has expanded its marketing organisation in recent years and created a stronger local presence and relationships with customers in selected markets. This is a prerequisite in many countries to be considered as a supplier.

INTEROPERABILITY AND COLLABORATION

Although we are seeing a tendency to focus more on defending domestic borders and territory, it is still important today to have a military that can take part in international missions. Demand is increasing for defence systems that are designed to easily work together with others'. When the militaries of more than one country operate together, it has to be easy to coordinate and integrate their systems. It is becoming increasingly common that large defence materiel and systems are developed collaboratively between companies and countries, in part to share development costs.



IMPACT AND OUR POSITION:

The trend toward international cooperation requires Saab to develop open, cost-efficient and intelligent systems that can be coordinated and integrated with other systems. Close collaborations and development together with various customers has helped to shape us from the beginning. Saab's systems and solutions are designed today for interoperability and systems integration, which are Saab's core competence.

COST-EFFICIENT PRODUCTS AND SOLUTIONS

Demand for modern defence materiel is growing at the same time that defence spending is limited. This is driving demand for advanced products with a lower initial price and that are cost-efficient to operate and maintain. At the same time, there is growing need for shorter lead times for advanced systems.



IMPACT AND OUR POSITION:

Saab has always had to integrate cost efficiency as a parameter when designing products or solutions. As a result, Saab has for many years been offering multifunctional products that fill several needs. Traditional defence products, on the other hand, suit only one specific task or protect against a specific threat. We are working continuously to shorten lead times and increase efficiency in production. This has resulted in lower costs for Saab and for our customers.



TECHNOLOGICAL DEVELOPMENT

Advanced information and communication technology, ICT, is permeating every dimension of society. More and more digital tools aid us on a daily basis, and processes at various levels of society are becoming largely digital. This at the same time is increasing vulnerability. Advanced ICT is critical to weapons and security systems. Ensuring robustness and security in every system is absolutely essential. Rapid technological developments are changing how capabilities are developed as well as planning and procurement processes. Shorter decision-making and development cycles and increased predictability require timely deliveries.



IMPACT AND OUR POSITION:

Saab's core competence is systems integration. This largely means integrating ICT for applications with multiple functions and creating security and robustness in systems. Saab reinvests a large part of its sales in research and development. A continuous, close dialog with customers, partners and academia ensures that we drive technological development forward in line with our priority areas. With the help of new technology, Saab is working actively to be more efficient in its deliveries.

SUSTAINABLE BUSINESS

In a global world with limited energy resources and climate threats, companies are increasingly expected to address social and environmental sustainability. Reporting and transparency demands are growing as well. In 2015, the UN introduced new sustainable development goals and challenged the business community to do its share.

Forecasts point to a future shortage of technology workers, both engineers and skilled workers.



IMPACT AND OUR POSITION:

For Saab, responsibility for people, communities and the environment comes naturally as a way to create sustainable, profitable growth. We help to develop solutions with better energy performance that reduce costs and the impact on the environment. In those markets where we are active, we want to contribute to social development with a focus on promoting education and an interest in technology.

BUILD UP DOMESTIC CAPABILITIES

More and more countries are demanding industrial cooperations in connection with the purchase of defence materiel. Cooperation can mean transfers of technology or knowledge, research partnerships or assistance in building up the local industry. The aim is to develop a domestic capability to maintain and grow defence systems.



IMPACT AND OUR POSITION:

Saab's systems and solutions are distinguished by interoperability and systems integration. This enables us to meet demands for cooperation and technology transfers. In recent years, Saab has strengthened its local presence in selected markets. With employees on-site in the local market, Saab's gains a better understanding of how the market and local procurement processes work.

SAAB CREATES VALUE

We develop innovative and cost-efficient high-tech systems to increase the safety for society and people. This means a great responsibility. By acting sustainably in working to create long-term profitable growth, we build trust among shareholders, customers, employees and society, and contribute to a more secure world.

EXTERNAL FACTORS

GEOPOLITICAL
PREREQUISITES
AND MACRO FACTORS

INTEROPERABILITY AND
COLLABORATION

COST-EFFICIENT PRODUCTS
AND SOLUTIONS

TECHNOLOGICAL
DEVELOPMENT

SUSTAINABLE SOLUTIONS AND
SUSTAINABLE BUSINESS

BUILD UP DOMESTIC
CAPABILITIES

MISSION

VISION

It is a human right to feel safe.

MISSION

To make people safe by pushing intellectual and technological boundaries.

BUSINESS IDEA

Saab continuously develops, adapts and improves new technology to meet its customers' changing needs. Saab supplies governments, authorities and companies around the world with products, services and solutions for defence, aeronautics and civil security.

VALUES

Expertise:

We combine a strong tradition of knowledge with continuous learning.

Trust

We are honest and reliable citizens of the world and keep our promises.

Drive

We have a passion for new ideas, we are open to change and take pride in being responsive and flexible.

ASSETS AND RESOURCES

EMPLOYEE
ENGAGEMENT

FINANCIAL
CAPITAL

COOPERATIONS

BRAND

SYSTEMS INTEGRATION

ORGANISATION

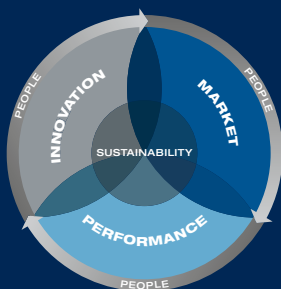
Saab's operations are divided into six operating segments for control and reporting purposes: the business areas Aeronautics, Dynamics, Surveillance, Support and Services, Industrial Products and Services, and Kockums. In addition, Corporate, comprises Group staff, Group departments and secondary operations.



To ensure a presence in key local markets, Saab also has five market areas: Europe, Middle East & Africa, North America, Latin America and Asia Pacific.

STRATEGY

To stay a step ahead in an optimal way and meet our customers' needs, we have based our strategy on three priorities. Sustainability issues affect our entire business, and engaged employees are the key to success.



MARKET

We focus on areas where we have a strong market position and on strengthening our position in areas with good growth opportunities. We do so in part through partnerships and local collaborations. We have zero tolerance for corruption and work actively to create a thoroughly transparent defence market.

PERFORMANCE

The focus is on making functional processes more efficient, implementing an even more business-oriented culture and developing leaders and employees.

INNOVATION

We concentrate our product portfolio on innovations in five core areas and feel that diversity and engaged employees drive innovation.

FIVE CORE AREAS:

1. AERONAUTICS
2. ADVANCED WEAPON SYSTEMS
3. COMMAND AND CONTROL SYSTEMS
4. SENSORS
5. UNDERWATER SYSTEMS

CREATED VALUE

CUSTOMERS

- Increased security and defence capabilities
- Technology transfers
- Compliance with export regulations
- Zero tolerance for corruption

EMPLOYEES

- Skills development
- Salaries and benefits
- Programmes to increase diversity and gender equality

SOCIETY

- Increased security and defence capabilities
- Innovation and spreading knowledge
- Job opportunities
- Products that help to reduce climate impacts

OWNERS

- Stable return
- Sustainability integrated into operations

SUPPLIERS AND PARTNERS

- Commitment to sustainability in the supply chain
- Long-term relationships

ECONOMIC VALUE

7.4

Research and development, SEK billion

9.3

Employee salaries, SEK billion

2.5

Taxes paid to society, SEK billion

535

Dividend to shareholders, SEK million

111

Interest payments to lenders, SEK million

14.2

Supplier costs, SEK billion

STRATEGY – SAAB IN A GROWTH PHASE

To achieve its strategic and financial goals, the Group continued in 2016 to strengthen its presence in key markets, develop innovative solutions and acquire companies in priority areas. Efforts to further improve efficiency continued. The focus is also on continuously developing leaders and employees and create a culture that does even more to promote performance, innovation and motivation. The prioritised sustainability issues affect everything Saab does.

VISION

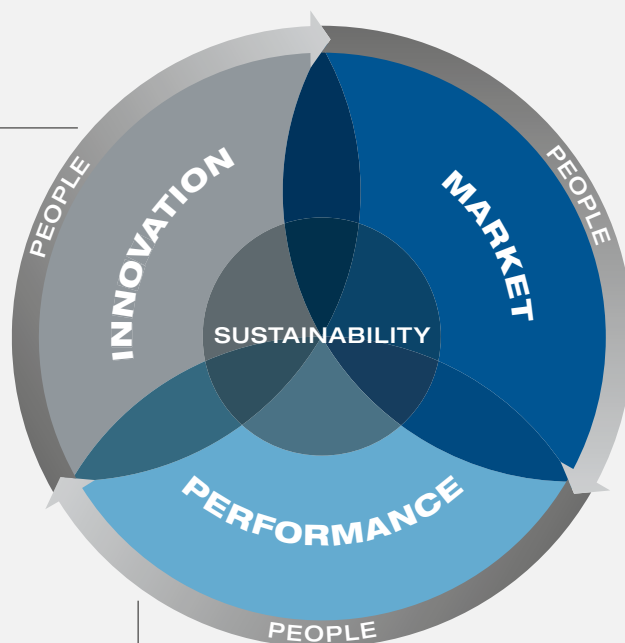
It is a human right to feel safe.

MISSION

To make people safe by pushing intellectual and technological boundaries.

SAAB'S STRATEGY IS BASED ON THREE PRIORITY AREAS

INNOVATION
We concentrate our product portfolio on innovations in systemintegration and on five core areas. We strongly believe that diversity and engaged employees drive innovation.



MARKET

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PERFORMANCE

The focus is on making functional processes more efficient, implementing an even more business-oriented culture and developing leaders and employees.



SUSTAINABILITY PRIORITIES

Saab has divided its sustainability work into four focus areas and identified priority issues for each area. In total, we have identified 16 priority issues based on an internal and external dialog with stakeholders and

with inspiration from the Global Reporting Initiative (GRI). These issues serve as the basis for our sustainability work and are integrated into the business strategy.



RESPONSIBLE BUSINESS

- Zero tolerance for corruption
- Export compliance
- Responsible supplier relationships
- Information security
- Product safety



REDUCE ENVIRONMENTAL IMPACT

- Reduce climate impact
- Phase out hazardous chemical substances
- Environmentally sustainable innovations



EMPLOYER OF CHOICE

- Develop leaders and employees
- Employee engagement
- Performance-driven culture
- Health and safety
- Gender equality and diversity



CONTRIBUTE TO SOCIETY

- Innovation and spreading knowledge
- Increased security and defence capabilities
- Social engagement with a focus on promoting education and an interest in technology

CONTINUED GROWTH

Saab achieved sales growth of 5 per cent in 2016. This period of growth began in 2015. Prior to that, Saab chose for many years to invest in developing the product portfolio and a strengthened marketing organisation to create a platform for profitable growth. To ensure profitable, long-term growth, development of Saab's portfolio and market position will continue in 2017.

During the end of the first decade in the 21st century, the defence and security market started changing at an accelerating rate. Technological and geopolitical developments were strong drivers of change. Saab made a number of strategic decisions at the time to secure a strong, sustainable market position. We decided to invest in our core technologies. At the same time, we needed to reduce risks in the balance

sheet relating to technologies we had already launched. We therefore set tighter guidelines for how to capitalise development costs, which resulted in significantly lower development costs being capitalised and existing development was written down at a faster rate than before. Beginning in 2009, Saab started investing heavily in development, while increasing amortisation of research and development costs. In 2014, total development costs represented 28 per cent of sales. At that point, we had secured and started development on the new generation of Gripen. In the same year, we expanded the product portfolio in surveillance radar and launched five totally new radar systems for land and sea. The new generation of Carl Gustaf, M4, was also launched in 2014.

In 2015, Sweden ordered the new version of the A26 submarine and Brazil ordered the new generation of Gripen. In 2016, Saab launched a new generation of the airborne surveillance system, GlobalEye.

Saab created a new marketing organisation in 2011 to strengthen its position locally, and in recent years the organisation has been steadily adapted to local needs. Today Saab has a strong local presence in the markets where we have chosen to be active.



Trend toward increased growth

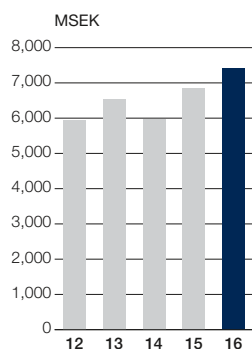
**PRODUCT
RENEWAL**

**MARKET
FOCUS**

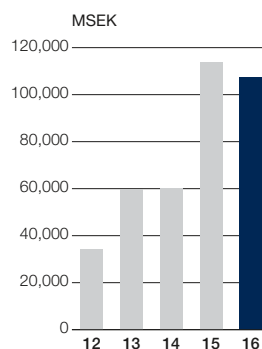
**ORDER
INTAKE**

**INCREASED
SALES**

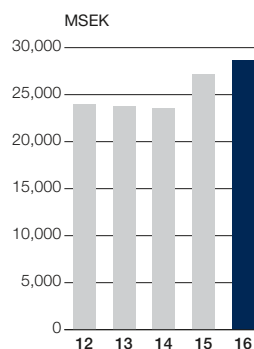
R&D investments



Order backlog



Sales



REVENUE MODEL

Saab's sales mainly is generated by long-term contracts, product sales and service contracts. The business model is adapted to the product area, system complexity, customer group and geographical market.

COMPLEX DEFENCE ORDERS

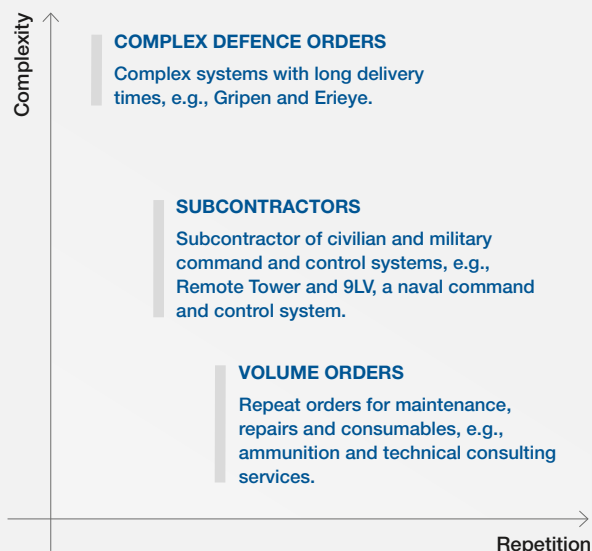
In complex defence orders, the solutions are comprehensive and often include training, maintenance, support and service over the product's entire lifecycle. Deliveries can continue for several years after development. These systems are configured and designed based on each customer's specific needs and often have a large share of customer-financed development. In addition, complex defence orders usually entail some form of industrial co-operation, e.g., technology transfers.

SUBCONTRACTOR

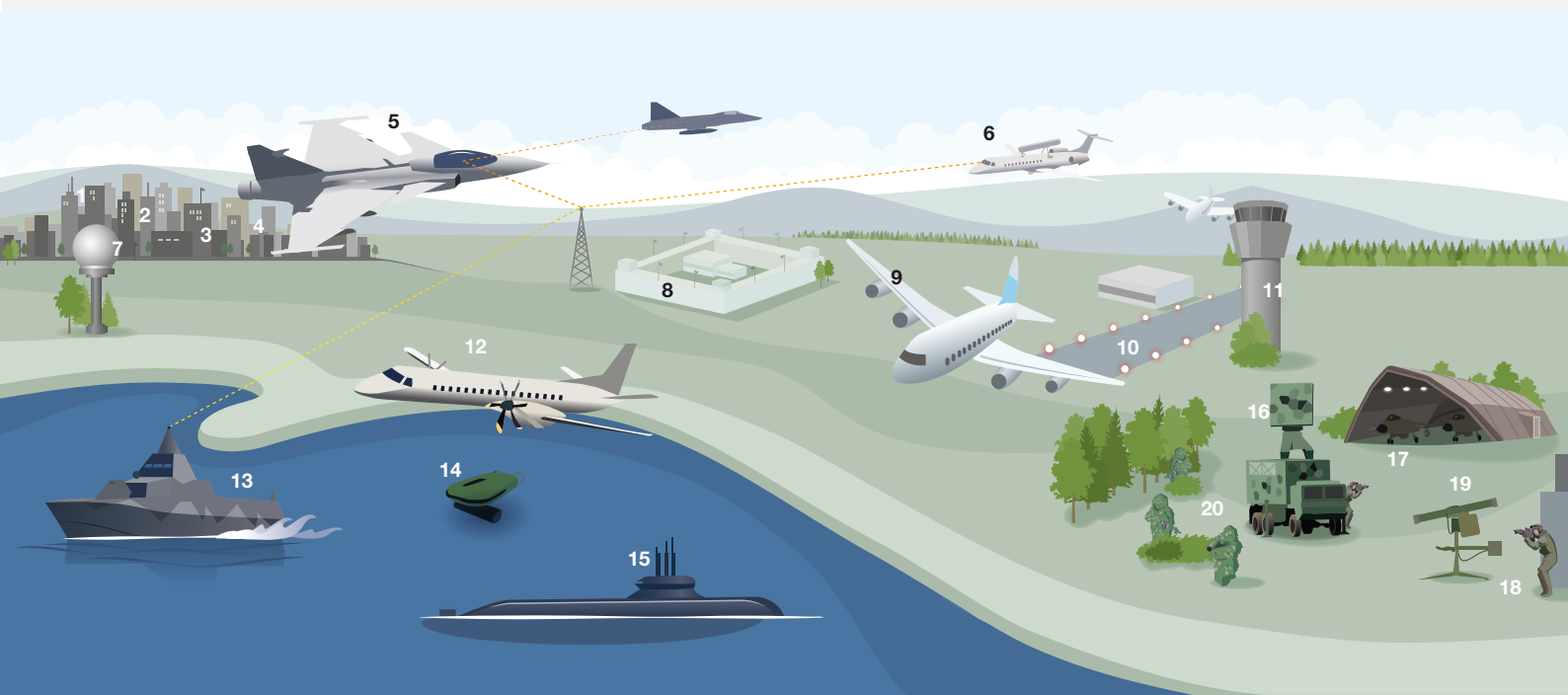
Saab can also serve as a subcontractor to a partner with primary contact with the end customer, e.g., when supplying subsystems. Several of Saab's systems, such as command and control systems, are platform independent and can be integrated with other companies' products and systems. Another reason to be a subcontractor could be the cost or that the customer country wants a domestic company as the principal supplier.

VOLUME ORDERS

Maintenance, support and training can also be sold separately. Consumables fall into the category volume orders as well. These products and solutions are often sold directly to the customer. Some products and services are delivered the same day an order is placed, while others have a lead time of over a year. These orders involve less customer-financed development than complex systems.



A SELECTION OF SAAB'S BROAD RANGE OF PRODUCTS AND SERVICES FOR CIVILIAN AND MILITARY USE



1. Technical consultancy.
2. Research collaborations with universities.
3. Dispatch system for security companies.
4. Protection against Chemical (C), Biological (B), Radioactive (R) or Nuclear (N) weapons (CBRN).
5. The Gripen combat aircraft system.
6. The Erieye airborne radar system.
7. Systems for weather stations.
8. Security systems for prisons.
9. Subcontractor to manufacturers of commercial aircraft.
10. Runway lighting for airports.
11. Air traffic control towers, e.g. Remote Tower.
12. Airborne surveillance systems.
13. Naval vessels, e.g. Visby class corvette.
14. Remotely operated underwater vehicles, e.g. Double Eagle for mine disposal.
15. Development of next generation submarine, A26.
16. Ground-based surveillance radar, e.g. Giraffe.
17. Field hangars.
18. Military training systems.
19. Anti-aircraft missile systems, e.g. RBS 70.
20. Camouflage equipment, e.g. Special Operations Tactical Suits (SOTACS).

SAAB'S GOALS AND RESULTS

The purpose of Saab's goals is to ensure the company's success and sustainability. The financial goals apply as of 2011.

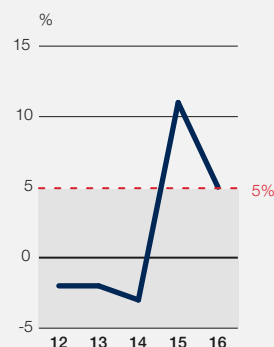
+5%

SALES

Average organic sales growth of 5 per cent per year over a business cycle. In 2016 organic sales growth was 5 per cent (11).

RESULT

Sales growth mainly relates to the new version of Gripen to Sweden and Brazil, the development of the A26 submarines, orders for GlobalEye in 2015 and strong order bookings for Business Area Dynamics.



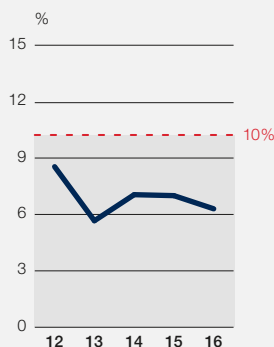
6.3%

OPERATING MARGIN

Average operating margin (EBIT) of at least 10 per cent per year over a business cycle. In 2016, the operating margin (EBIT) was 6.3 percent (7.0). Adjusted for non-recurring items, operating margin was 6.6 per cent in 2015.

RESULT

2016, operating margin was in line with 2015, as several major projects was in an early stage and Saab, at the same time, invested in developing a new trainer aircraft together with Boeing.



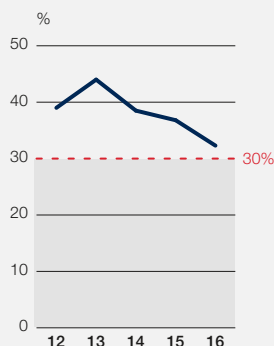
32.3%

EQUITY/ASSETS RATIO

The equity/assets ratio will exceed 30 per cent. At year-end 2016, the equity/assets ratio was 32.3 per cent (36.8).

RESULT

The equity/assets ratio is stable at a level above the Group goal. During 2016, total assets increased due to large payments in betaförskott relaterade till stora projekt.



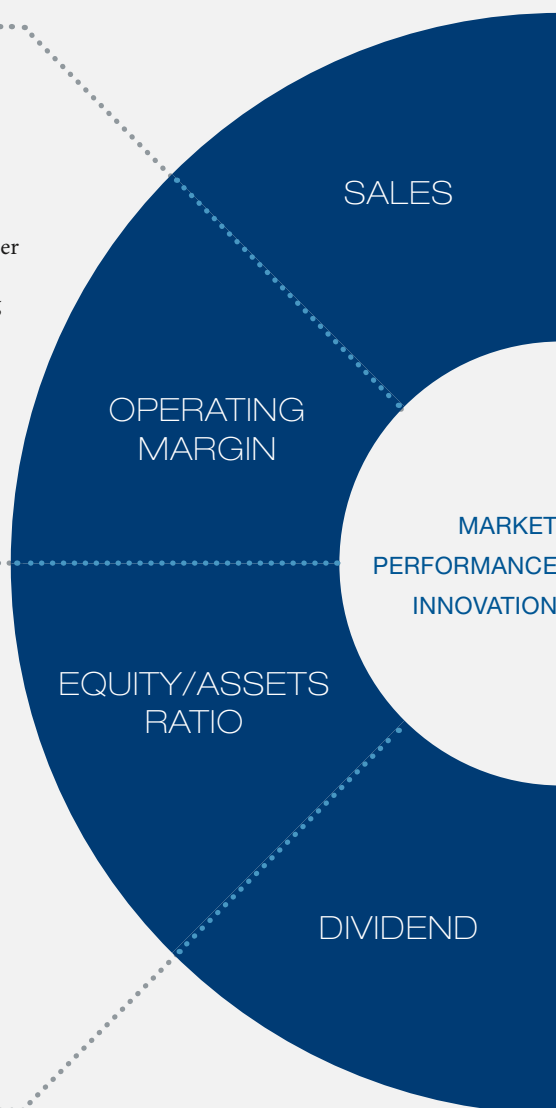
5.25

DIVIDEND

The long-term dividend goal is to distribute 20–40 per cent of net income to the shareholders over a business cycle.

RESULT

For 2016, the Board of Directors proposes a dividend of SEK 5.25 per share (5.00), corresponding to 49 per cent (39) of net income.





10,000

employees have completed the anti-corruption training

ZERO TOLERANCE FOR CORRUPTION

Saab will have clear and widely available rules and processes to prevent corruption and manage conflicts of interest. All employees will receive anti-corruption training on a regular basis.

RESULT

10,000 of Saab's employees have completed the web-based anti-corruption training. Since 2011, more than 1,000 employees have completed extended anti-corruption training.

RESPONSIBLE SUPPLIER RELATIONS

Saab will continuously co-operate with suppliers on social and environmental responsibilities.

RESULT

During the year, a number of new agreements were signed with suppliers accepting Saab's supplier code of conduct. Above that, educational efforts were made to raise competence internally in the area of responsible supplier relations.



11%

reduced greenhouse gas emissions

REDUCE CLIMATE IMPACTS

Reduce greenhouse gas emissions by at least 20 per cent from 2007 to 2020 as related to sales.

RESULT

Saab has reduced greenhouse gas emissions by 11 per cent from 2007.

PHASE OUT HAZARDOUS CHEMICALS

Phase out hazardous chemicals with unacceptable risks and chemicals that could be subject to regulation by authorities and customers.

RESULT

Focus to replace hexavalent chromium. All use of trichloroethylene was phased out and the project to phase in lead free soldering was finalised.

24.5%

female managers in total

GENDER EQUALITY DIVERSITY

In Sweden, Saab should have at least 35 per cent female managers and at least 30 per cent female employees in 2025. Globally, Saab should have at least 30 per cent female employees and 25 per cent female employees 2025

RESULT

Globally Saab had 24.5 per cent female managers and 22.6 per cent female employees. In Sweden Saab had 27.1 per cent female managers and 22.6 per cent female employees.

EMPLOYER OF CHOICE

At least 85 per cent of employees will be very satisfied to work at Saab. Saab will rank among the top five in Universum's ranking of future employers among Swedish engineering students.

RESULT

82 per cent of Saab's employees were very satisfied to work at Saab. Saab ranked sixth in Universum's survey of the most popular employers among Swedish engineering students.

Focus on education and technology

SOCIAL ENGAGEMENT

Saab will contribute to social development in markets where Saab is active, mainly with the help of Saab's employees and technologies and with a special emphasis on promoting education and an interest in technology.

RESULT

Saab continued during the year its activities to support education and interest in technology. Among other things, a cooperation with the organisation Mentor was initiated. For more examples, see page 48.

SAAB'S SHARE

SHARE CAPITAL AND NUMBER OF SHARES

Saab's share capital amounted to SEK 1,746,405,504 on 31 December 2016, comprised of 1,907,123 unlisted Series A shares and 107,243,221 listed Series B shares. Series A shares have ten votes each, while Series B shares have one vote each. The quota value per share is SEK 16. The Series B share is listed on Nasdaq Stockholm's Large Cap list. All Series A shares are owned by Investor AB.

Shares and votes, 31 December 2016

Share class	Number of shares	% of shares	Number of votes	% of votes
Series A	1,907,123	1.7	19,071,230	15.4
Series B	107,243,221	98.3	104,498,400 ¹⁾	84.6
Total	109,150,344	100	123,569,630	100

¹⁾ Number of votes excludes 2,744,821 Series B-shares repurchased to secure the Group's Share Matching Plan and Performance Share Plan. The repurchased shares are held as treasury shares.

Source: Modular Finance

OWNERSHIP STRUCTURE

Saab had 36,137 shareholders (33,339) at year-end 2016. Swedish investors accounted for 73.7 per cent (82.9) of the capital stock and 77.2 per cent (85.2) of the votes.

Saab's largest shareholders, 31 December 2016

Owner	Number of shares	% of share capital	% of votes ¹⁾
Investor AB	32,778,098	30.0	40.4
Knut and Alice Wallenberg foundation	9,468,700	8.7	7.7
Swedbank Robur funds	5,209,480	4.8	4.2
Fidelity	3,193,012	2.9	2.6
AFA Insurance	2,901,657	2.7	2.3
Unionen	2,900,828	2.7	2.3
Handelsbanken funds	1,695,295	1.6	1.4
Dimensional Fund Advisors	1,487,815	1.4	1.2
Lannebo funds	1,408,000	1.3	1.1
Norges Bank	1,124,207	1.0	0.9
Storebrand	1,041,485	1.0	0.8
Gladiator	1,025,000	0.9	0.8
Alliance Bernstein	983,603	0.9	0.8
FAM AB	926,853	0.8	0.8
Vanguard	913,037	0.8	0.7
Subtotal 15 largest shareholders	67,057,070	61.5	68.1
Other Swedish shareholders	22,078,877	20.2	17.9
Other international shareholders	3,927,823	3.6	3.2
Anonymous shareholders	13,341,753	12.2	10.8
Repurchased shares	2,744,821	2.5	-
Total	109,150,344	100	100

¹⁾ % of votes is calculated based on the number of shares, excluding treasury shares, at year-end.

Source: Modular Finance

Distribution of shareholders, 31 December 2016

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of share capital
1–500	31,749	87.9	3,392,146	3.1
501–1,000	2,365	6.5	1,873,337	1.7
1,001–5,000	1,718	4.8	3,342,792	3.1
5,001–10,000	114	0.3	841,275	0.8
10,001–20,000	68	0.2	973,979	0.9
20,001–50,000	48	0.1	1,501,670	1.4
50,001–	75	0.2	83,883,392	76.9
Anonymous share-holders			13,341,753	12.2
Total¹⁾	36,137	100	109,150,344	100

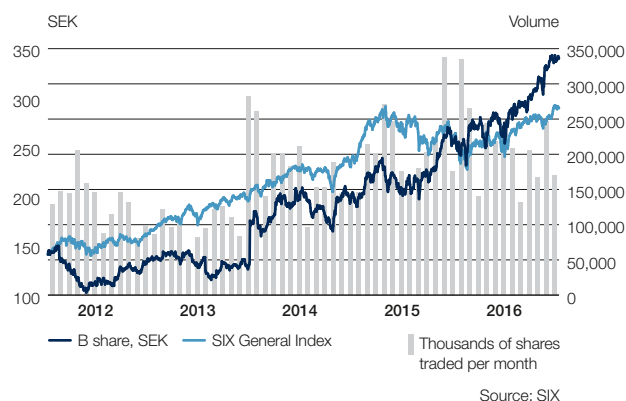
¹⁾ Including 2,744,821 repurchased Series B shares.

Source: Modular Finance

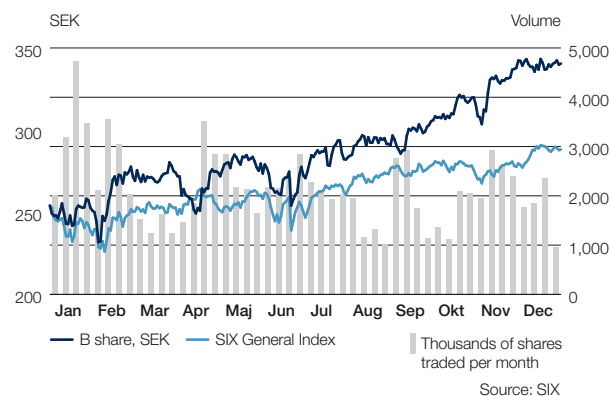
TRADING VOLUME AND STATISTICS

A total of 53,789,976 of Saab's Series B shares (52,601,224) were traded on Nasdaq Stockholm in 2016, or about 46.1 per cent of Saab's traded Series B shares. In 2016, about 37.9 per cent of Saab's Series B shares were traded on BATS and about 4.9 per cent on Turquoise. Remaining shares was traded in less quantities distributed on several platforms. The share price reached a high of SEK 345.8 on 16 December 2016 and a low of SEK 227.5 on 9 February 2016 in Nasdaq Stockholm trading.

Saab B, Share price development during the past five years



Saab B, Share price development 2016



SAAB'S LONG-TERM INCENTIVE PROGRAMME

Since 2007, Saab offers permanent employees the opportunity to participate in a voluntary Share Matching Plan. Purchases are made through salary deductions of 1–5 per cent of the employee's monthly salary, after which Series B shares in Saab are purchased on Nasdaq Stockholm. If the employee retains the purchased shares for three years after the investment date and is still employed by the Saab Group, the employee will be allotted a corresponding number of Series B shares free of charge. Since 2008, senior executives and other key persons have had the opportunity to participate in a Performance Share Plan.

The Annual General Meeting held 2016 resolved in accordance with the Board's proposal to adopt a long-term incentive programme 2016 (LTI 2016), consisting of a Share Matching Plan 2016 and a Performance Share Plan 2016. The proposed terms for LTI 2016 correspond to the terms introduced through LTI 2015 and which are considered appropriate.

LTI 2016 makes it easier for current and future employees to become shareholders in Saab and includes a requirement that they make a personal investment in Saab shares. The aim of the programme is to encourage employees' long-term commitment and performance as well as to increase the Group's attractiveness as an employer.

For more information on the incentive programme, see pages 81–82 and note 10.

AUTHORISATION

The Annual General Meeting 2016 also resolved to authorise the Board of Directors to decide to acquire not more than 1,340,000 Saab Series B shares to secure delivery of shares to participants in Saab's

long-term Share Matching Plan and Performance Share Plan and for subsequent transfers to cover certain expenses associated with LTI 2016, mainly social security costs. Repurchases may be effected on Nasdaq Stockholm.

Furthermore, the Annual General Meeting 2016 resolved to authorise the Board of Directors to decide to repurchase Saab Series B shares up to a maximum of 10 per cent of all the shares in the company. The purpose of the authorisation is to be able to adapt the company's capital structure and thereby contribute to increased shareholder value as well as to enable continuous use of repurchased shares in connection with potential company acquisitions and for the company's share-based incentive programmes. Repurchases may be effected on Nasdaq Stockholm. During 2016, the Board of Directors did not make any decisions to exercise this repurchase mandate.

Both repurchase mandates apply until the Annual General Meeting 2017.

DIVIDEND AND DIVIDEND POLICY

Saab's long-term dividend policy is to distribute 20–40 per cent of net income over a business cycle. For the financial year 2016, the Board of Directors proposes a dividend of SEK 5.25 per share (5.00), corresponding to 49 per cent (39) of net income.

FIVE-YEAR SUMMARY

For information on data per share, see www.saabgroup.com.

ANALYSTS WHO COVER SAAB

For information on analysts who cover Saab, see www.saabgroup.com.

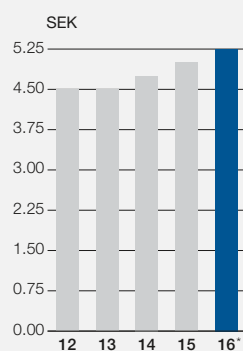
5,554

of Saab's employees joined the Saab Share Matching Plan 2016.

INVESTOR RELATIONS

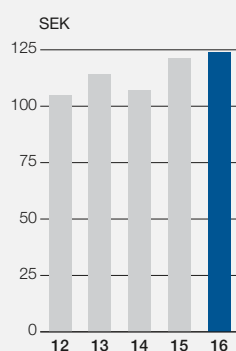
Ann-Sofi Jönsson, Head of Investor Relations
E-mail: ann-sofi.jonsson@saabgroup.com
Phone: +46 8 463 02 14

Dividend per share

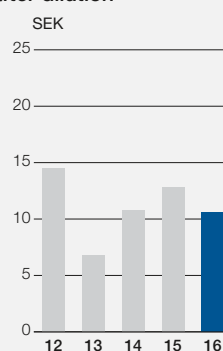


*Board of Directors' proposal

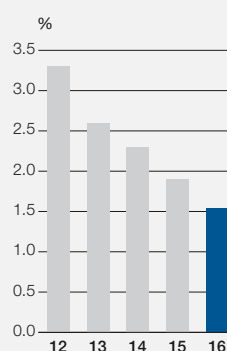
Equity per share



Earnings per share after dilution



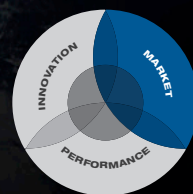
Yield at year-end



*Calculated on a SEK 5.25 dividend

MARKET

The market we are active in, both nationally and internationally, is changing rapidly, and we have to act faster to stay a step ahead. Our focus is on areas where we have a strong market position and on further strengthening our position in areas with good growth opportunities. Our global presence and diversity are further developed through partnerships and local cooperations, and we work actively to promote a thoroughly open and transparent market.

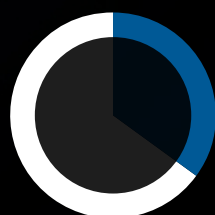


Order backlog duration

	SEK billion
2017	24.5
2018	17.0
2019	13.5
2020	15.8
After 2020	36.8

Saab's orders often extend over many years. The order backlog's duration provides an illustration of revenue that can be expected from current contracts.

Order backlog's geographical distribution

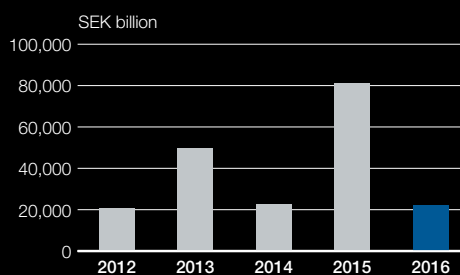


■ Sweden, 35%
■ Other markets, 65%

4X

Saab's order backlog is about four times annual sales

Order bookings



**DEFENCE AND
SECURITY
MARKET**

24 →

**PARTNERSHIPS
CREATE
OPPORTUNITIES**

27 →

**ZERO TOLERANCE
FOR CORRUPTION**

28 →

**DEFENCE MATERIEL
EXPORTS ARE A
RESPONSIBILITY**

30 →

DEFENCE AND SECURITY MARKET

Growing concerns continue to affect the defence and security market. We are carefully following market developments and the global trend toward increased investment in defence and security.

DEFENCE MARKET

Global defence spending rose by one per cent in 2016 as a result of increased political and economic insecurity as well as more complex threat scenarios. Within NATO, defence budgets rose for the first time since 2010. Defence budgets in the Middle East, Africa

and Russia are expected to remain under pressure due to low oil prices. In Asia and Eastern Europe, growth is projected to remain at the same level, and in Western Europe and North America, defence budgets are expected to increase.

Upper figure:

Projected average annual growth rate 2017–2021

Lower figure:

Share of the global market for defence materiel 2016

Source: IHS Janes



COMMERCIAL AERONAUTICS

The market for commercial aeronautics is growing by about five per cent a year. A strong driver is the fact that an increasing share of the global population can afford to fly. Other drivers include developments that reduce fuel consumption, e.g. wing designs, and technologies that cut production costs, as well as smart materials such as structures with embedded functions. Saab is a subcontractor to the leading aircraft manufacturers.

SECURITY AND TRAFFIC MANAGEMENT

The overall market for civil security is extensive. Saab is mainly active in traffic management systems for air, land and sea as well as security systems for critical infrastructure such as prisons and emergency services. Annual growth in traffic management systems is estimated at five per cent, and the market for critical infrastructure is growing by about eight per cent a year. The main drivers of the market are increased security needs and the expansion and modernisation of critical infrastructure.

TECHNICAL CONSULTING SERVICES

Saab is active in the Nordic market for technical consulting services through the subsidiary Combitech. The market has grown strongly in recent years, driven by demand for cutting-edge expertise. Demand for technical know-how combined with the industry expertise to create new solutions that address both environmental and security concerns is growing steadily. Combitech's services include information security, systems integration, communications, mechanics, systems security, systems development, technical product information and logistics.

FOCUSED MARKETING

We continuously develop and evaluate our offerings to increase growth opportunities in various markets around the world. Through our strong base in Sweden and local presence in over 30 countries, we ensure close contact with our customers.

In an increasingly complex market, a local presence and greater business orientation are critical to win strategically important deals, whether for military or civil security solutions. Since 2013, Saab's market organisation is divided into five market areas: Europe, North America, Latin America, Middle East & Africa and Asia Pacific. This organisation has strengthened Saab's local presence in key markets. For customers, it means access to specialised expertise, while Saab gains better insight into the market. Efficiency in the marketing and sales process has improved through fewer redundancies and a clearer distribution of work. Now we work more closely with customers and have greater opportunity to offer the right combination of products and solutions. Today Saab has a more focused business culture.

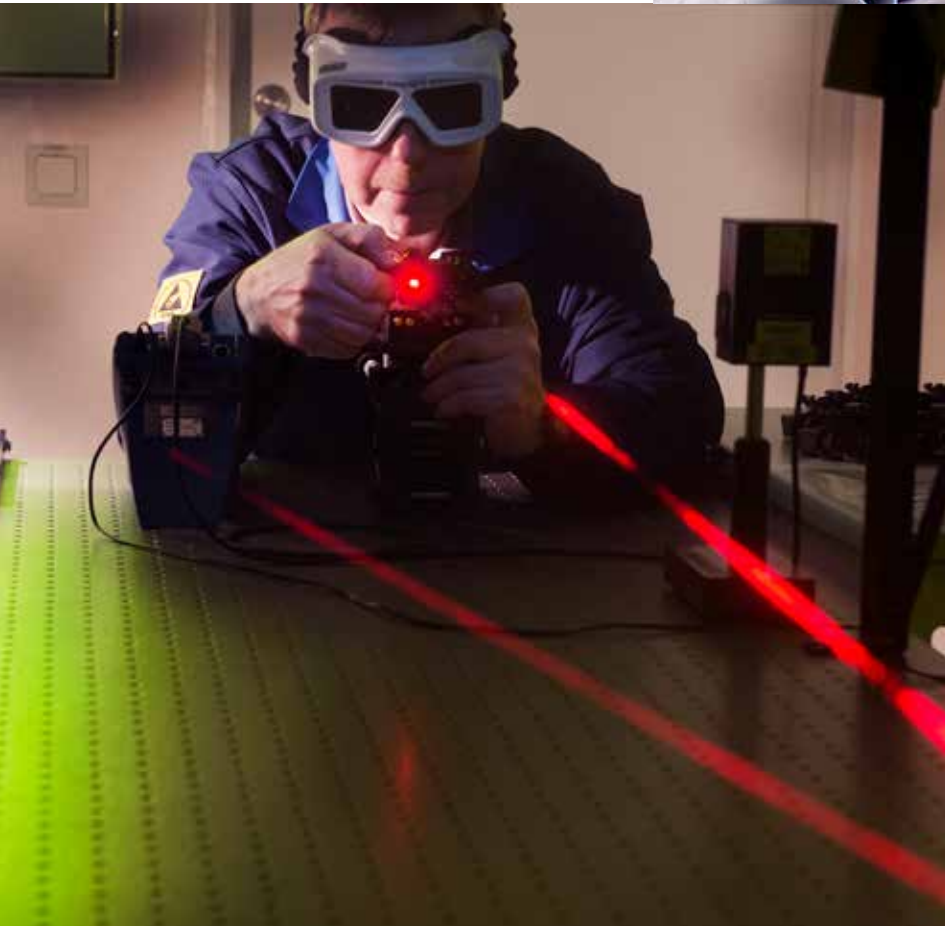
→
In less than two decades, Saab Australia has tripled sales, expanded to new fields and found new customers. A willingness to develop is the reason for the success," says Dean Rosenfield, Managing Director, Saab Australia.



←
Saab offers maintenance, repairs and testing of components in avionics, hydraulics, radar, optronics, mechanics and composite parts. We manufacture and deliver our own testing equipment and train our customers.

SECURE SMALL AND MEDIUM-SIZED ORDERS

For Saab, it is important to have a steady inflow of small and medium-sized orders. They can be turned over and delivered to the customer faster than larger, more complex orders, and as a result can be converted faster to sales. In many of these projects, payment is received upon delivery. Operating income in businesses with smaller orders is fairly evenly distributed over time, while profitability in large projects typically rises as a larger share of the order is delivered and the risks decline. Its strong local presence has helped Saab to grow its small and medium-sized orders. In 2016 orders below MSEK 100 amounted to MSEK 12,005, representing 55 per cent of the order intake.



As part of the Gripen sale to Brazil, Saab has agreed on extensive industrial cooperation, particularly when it comes to technology transfer.

"We have made a commitment on technology for fighter aircraft that includes development, production and maintenance," says Göran Almquist, deputy programme manager for Gripen in Brazil. "The main aim is to train up Brazil's own industry so that it will eventually be able to maintain its own fleet of Gripen aircraft and also develop its own future technology."


Such an agreement was a prerequisite for the deal to go through. Brazil sets a legal requirement for 100 per cent industrial cooperation and aims to develop its own defence industry.

"We look forward to growing closer to our South American customer. The industrial cooperation that technology transfer

delivers is a productive way of developing as a company," says Ulf Nilsson, Head of Business Area Aeronautics.

Saab will host 350 Brazilian engineers, and their families, who are moving to Sweden to gain training and practical experience in Gripen development, production and maintenance. Saab's own staff will go to Brazil to help set up operations there. This onsite dialogue in both countries will improve our output and expand our skills.

"The global market has demonstrated its faith in Saab products. Having proved that we are an elite-class player to be reckoned with, we will have further opportunities to gain new export orders and expand our cooperation with existing customers. We now have to work even harder to meet the market's future demands," says Ulf Nilsson.



Brazil's purchase of the next-generation Gripen system means that we have a sound basis for the further development of our technology and our people for a long time to come. The order gives us the resilience required to take our company to the next level, and beyond.

GROWING TOGETHER

PARTNERSHIPS CREATE OPPORTUNITIES

Spreading knowledge through technology transfers offers many advantages. People from different countries and organisations meet and it results in new business ideas that create value for all the parties involved. This many times generates new business.

Saab's order backlog consists of large orders such as the Gripen combat aircraft system for Sweden and Brazil, the type A26 submarine for Sweden and an airborne radar system to the United Arab Emirates. Major deals are preceded by a procurement process that can take a number of years. When Saab signs large defence deals, the contracts usually contain more than just the sale of products. Many countries also want technology and skills transfers as well as various forms of industrial cooperation. These demands are made to enable the domestic industry to build up or strengthen the country's defence capabilities. For Saab, there are benefits to spreading knowledge through technology transfers. People from different companies and organisations meet and it results in new business ideas that create value for all the parties involved. This many times generates new business.

In addition to industrial cooperations that customers demand as part of large deals, Saab naturally participates in a number of other collaborations, including close development partnerships with customers and suppliers. Saab also contributes to broad-based innovation partnerships between industry, academia and the public sector. These partnerships expand Saab's knowledge base at the same time that relationships with customers are strengthened.

Diversity and creative thinking drive innovation, and the fact that Saab conducts research and development on several continents makes it more competitive.



A LOCAL PRESENCE HAS HELPED SAAB IN THE US

In September, the first two aircraft co-developed by Saab and Boeing for the U.S. Air Force's T-X training requirement were unveiled. Regardless of which aircraft the U.S. Air Force ultimately chooses, Saab and Boeing will in all likelihood continue to work together. The T-X project is already just one of several assignments Saab is playing for Boeing.

"We are working together on a new type of artillery system, the Ground Launched Small Diameter Bomb (GLSDB)," says Michael Andersson, President & CEO Saab North America. "And on the commercial side we have been a supplier for many years; we build the cargo doors and crew escape doors for the Boeing 787 Dreamliner. Just because we work together in one area doesn't mean that we can't compete in others."

"When we won the Gripen deal with Brazil, it opened a lot of eyes in the US, especially because we were competing against Boeing," says Michael Andersson, who adds that Saab works with all the major players in the defence sector. "They are usually called the 'big five'. For instance, we have an exciting partnership with Lockheed Martin in naval command and control systems and with Raytheon and Northrop Grumman in ground-based radar."

Through partnerships with US companies, Saab is strengthening its local position. In autumn 2016, it was announced that Saab will provide shipboard air traffic radar for the US Navy.

"We won the deal thanks to our presence in the country," says Michael Andersson.

HIGH-POTENTIAL PARTNERSHIP

Boeing has developed a completely new advanced training system for pilots in line with the requirements of the United States Air Force's T-X project.

"The training system is able to evolve as technology, missions and training needs change," explains Boeing's Ted Torgerson, T-X program manager, who has headed up the project for the last three years.

"We have taken a completely new approach. Because we started from scratch, we were able to use the latest technology, tools and manufacturing techniques – and that allowed us to create a system that is more affordable and flexible than older existing aircraft that we're competing against."

Torgerson views the collaboration with Saab as a true partnership. "Saab brought really great small, affordable aircraft design experience that was helpful to us," he says. "Boeing is the overall design authority, but we delegated design of the aft fuselage to Saab." Saab's experience with the Gripen was crucial to the T-X project, Torgerson says.

"The things they think about were very useful in how we laid out the aircraft," he says. "There are a lot of things that have to get packed into a very small package. They were excellent at that, and we leveraged that capability."

The fact that Boeing has now rolled out two production aircraft on schedule is a testament to the success of the cooperation with Saab, Torgerson says. "To have a three-year aircraft development programme with two companies that have not worked this closely together, on separate continents, on different CAD systems, and to have executed our programme within days of our original plan three years ago, says to me that we have obviously figured out how to work together."

The United States Air Force's T-X program will replace the T-38 training system, which will have been in use for 70 years by the time it is taken out of service in 2029. The contract for T-X will be awarded at the end of 2017.



ZERO TOLERANCE FOR CORRUPTION

Saab is a long-term, reliable partner that promotes an open and transparent market. Corruption has negative consequences for society and business and is something Saab can never accept.

Like many other companies that do business in many parts of the world, Saab sometimes comes across attitudes that are inconsistent with its ethical values. For this reason, Saab has built up an extensive organisation, processes and tools to manage risks.

RULES AND PROCESSES

We are guided by our fundamental values, the Code of Conduct, current laws, industry codes of conduct and clearly defined internal processes to prevent corruption risks.

In 2016, we launched an updated version of the Code of Conduct in which human rights and social media have been given a more prominent section and a responsible supply chain has been given its own section linked to the supplier code of conduct introduced in 2015. The new code contains forewords by the Chairman of the Board and the CEO. Saab's CEO presented the most important changes in a video to all employees.

RISK ANALYSIS

Exporters are often exposed to corruption risks. Saab therefore requires a corruption risk analysis prior to each deal. Among the factors that affect the risk are where a deal takes place, who the customer is, how the procurement is handled, how Saab found out about it, the business model and the contract value. If the risks that are identified cannot be minimised and managed satisfactorily, Saab will withdraw from the deal.

STRICT SCRUTINY OF MARKETING CONSULTANTS

To gain entry to new markets, multinational companies often hire marketing consultants and other partners in the selling process. Saab does as well. Hiring of third parties in the sales process is sometimes important in order to understand how a market works, but can also result in increased exposure to corruption risks.

We therefore apply a strict process in which cooperations with marketing consultants and other partners in the selling process are evaluated and approved by a central function that handles all such relationships.

These partners also have to undergo special training and pledge to abide by Saab's ethical values and guidelines. Contracts contain specific commitments with regard to business ethics and permit continuous monitoring of the partners through reporting requirements and audit rights.

Since 2015, Saab's Internal Audit has reviewed a number of randomly selected contractual relationships each year to verify compliance with the process and that the partner is acting in line with our values and current contractual terms. Our long-term aim is to reduce the number of marketing consultants and other partners in the selling process and instead increase the presence of our own staff in selected markets.

TRAINING

In addition to training on the Code of Conduct, all employees receive separate, web-based anti-corruption training. At year-end 2016, around 10,000 employees had completed the training.

Employees in positions at particular risk, such as marketing and sales, industrial cooperations and project management, also receive mandatory in-depth training covering, among other things, general risk awareness, internal processes and the tools available to manage corruption risks. This training will continue in 2017. In total, over 1,000 employees have completed the in-depth training on around 90 occasions since June 2011.

In 2016, Saab's Board of Directors received special training on business ethics. The training was provided in connection with the Board's meeting in October under the direction of the company's General Counsel and Chief Compliance Officer. It was based on case studies and was a continuation of the initial programme completed in 2013. The aim going forward is that the Board will receive training at least once every three years.

Business ethics training with a focus on procurement-related issues was provided for Saab's procurement organisation in the spring of 2016.

WHISTLEBLOWING SYSTEM

Employees who become aware of or suspect non-compliance with laws or Saab's Code of Conduct are expected to report this through our whistleblowing system.

We introduced a new whistleblowing system in 2015 that complements ordinary line reporting and provides the option of reporting online or by phone. The system is managed by an independent party and guarantees the employee's anonymity. Complaints

submitted to the system are handled by a team of representatives from Ethics and Compliance, Human Resources, Security and Internal Audit.

GLOBAL COLLABORATIONS

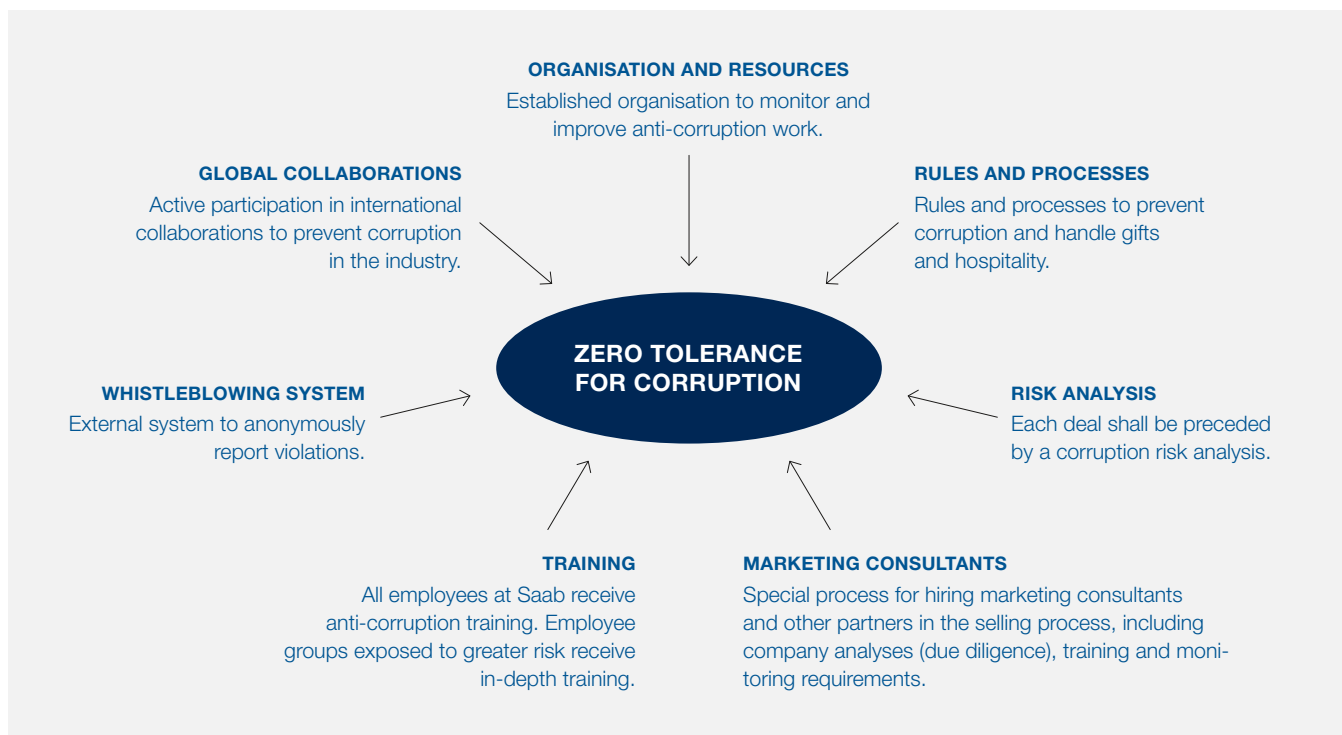
We actively participate in international industry associations to develop standardised anti-corruption rules, share experiences, and evaluate and improve the work they do.

Saab was one of the companies that helped to produce a set of Common Industry Standards for the Aerospace and Defence Industries Association of Europe (ASD) in 2007. Saab is also a member of the steering committee for Global Principles, a similar agreement produced by trade organisations in Europe and North America. Companies that have signed the code of conduct pledge to comply with a number of rules on everything from entertaining potential customers to payment forms and which risk analyses should be conducted if marketing consultants or agents are brought in as intermediaries.

ORGANISATION

Our corruption prevention efforts are constantly developing, and a number of functions are involved. See the illustration below.

WE HAVE ZERO TOLERANCE FOR CORRUPTION AND THEREFORE HAVE A SOLID ORGANISATION, PROCEDURES AND TOOLS TO PREVENT RISKS



DEFENCE MATERIEL EXPORTS ARE A GREAT RESPONSIBILITY

Few areas are as highly regulated as defence materiel. Saab therefore has well-established processes to ensure compliance with the laws and regulations governing export controls. This is critical in order to maintain trust in the business.



The UN Charter establishes that every country has the right – and obligation – to protect its citizens against acts of aggression. A military defence is the ultimate expression of this. For Sweden, a domestic defence industry is an important component in its defence capabilities, allowing it to be independent and participate in international collaborations in defence technology.

Without the ability to sell to and cooperate with other countries, Sweden could not maintain its technological expertise and defence capabilities. At the same time, the export of defence materiel carries with it a great responsibility and is therefore governed by strict rules. The largest part of Saab's exports is from Sweden, where the Swedish Agency for Non-Proliferation and Export Controls (ISP) determines on behalf of the government which defence products Saab may sell to which countries.

WHAT SAAB SELLS TO WHOM

The export of defence materiel requires a permit from the competent authority. Such permits could be issued if there are security and defence policy reasons for the export and if it is consistent with Swedish foreign policy interests. Decisions on export permits are made on a case-by-case basis where ISP weighs a number of criteria in a comprehensive assessment. ISP also takes into account the type of product the decision involves.

OUR COMPLIANCE PROGRAMME

Saab maintains Group-level policies and tools to help its businesses follow the export control laws that apply to the company's products and activities. The high standard we maintain in terms of export compliance was confirmed by the global trade publication WorldECR, which named Saab one of three European Export Controls Compliance teams of the year. The head of export control is responsible for the company's overarching policy, directives and governing policy documents as well as for providing advice to the businesses on operational issues and monitoring compliance within the company. In addition, each business area has its own export control organisation to manage the work at an operational level. To encourage collaboration and prioritise needs, Saab also has an export control council with representatives from various parts of the business.

Continuous internal training on export controls is provided for employees who come in contact with controlled products or technologies. Web-based introductory training is also available to Saab's employees. For export control officers and other key employees, a biannual conference is held to increase understanding of various export controls and related legal areas. We also work with other industries through various trade organisations in Sweden, the EU and the US and hold talks on legal issues for university students in Sweden.

HARMONISATION

Saab has drawn attention to the need for international harmonisation of export laws that are balanced and competitively neutral. This is why we were involved, for instance, in setting up the UN's Arms Trade Treaty, which regulates international trade in conventional arms.

A restructuring of the Indian defence market has been a topic of discussion for many years. "But it is only after Narendra Modi's reformist government was appointed in 2014 that the plans have reached a more concrete phase," says Jan Widerström, newly appointed head of Saab India Technology, who has a decade of work experience in India.

The highly publicised 'Make in India' campaign promotes local manufacturing. One of its most ambitious goals is to have 70–80 per cent of India's military equipment produced within the country's borders. It is a complete reversal of the current situation, in what is the world's largest defence market.

Rather than seeing it as a threat, Widerström sees the focus on domestic manufacturing as an opportunity for Saab.

"It is important strategically that we act now and work on becoming a part of India," says Jan Widerström. One of the clear indications that change is underway is a new defence procurement procedure that is expected to make it far easier for foreign companies to do defence business in India. Foreign OEMs will be able to choose their own partners, and a range of restrictions on ownership and training will be eased.

Saab's involvement in India stretches back to 1975 when the Carl Gustaf system was first supplied to the military there. This business continues to generate sales for Saab.

Ten years ago, Saab made the decision to view India as a strategic market, and more than 300 people are now working with Saab-related businesses across the company's operations in the country.

"We have been very successful with the IDAS self-protection system for Indian Air Force and Army helicopters," says Widerström. "We have provided the AIS system along the total coastline – there's about 7,500 km of coast around India – we have a facility for Barracuda camouflage production, and with radar we're now starting to work with India and Bharat Electronics Limited (BEL)."

Saab is also involved in two successful joint ventures with Indian companies, through which it has shared knowledge with the local defence industry. The first, established with IT giant Tech Mahindra in 2009, involves Saab outsourcing R&D work. The second, Aerostuctures Assembly India, is Saab's joint venture with manufacturing company Aequs at Belgaum. It has been in operation since 2013, supplying assemblies to Airbus.

"It is important strategically that we act now and work on becoming a part of India."

Jan Widerström,
Chief for Saab India Technology

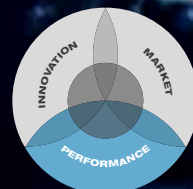
GROWTH IN INDIA

The Indian government wants to produce its defence material domestically. This presents major opportunities for Saab.

A Saab 900 aircraft is shown from a low angle, highlighting its high-wing configuration and T-tail. The aircraft is on a runway at dusk, with the sky transitioning from blue to orange. The word "PERFORMANCE" is overlaid in large white letters.

PERFORMANCE

In a world of constant change and fierce competition, high efficiency and shorter lead times are essential in order to meet customer demands and increase profitability. We have to be able to deliver more for less, which is why increasing efficiency is a continuous effort. The focus is on improving functional processes, developing leaders and employees, and implementing an even more business-oriented culture.

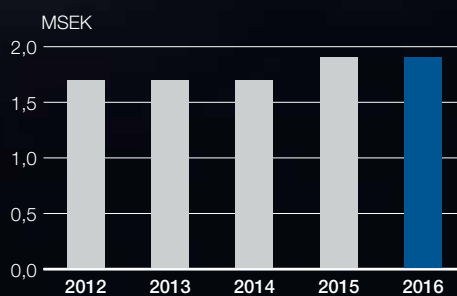


Operating expenses as a share of sales



Operating expenses are defined as marketing and administration costs.

Sales per employee*



* Average number of full time equivalents (FTEs).

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CONTINUOUS IMPROVEMENTS

Saab has a long-term financial goal to reach an operating margin of 10 per cent on average over a business cycle. To achieve this, the entire organisation has to embrace a corporate culture focused on performance.

With an order backlog four times as high as sales, much of the emphasis is on effective project execution, so that sales growth also results in increased profitability.

Profitability has been affected for many years by major investments in research and development. This has resulted in the launch of a number of new product solutions or new generations of products and solutions in recent years. Going forward, we will continue to invest heavily in research and development even if our expenditures decrease in relation to sales.

COORDINATED PROCESSES LEAD THE WAY

A large share of the order backlog consists of major projects involving extensive research and development, which are delivered over more than five years. In 2015, our sales rose by 16 per cent, and in 2016 growth was again strong.

We expect to continue to grow in coming years. Growth gives us an opportunity to further improve efficiencies over and above what we are already doing on a continuous basis. This is why we have been working the last two years to coordinate and improve functional processes in the company. The reason is that we have grown for many years, mainly

through acquisitions, due to which the functional processes used in HR, communication, IT and finance are not totally uniform throughout the Group. This work took a big step forward in 2016, and many decisions have been taken that will result in greater efficiencies once implemented.

The main focus in 2017 is on implementing uniform processes, creating internal synergies and improving performance management.

EFFECTIVE PROJECT EXECUTION

Optimisation is important in a business where customer projects are complex and often extend over long periods of time. Saab's project managers and employees are always looking for new ways to reduce costs without affecting quality or productivity.

We use, among other things, agile methods and Lean principles in our development to increase productivity. This saves resources and increases employee engagement, since they are able to suggest improvements throughout the process. These continuous improvements result in thousands of smart efficiencies each year.



BREAKING THE COST CURVE

When Saab designed the new version of Gripen, we at the same time broke the cost curve for development and production of complex systems. The goal was to be even more competitive.

The method we chose was model-based definition (MBD), which let us give up paper in favour of computerised 3D images. There was an initial cost to introduce Lean principles in development, methodologies, tools and routines. But since the product is right from the beginning, there is higher efficiency and profitability in production, aftersales and publications.

For our customers, there is a big advantage to our working so efficiently. They feel reassured knowing that they can see their order in 3D before placing it. We also reduce our environmental impact by avoiding having to print tens of thousands of pages of documentation. For our Brazilian colleagues who are learning to build Gripen in Linköping, quality assurance is made much easier. 3D images are able to break through any language barrier. It requires courage to make a revolutionary change. We are certainly willing to take chances, and it is one reason why we are a leader in our industry in this area.

MARKET-DRIVEN RENEWAL

Product renewal is often a close collaboration with customers to ensure that Saab offers the most advanced technology for the applications they want. One example is the Carl-Gustaf M4 weapon system, which has been continuously modernised and adapted to its users' changing needs. The latest version offers the same effectiveness and versatility as previous versions but with a lighter design, shot counter, intelligent sighting system and programmable ammo, giving the soldier more flexibility and mobility. In December, Saab received an order from the fourth customer for the latest M4 version since its market launch in late 2014. Deliveries will take place in 2017.

PARTICIPATION IMPROVES OUTCOME

Saab invests a large share of its profit in research and development. This is necessary to compete on the forefront of technology. It is thanks to our world-class employees and their innovative thinking that the company is as strong as it is today. Saab has a non-hierarchical corporate culture that makes it responsive and flexible. This also means generously sharing knowledge, and that employees are encouraged to think freely and present their ideas.

An innovation pilot project was started by the Dynamics business area in 2016 to test a new way of working systematically with innovation. Among other things, a tool has been introduced that allows everyone to see and comment on proposals and offer more ideas and improvements. The idea behind the project is to pave the way for a new way to see innovation within Saab and thereby create a more efficient development process.

Value-adding partnership

Collaborative projects in various countries around the world give us an opportunity us to improve efficiencies in our development and production. One example is Aerostructures Assemblies India (AAI), a collaboration with the Indian manufacturer Aequs. In the last three years, the project has progressed from idea to production, with both companies providing valuable know-how and sharing the same values. Production was launched in India in August 2013, and the first components for the Airbus 380 programme were delivered in February 2014. Saab has contributed its expertise in project management to the partnership, while Aequs has added its manufacturing expertise and knowledge of the Indian market and local supply chain. Now that production has effectively begun, the partners are working together to win more contracts. For example, Door Plug 3 and Cover Plate for A321 Airbus are being built together. Much of this development work is done by Saab India Tech Centre in Hyderabad, while assembly is handled by AAI.



REDUCE ENVIRONMENTAL IMPACT

A systematic approach to reducing our environmental impact is critical to Saab's continued competitiveness and survival. We focus on three areas: reduce climate impact, phase out hazardous chemicals and invest in sustainable innovations.

Based on Saab's environmental policy and with the UN's sustainable development goals in mind, we work continuously to minimise risks and our impact on the environment. Saab's environmental issues are managed by a Group council on which the business areas and the Group's environmental function are represented. We also have internal collaboration groups in several focus areas.

REDUCE CLIMATE IMPACT

During the year, we formulated and established a strategy for climate work within Saab divided into three areas: optimised energy consumption, energy-efficient transports, and resource-efficient products and sustainable innovations.

More efficient travel

A large share of Saab's total carbon dioxide emissions is from business travel. As we become more international, it gets more important to strike a balance

between the need to travel and the need to reduce climate impacts. We do this by trying in various ways to travel more efficiently, including through greater use of lync conferencing. Business travel increased during the year, mainly international air travel. One step we took during the year to increase our share of fossil free fuel was to expand the range of available electric/hybrid vehicles for business and personnel travel.

Reduce energy consumption in facilities

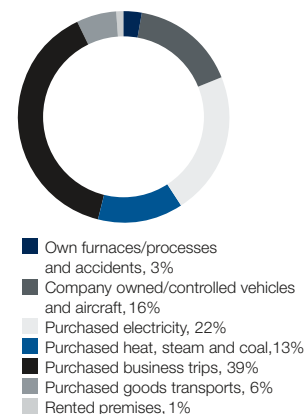
The largest share of Saab's carbon dioxide emissions comes from energy consumption at its facilities. To reduce emissions, Saab took a number of measures at its various facilities, such as using space more efficiently, installing energy-efficient lighting, installing solar panels, capturing surplus heat and buying fossil free electricity. The choice of energy provider and type of fuel mix are otherwise important parameters to minimise emissions.

Report greenhouse gas emissions

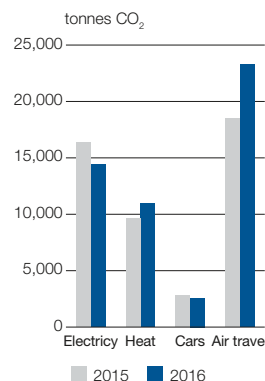
Since 2006, Saab has been reporting greenhouse gas emissions to the Carbon Disclosure Project (CDP), an independent organisation that collects climate data from over 5,600 companies around the world. In 2016, our climate work was declared best practice with respect to advanced environmental leadership and thanks to active efforts to mitigate climate-related risks and benefit from climate-related opportunities. Information on the CDP and Saab's complete report can be found at www.cdp.net.

For more information on Saab's efforts to reduce its climate impact, see: www.saabgroup.com/responsibility

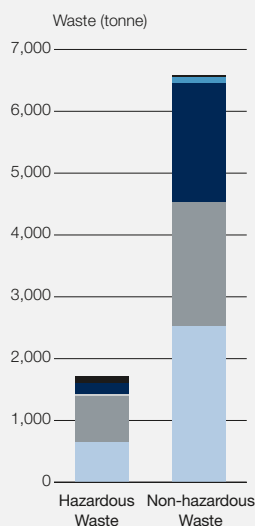
Carbon dioxide emissions from various sources within Saab



Yearly comparison of various emission sources in Saab's facilities



Waste and soil contamination

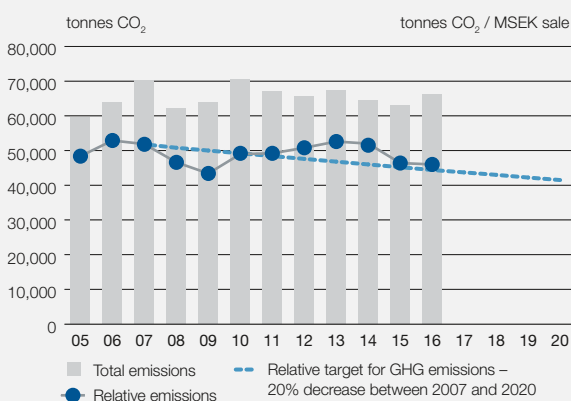


Saab annually compiles the amounts of waste from its facilities. The figures are based on waste amounts from Saab's main locations 2016.

Soil contaminants

Saab works actively to identify and track contaminated soil and waterways. Several extensive investigations were conducted in 2016, and remediation measures were taken in Linköping and Karlskrona.

Greenhouse gas emissions within Saab



Fulfilling the climate target depends not only on actual greenhouse gas emissions but also on annual sales and changes from year to year in the fuel mix used by the company's energy providers. Note that Saab's greenhouse gas emissions consist almost entirely of carbon dioxide. Also note that this year's graph has been corrected due to factual errors in 2015.

PHASE OUT HAZARDOUS CHEMICAL SUBSTANCES

We have extensive experience in phasing out hazardous substances in complex products, where security and product quality requirements are extremely high. Our expertise in these issues is of great strategic value to fulfil our business commitments. We are very active in international organisations that, among other things, are devising industry-wide alternatives to hazardous chemical substances and developing standardised processes for handling chemicals.

Saab's business areas submit annual strategic plans for phasing out hazardous substances. Several

positive steps were taken during the year to replace paints and surface treatment processes that contain hexavalent chromium. We also ramped up a new cleaning facility and phased out all use of trichloroethylene. A project to phase-in lead-free soldering while maintaining quality throughout the product's useful life was completed and a final report was submitted. The results are now being implemented to facilitate production with lead-free soldering as far as possible.

Certain hazardous chemicals are still needed at times to meet security and technical performance requirements in the aviation and defence fields.

ENVIRONMENTALLY SUSTAINABLE INNOVATIONS

Saab participates in research and development collaborations to create sustainable solutions for the future. Through new, resource-efficient technology, we can compete in a global market in the future. A number of examples are provided below.

BIOFUEL TESTED ON GRIPEN

We provide Gripen as a test platform for biofuels as part of an evaluation project being conducted by military organisations in Sweden and the US. Qualification of the various aircraft components – the engine, auxiliary power and materials used in the fuel system – was completed in 2016. Test flights are planned with Gripen in 2017.

INNOVATIVE AIRCRAFT WING

We are one of the main suppliers to Clean Sky, a Joint Technology Initiative to reduce aircraft emissions. In collaboration with our partners, we have designed an aircraft wing with innovative technology to reduce wind resistance and cut fuel consumption. The wing has now been delivered to Airbus and will be test-flown later in 2017.

HULL CLEANING

We have developed a remotely operated underwater vehicle being used by the Danish company C-leanship to clean the hulls of large ships without damaging their



paint. Removing organic material reduces fuel consumption and the spread of micro-organisms. Moreover, it reduces the need to drydock vessels to repaint them, cutting the shipping company's costs and use of environmentally harmful processes.

EFFICIENT AND SAFE TRAFFIC FLOWS

By more efficiently planning and managing all types of traffic, carbon dioxide emissions can be reduced dramatically. We supply a variety of services and products that provide a better traffic overview and status updates,

while simplify planning and increasing security for all types of enterprises.

See more examples at:
www.saabgroup.com/responsibility

DEVELOPING EMPLOYEES AND LEADERS

Only by attracting and developing the top talents can we retain our position on the forefront of technology and at the same time continuously increase our performance. We offer excellent opportunities for individuals to grow within the Group, both nationally and internationally.



Participants in Saab Graduate Leadership Programme 2016.

Saab offers various forms of skills and leadership training. Some training is mandatory for all employees and is provided flexibly and cost efficiently through e-training. We also promote learning in the form of networks and mentorships.

We use a well-developed talent management process where young talents are identified before they have attained leadership positions. Those employees who are selected as high potentials are given development plans to further improve their skills and contributions to Saab. We also offer a number of development programmes that prepare leaders for global business. Recent graduates or those just starting out in their career can apply to our trainee programme, the Saab Graduate Leadership Programme (SGLP), while programmes such as FEM and TIO, which are conducted together with other large international companies, offer senior leaders training on professionally managing complex businesses.

CLEAR EXPECTATIONS

The final phase of a Group-wide engagement and training initiative called Employee Boost was completed during the year to give employees a better understanding of where Saab is headed and how each employee's performance can affect the company's future. The next step will be to introduce a toolbox that will eventually help to strengthen the corporate culture.

Every employee should clearly understand their expectations. Individual Performance Management (IPM) reviews are an important tool where each

employee and their supervisor together set personal goals that are also tied into the company's business objectives. A new system support for IPM – Saab Performance Web – was introduced during the year to simplify and improve the work with cascading goals, data collection on skills training and development plans as well as to track how well individual goals and plans are being met.

TO SUCCEED WE HAVE TO BE MORE EFFICIENT

It will be a challenge in coming years to deliver on a number of critical projects and will require further efficiency improvements. One example is the goal to significantly shorten the lead time to deliver a world-class submarine. This is imperative if we are going to meet our customers' demands and increase profitability.

A SMARTER BUSINESS

A number of changes were implemented during the year within the framework of the Functional Transformation project to further increase efficiency. The aim is to improve performance management as well as increase transparency and clarity on what is needed to succeed. Group-level functions have to deliver more effectively, working methods have to be digitised and coordinated, and tools have to be standardised. Saab simply has to work smarter. Every employee has a responsibility to be more efficient in what they do. In the next three years, this will lead to reduced costs and smarter solutions at the same time that revenue increases.

“As an engineer, being able to work with Saab's products and being surrounded by such a breadth and depth of knowledge is a privilege.”





STRAIGHT PATH THROUGH LIFE

Captain of her ice hockey team and manager at work, 26 year-old Kristina Vikdahl is used to juggling a busy schedule. A flexible employer helps her find the perfect balance.

Since her early teens, Kristina Vikdahl has been expected as captain of her ice hockey team to sense what others are thinking. It has been her job to steer the feeling in the locker room and on the ice.

"Paying attention is something I've really been able to use in my job as a manager," says Kristina Vikdahl.

When the position of head of treasury operations was advertised in 2015, Saab was looking for someone who "relates easily to others" and who "has to be good at setting clear goals". In other words, it was a perfect match.

"I am used to setting goals," she said. "At the same time, sports are about ones and zeros. When you set

a goal in an organisation, you have to think differently. It's not quite as clear what's right or wrong – or if there even is a right or wrong."

Saab was looking for a manager with documented managerial experience but decided on a then 25-year-old economist.

"Saab's recruiter was clear that they were willing to invest in me. There is always a risk in hiring, but maybe even a bigger one in recruiting someone so young and inexperienced. For me, it was important that I would not be left on my own in my new role, that I would feel secure. I have received great support the whole way," Kristina adds.

The two-time Swedish women's

ice hockey champion with Linköpings HC is not exactly lazy. Every workday is followed by four hours of practice on the ice at Saab Arena.

"It usually feels good to get a break after sitting in front of a screen all day. Practice gives me energy that I can use on the job."

Kristina Vikdahl says she has found a new sort of balance in life. "It has obviously made a big difference that my employer is so flexible. If I have an away match and have to leave early, Saab never gives me a problem."

PROFILE

Name: Kristina Vikdahl
Age: 26 years
Residence: Linköping
Position: Head of treasury operations



DREAM REALISED

Growing up, Larisa Hadzic dreamed of designing airplanes and trains. Instead, it turned out to be submarines. She is one of four project managers leading the construction of A26.

Larisa Hadzic started as a consultant at Kockums five years ago, three years before the company was acquired by Saab and became Saab Kockums.

"At first I worked as a systems engineer on the new Multi Mission Portal on the A26 submarine."

This feature allows divers and small unmanned vehicles to enter and exit the front of the submarine, creating much greater flexibility than previous generations of Swedish submarines.

When the position of project leader opened up, Larisa applied for and got it, and until March 2016 she was responsible together with her team for all the weapons systems on the A26. Today the organisation is divided into four sections of the submarine,

each of which covers systems development, design, manufacturing and verification. One of these groups is led by Larisa Hadzic.

Production of the two submarines on order has already begun, but will be followed by verification and testing to ensure that all the requirements have been met.

"As an engineer, being able to work with Saab's products and being surrounded by such a breadth and depth of knowledge is a privilege, and I find it unbelievably exciting to be part of this project."

PROFILE

Name: Larisa Hadzic
Age: 28 years
Residence: Malmö
Position: A26 Project Leader

FOCUS ON HEALTH AND SECURITY

Health, security and well-being are important to Saab. We therefore focus on early identification and mitigation of occupational health and safety risks. A global process to support proactive risk management in this area is under development.

To address early on the risks that may be associated with various deals and projects in high-risk environments, occupational health and safety is built into our business processes.

Saab has a global occupational health and safety policy that gives direction to Saab's occupational health and safety work. This underscores the responsibility that every employee shares to actively contribute to a safe and healthy work environment and have been translated into several languages.

The ability to perform well on the job requires a work-life balance. Surveys show that this is an important factor in how young people today choose where to work. An overwhelming majority of employees at Saab feel that the company has a positive attitude to the need to balance work with a personal life.

“To perform well on the job requires a work-life balance.”

RESPONSIBLE SUPPLIER RELATIONSHIPS

We expect our suppliers to take the same ethical, social and environmental responsibility we do. Working systematically to ensure that responsibility is taken in the supply chain not only minimises risks but also helps to raise the quality of the products we buy.

In Sweden, Saab buys products and services from over 5,500 suppliers a year and in most cases has long-term, close relationships with them. The largest share of purchases is from Sweden and an overwhelming majority of suppliers are in Europe. The biggest procurements are components and technologies for the company's systems, and to a lesser extent operations and services.

SUPPLIER REQUIREMENTS

We work continuously to find better ways to minimise social and environmental risks in the supply chain. Our supplier code of conduct, which is based on the UN Global Compact's principles on human rights, labour, the environment and anti-corruption, should be included in all new agreements and in those that are renegotiated. A number of new contracts were signed with suppliers during the year where they accepted the contractual clauses on the code of conduct. In the code we also express an expectation that suppliers will place similar demands on their subcontractors.

If a supplier does not live up to the requirements, Saab's position as far as possible is to encourage them to improve and work together with them. Serious infractions or an unwillingness to cooperate can, however, have consequences for the supplier.

During the year, we provided our buyers with further training on sustainability in the supply chain. The aim for 2017 is to improve risk analysis and monitoring.



Responsibility in the supply chain is an ongoing process, where we are continuously taking steps to further minimise risks, says Johan Ohlson, who took over as Head of Group Procurement during the year.

CONFLICT MINERALS

Conflict minerals are minerals that are extracted in conflict zones and sold to finance armed groups and sustain violence against local populations. Our aim is that the company's products will not contain these minerals. The supplier code of conduct includes a special section on conflict minerals.

INFORMATION SECURITY

For a defence and security company, information security management is a cornerstone to build and maintain the trust of customers, authorities, owners and partners.

Taking advantage of the opportunities that new information technology offers requires that information and IT security is fully integrated with business and technological development. Information and IT security risks must be managed in the same way and with the same focus as other business risks. Continuous and systematic work with information and IT security is critical for Saab to maintain its competitiveness, profitability and trust in a challenging market and an increasingly uncertain world.

During 2016, we began the gradual implementation of the information and IT security strategy that we formulated in 2015. We completed a number of projects to identify information assets that need

protection, consolidate and revise critical IT systems, and develop technical solutions that meet our needs and challenges today and in the future. As part of continuous improvements, we also focused on updating our rules and processes during the year.

We continue to develop easily accessible training and information for employees, since their actions are the most important protection for our information assets. Making the right choices on a daily basis in the management of Saab's assets is the key to maintaining a high level of security.

PRODUCT SAFETY

With a product portfolio containing everything from advanced aerial systems to submarines, it is critical that Saab's products are safe to use.

Quality and safety levels have to meet international standards as well as the expectations of customers and other stakeholders. Everyone who works at Saab shares a responsibility for maintaining safety,

including by following established procedures, sharing relevant information, reporting deficiencies and carefully weighing risks.



SAFETY ONBOARD A SUBMARINE

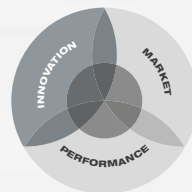
The crew on a submarine lives and works for long stretches in a pressurised vessel containing weapons, large amounts of fuel, diesel engines, liquid oxygen, and hydraulic and electrical equipment. The sub is surrounded by water under high pressure and must be navigated in the dark in three dimensions, encircled by obstacles. You could compare it to flying a high-speed aircraft at low altitude in the dark, but in considerably more complex conditions.

Saab has a long tradition of developing, building and maintaining submarines. For domestic submarines, this is done in close collaboration with FMV and the Swedish Navy. International and national laws and ordinances as well as established standards are implemented systematically in a safety programme for each project.

Safety means conducting risk analyses not only to reduce the number of critical incidents, but also to increase the probability that everything will run smoothly. In concrete terms, this is achieved with the participation of experts who understand the technology, human factor, organisational aspects and communication for every system.

INNOVATION





We have been shaped by fierce competition and strict requirements on low product lifecycle costs. We know what is needed and how to get there; the latest technology, the smartest solutions and the newest innovations. Our competent and engaged employees are the key, and we believe that diversity drives innovation.

Total investments in research and development



OUR INNOVATIVE
PRODUCT
PORTFOLIO

44 →

PIONEERING
TECHNOLOGIES

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ENGAGED
EMPLOYEES

48 →

GENDER EQUALITY
AND DIVERSITY

49 →

OUR INNOVATIVE PRODUCT PORTFOLIO

Over time we have developed a broad portfolio of innovative, cost-efficient solutions for both civilian and military applications. Successful innovation depends on competent employees and a positive work environment. We believe in sharing technologies and ideas regardless of where they come from.

Through cooperations we develop innovative solutions for both civilian and military applications that create value for us, our customers and society.

Over time, we have developed a broad portfolio of innovative and cost-efficient defence solutions. From complete platforms such as the Gripen fighter, the A26 submarine and the Erieye radar system to systems such as Carl-Gustaf, RBS70 and our extensive radar family, we strengthen our customers' capabilities. Saab is also a pioneer in the integration of complex systems such as GlobalEye. The airborne early warning and control system builds on our expertise in a number of areas including radar, command, control and communication systems, aircraft integration, signals intelligence and self-protection. There are few suppliers in the world that can deliver this type of advanced system. The partnership with Boeing to develop a candidate for future training systems for fighter pilots is a good example of a close cooperation that is helping two innovative companies to develop.

As our customer base changes, we will continue to expand our civilian portfolio. Through innovation and acquisitions, we can offer competitive systems to the business and security sectors. Our technologies are used in airports, prisons, hospitals, ports and cities, and to protect major events such as presidential visits and the Olympic Games.

SAFE, Remote Tower, TactiCall, OneView and Aerobahn are examples of products that protect borders as well as flows of people and goods. Today no less than 50 per cent of all operators of air traffic control systems use Saab's solutions. We also collaborate with leading commercial aviation technology manufacturers such as Boeing and Airbus to develop advanced lightweight structures for more fuel-efficient aircraft.

RESEARCH AND DEVELOPMENT

For several years, Saab has made major research and development (R&D) investments in its core areas to create or renew products and product groups. It is vital that these investments impact the bottom line. In 2016 investments returned to a more normal level.

During the year, we continued to invest in the Gripen system, a single-seat version for Sweden and a two-seat version for Brazil, a new Swedish submarine (A26), development of GlobalEye with a new generation AESA radar, electronic warfare and command and control systems integrated in Bombardier's Global 6000 jet. We have also continued to invest in our ground-based radar family, Giraffe, with world-leading antenna technology (AESA with GaN components) and in our partnership with Boeing to develop a new trainer aircraft, T-X. Our research investments in the Wallenberg Autonomous Systems Program (WASP), Clean Sky 2 and Sesar are continuing as well. Total investments in self- and customer-financed R&D amounted to MSEK 7,421, corresponding to 25.9 per cent of total sales.

FOCUSED INVESTMENTS

Our strategy is to stay at the forefront by using new technology to develop innovative solutions in our five core areas: aeronautics, sensors, underwater systems, command and control systems, and advanced weapon systems, with training and support as integral parts. We invest in areas where we are, or can be, a market or technology leader.

During the year, we continued to develop technological strategies for our core areas. We identified technologies and areas of expertise and we evaluated our current and desired positions, gaps we need to fill and the way forward. We also focused on finding strategies for important future technologies in areas such as Automation, Cyber Security, Augmented Reality, and Analytics.

Saab Ventures' holdings

Company	Ownership interest
C-leanship Aps (c-leanship.com)	46.0%
Cold Cut Systems AB (coldcutsystems.se)	28.7%
ReVibe Energy AB (revibeenergy.com)	37.7%
CIND AB	46.8%

Some of Saab's development projects result in product ideas that fall outside the core areas. These projects have been consolidated in Saab Ventures, whose role is to drive and develop the businesses together with other co-investors before finding a natural home for each company.



FIVE CORE AREAS



1. Aeronautics

Development of advanced military and civil aviation technology, including the Gripen combat aircraft system.



2. Advanced weapon systems

Anti-tank weapons, missiles and ammunition as well as integrated command and control systems and network solutions.



3. Command and control systems

Systems to control and coordinate military operations as well as traffic management on land, at sea and in the air.



4. Sensors

Airborne surveillance systems, air defence, surveillance and surface-based air defence.



5. Underwater systems

The A26 submarine and autonomous vehicles as well as underwater detection, weapon, self-protection and communication systems.

ON THE FOREFRONT OF TECHNOLOGY

Changing threat scenarios, coupled with transformative technological developments, require us to continuously adapt and develop new innovations. We therefore invest about a quarter of our sales in research and development.

2016 was an eventful year in which we launched the E version of Gripen and two new airborne early warning and control systems, GlobalEye and Swordfish.

On May 18, Gripen E was unveiled to the world at a ceremony in Linköping attended by over 500 invited guests from over 30 countries. Compared with previous versions, Gripen E has a significantly improved avionics system. The capability to carry more weapons and improved range performance are made possible by a more powerful engine and higher fuel capacity. Gripen E is equipped with a highly integrated and sophisticated sensor suite including Active Electronically Scanned Array (AESA) radar, Infra Red Search and Track (IRST), an Electronic Warfare (EW) suite and advanced datalink technology. When combined, they give the pilot and cooperating forces exactly the information needed at all times. Deliveries of the next generation Gripen for Sweden and Brazil begin in 2019.

Saab's Swordfish mission system for maritime patrol aircraft can handle the most complex anti-submarine and anti-surface unit warfare tasks. It is also adept at long-duration patrol or search-and-rescue missions and operates in everything from coastal waters to open seas. All in a single mission.

GlobalEye has unique swing-role capabilities that allow the system to switch between air, maritime and ground surveillance while in flight. The new Erieye radar included in the system offers improved performance and enables customers to address changing threat scenarios and track very low-observable targets.

UNIQUE CAPACITY



Saab's new GlobalEye is the most advanced airborne early warning and control system in the world.

Saab has upgraded its airborne early warning and control system with completely new radar and a new aircraft solution. According to Erik Winberg, Senior Director Business Development at Saab, the new GlobalEye system is a response to changing customer demands.

"The targets that have to be tracked have become smaller and smaller on the radar screen," he says. "That is why we have taken a step forward and developed a radar with totally new performance capabilities. Threat scenarios around the world are constantly changing, and Saab's new solution shows that we have a unique ability to predict future threats and develop the technology needed to meet them."

The system also offers unsurpassed swing role capabilities, allowing it to switch between air, maritime and ground surveillance.

"The advantage of being in the air for ground surveillance is that you can better

see low-flying aircraft. If the surveillance is done from the ground, the curvature of the earth makes it impossible to see anything that flies below an altitude of 6,000 m at a distance of as little as 350 km."

GlobalEye is used together with the Global 6000 aircraft from Bombardier, greatly increasing its reach.

"The Global 6000 was originally designed as a business jet capable of long-haul flights," Erik Winberg explains. "This keeps our system in the air for over eleven hours, depending on the model."

He says that the new system is a good example of how Saab's focus on research and development makes it possible to develop complex high-tech solutions with teams from different business units.

"We work with so-called spiral development, where we continuously upgrade capabilities and take small steps the whole way. We stay a step ahead of the competition, so that we can always meet our customers' demands at the same time that we are tried and tested. This approach is unique in our industry."

PIONEERING TECHNOLOGIES

The world is changing at an accelerating rate. Transformative technological developments require us to continuously adapt and develop new innovations. This is why we invest around a quarter of our sales in research and development.

International collaborations continue to be very important to us. To compete in key markets, we are trying to strengthen our global presence, to enable us to work with local companies and participate in tenders that require local research and development. We are shifting from tech- to customer-driven product development, which requires us to be more systematic in our innovation. To succeed, we have to be better at predicting our customers' future needs, and we can only do that by being close to the market. Today we have an established presence on every continent.

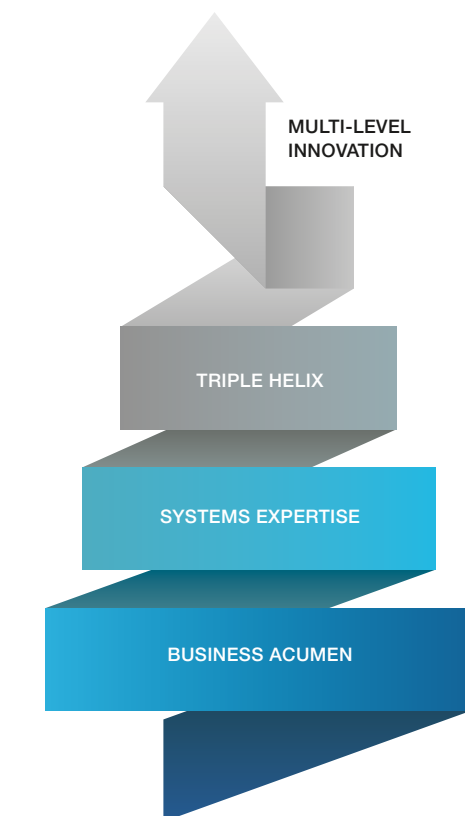
INTEROPERABILITY PLAYS A NATURAL ROLE

We create synergies and efficiencies in our product development through technology clusters that work across product and business areas. We have made it a natural part of product development to contribute and share, which is why the work is usually done by teams of employees from several business areas.

We work in a positive spiral of continuous improvements. Technological development, Triple Helix (university-industry-government relations), business acumen, the ability to change and adapt, multi-level innovation and systems expertise all help us to maintain and further develop our industrial capabilities.

CYBER SECURITY MORE IMPORTANT THAN EVER

Saab's business unit Combitech is a major player in cyber security. The number of interlinked systems and units is constantly rising, and they are generating tremendous amounts of information that is valuable to companies and authorities. This information has to be protected, which is raising the demand for cyber security. Cyber attacks also impact our physical infrastructure. Sophisticated risk management and a governance model for information security are



To maintain and improve our industrial capabilities, we work in a positive spiral of continuous improvements and innovation on multiple levels where we adapt to changes in the market and new demands from customers.

becoming increasingly important. Combitech offers a range of services to address these challenges: demand specifications, IT security solutions, security audits, crisis management, surveillance and training.

GLOBAL COLLABORATIONS

Saab is building relationships through a global innovation programme designed primarily for countries where it wants to establish a long-term presence, e.g. Brazil, Switzerland, Indonesia and Malaysia. We bring the way we conduct R&D in Sweden with us to these new markets, where we build relationships with universities, businesses

and the public sector. Saab's role as an R&D partner is an important way to build business. Saab and Sweden are seen by many countries as leaders in entrepreneurship and innovative thinking. Many potential customers want access to the technology and capabilities we can offer. At the same time, we have the opportunity to partner with customers early on, so both sides benefit.



HIGHLY TOPICAL R&D AREA

Interest in 3D printing is extremely high in the academic world and in industry. Today it is mainly being used in areas where it is important to shed weight, such as aerospace and automotive technology, but also in medical technology. The biggest benefit of 3D printing is in innovative product solutions.

TTC, a joint research centre started by Örebro University and the companies Saab, Lasertech LSH and Bofors Testcenter, conducts research and development in 3D printing and industrial 3D X-ray, which in just a few years have gone from being simply interesting to strategically important for Saab. TTC is steadily growing as more companies and universities join the centre, the only one of its kind in Sweden to combine two areas of innovative research and technological development and make its expertise and equipment available to both industry and universities.

COMBIENT SUPPORTS DIGITISATION

CombiEnt is a joint venture formed in 2015 to support the companies in the Investor sphere in the areas of digitisation and automation. CombiEnt works with generic software platforms that can be utilised by its owner-companies. The business grew in 2016 as it actively supported these companies. Two interesting technologies it has invested in are blockchains (e.g. for contract management) and data analytics. Saab and FAM AB are the largest owners, with 25 per cent each.

MAJOR COMMITMENT TO WASP

In 2015, the Knut and Alice Wallenberg Foundation joined with four Swedish universities and other companies to establish an extensive 10-year research programme on autonomous systems and software development with budget of MSEK 1,800.

The Wallenberg Autonomous Systems Program (WASP) continued to thrive during the year thanks to a strong commitment from businesses and universities. A total of 64 doctoral students have been admitted to the graduate school that WASP is organising. Of the 64, 24 come from industry (4 from Saab). The programme is also planning two major demonstration platforms, one of which will address public safety with Saab as a major player.



FUTURE BUILT IN

A modern fighter aircraft has an operational life of thirty to forty years, maybe more. How do you make sure it stays modern over time? The smartest thing about Gripen is its ability to constantly evolve. Few things are as high tech as a fighter jet. Yet they can be upgraded in much the same way as the operating system on a smartphone. Traditionally, a fighter aircraft operates for 10–15 years before being upgraded. But Gripen is different. We upgrade gradually. Every two to three years we introduce new operational upgrades and combat enhancements to Gripen.

Our innovation model offers several advantages. Most importantly, the aircraft is always up-to-date with the latest technology. Secondly, the upgrades can be adapted to specific requirements. If you only make upgrades after many

years, you have to predict the aircraft's future operational needs for the rest of its lifetime. The world is changing quickly and it is hard to predict future threats. Just a couple of years ago few could have foreseen what has happened in Ukraine and Syria.

So how is it possible to integrate new technology in an existing and complex fighter jet? One reason is Gripen's flexible and modular design, where specific modules can be upgraded with minimal impact on the rest of the aircraft. Secondly, Gripen has a split avionics architecture, where Flight Critical Systems are separated from Tactical. This allows modifications, adaptations and improvements to the tactical avionics without interfering with the aircraft's flight characteristics and control system.

ENGAGED EMPLOYEES

Employee engagement is critical to Saab's ability to achieve its business goals. Employees who feel proud and engaged in their work and the company perform better and are good ambassadors for Saab as an employer.

In the latest employee survey, no less than 82 per cent of respondents said they are very pleased with Saab as an employer, a high figure compared to many other companies. Pride in Saab is also high among employees. Among the things that employees are proud of are Saab's technology and diverse offering, as well as a corporate culture that helps them achieve a work-life balance.

AMBASSADORS FOR SAAB

Proud employees are also the best ambassadors for Saab as an employer. Our future competitiveness depends on how well we succeed in attracting top talents. Saab encourages primary and secondary students to pursue a higher education by showing them the opportunities available in research,

technology, engineering and mathematics. At the university level, the focus is on positioning Saab as an employer of choice. An annual summer job programme for around 400 interns, 150 master's students, school visits, study visits and career fairs are examples of how we engage with young people. We also realise that we have to get more women interested in technology and aware of what we do for women at Saab. The aim is to eventually build a broader base to recruit from.

During the year, Saab climbed from eighth to sixth place in Universum's ranking of Swedish engineering students' favourite places to work.



EXAMPLES OF SOCIAL ENGAGEMENT

Saabs tekniska gymnasium

Saab's employees serve as teachers and technical advisors.

Math tutors

Employees help children and young adults with their homework.

Likii Special Unit boarding school in Kenya

Saab's employees support the institution, which cares for disabled orphans.

Children on the move

A drop-in centre for at-risk children in South Africa. Saab's employees in the country work as volunteers.

IGE-day, Introduce a Girl to Engineering

Saab invites girls between the ages of 12 and 19 to see what it is like to work as an engineer.

Class mentors

Saab's employees serve as class mentors for upper secondary students in socially disadvantaged areas.

SOCIAL ENGAGEMENT

Our contribution to social development mainly consists of activities to promote education and an interest in technology among children and young people. This also helps the company to attract talented employees in the long term. As far as possible, these activities involve our employees. By offering their time and knowledge in various ways, they increase awareness of the company and build trust in our business. Our employees serve, for instance,

as math tutors, teachers and raise funds for schools and orphanages near Saab's operations in South Africa and Kenya. The aim is to create even more opportunities for employees to be engaged. A partnership was established during the year with the organisation Mentor, where our employees serve as class mentors for upper secondary students in socially disadvantaged areas. The students learn what working life is like and are encouraged to continue with their studies and find a career.

GENDER EQUALITY AND DIVERSITY - A COMPANY FOR EVERYONE

There is strength in diversity. Mixing people, ideas, experiences and cultures creates a dynamic company that is more innovative and profitable. This is the reason why Saab has been working strategically for several years to increase the number of women in management positions.

Gender equality is an important issue for us and raising the share of women in management positions has been a priority. The goal is to increase the share of female managers in Sweden to 35 per cent by 2025 and in other countries to 30 per cent. At the same time, the aim is to increase the total share of women at Saab. We were awarded the Industry Equality Prize in 2016 for our strategic work with gender equality and the progress we have made in a traditionally male-dominated industry.

Saab also wants to get more girls interested in engineering and familiar with the company in order to broaden the recruiting base.

During the year, Saab climbed from eighth to sixth place in Universum's ranking of Swedish engineering students' favourite places to work. Positively, the increase was even stronger among female

students, from 29th to 22th place. This is an incentive to work even harder to brand Saab as an interesting employer for young women.

Diversity enriches communities and companies. Saab therefore searched for and found a solution during the year to help qualified refugees find work. Together with the Swedish Public Employment Agency and other companies, we are involved in various initiatives such as Äntligen jobb ("A Job At Last"), the Stockholm School of Economics' Rapid Acceleration Management Program (RAMP) and Novare Potential to create a fast track for people with the right education.

Saab in South Africa has worked systematically with diversity and inclusion for several years, see www.saabgroup.com/responsibility.

"We encourage diversity because we believe that it drives innovation and profitability."



DIVERSITY PROJECT FOR NEW ARRIVALS

As part of our diversity efforts, Saab is participating in several national projects to help recently arriving immigrants find a job in Sweden. The first is the Stockholm School of Economics' Rapid Acceleration Management Program (RAMP), where our goal is to identify and develop talents who can contribute to Saab's innovative capabilities. Applicants must be university graduates who can handle leadership positions. The first to work at Saab for one year as part of the project is Basem Alsalameh from Syria, who was hired in accounting at Combitech.

"I am convinced I will learn a lot this year," he says. "I have an opportunity to gain a foothold in society, and I hope that through my long professional experience I can contribute to the company in a positive way."

AWARD-WINNING WORK

The Industry Equality Prize that Saab received in 2016 is awarded to a company that has taken major steps to promote gender equality. It is presented by the Industry Council of Sweden (Industrirådet), a collaboration between trade unions and employers' organisations.

According to the Council:

"Saab has impressively moved from words to action when it comes to gender equality and through a long-term strategy and with management as the driving force has achieved positive results in a traditionally male-dominated industry. Saab's work is rooted in a desire to attract top talent and to utilise and develop the skills of every employee, regardless of gender, and a conviction that gender equality is critical to innovation and long-term profitability."

24.5%

Share of female managers globally.

27.1%

Share of female managers in Sweden.

22.6%

Share of female employees globally.

3/10

Share of female Board members (elected by the Annual General Meeting).

22.6%

Share of female employees in Sweden.

3/11

Share of women in Group Management.

PRIORITIES AND STRATEGY FOR SUSTAINABILITY WORK

For Saab, sustainability is a competitive advantage. Sound and sustainable business drives innovation and profitability, and sustainability work is integrated into day-to-day operations. The work is divided into four focus areas from which priority issues have been identified.

Saab has divided its sustainability work into four focus areas and identified priority issues for each one. In total, we have identified 16 priority issues based on internal and external stakeholder dialogues and with inspiration from the Global Reporting Initiative. These issues serve as the basis for our sustainability work and are integrated into the business strategy; see page 15.

The sustainability issues that stakeholders point to as especially important for Saab's business are zero tolerance for corruption and compliance with export regulations. Many are also interested in how we work with environmentally sustainable innovations. For more on our stakeholders and dialogue, visit www.saabgroup.com.



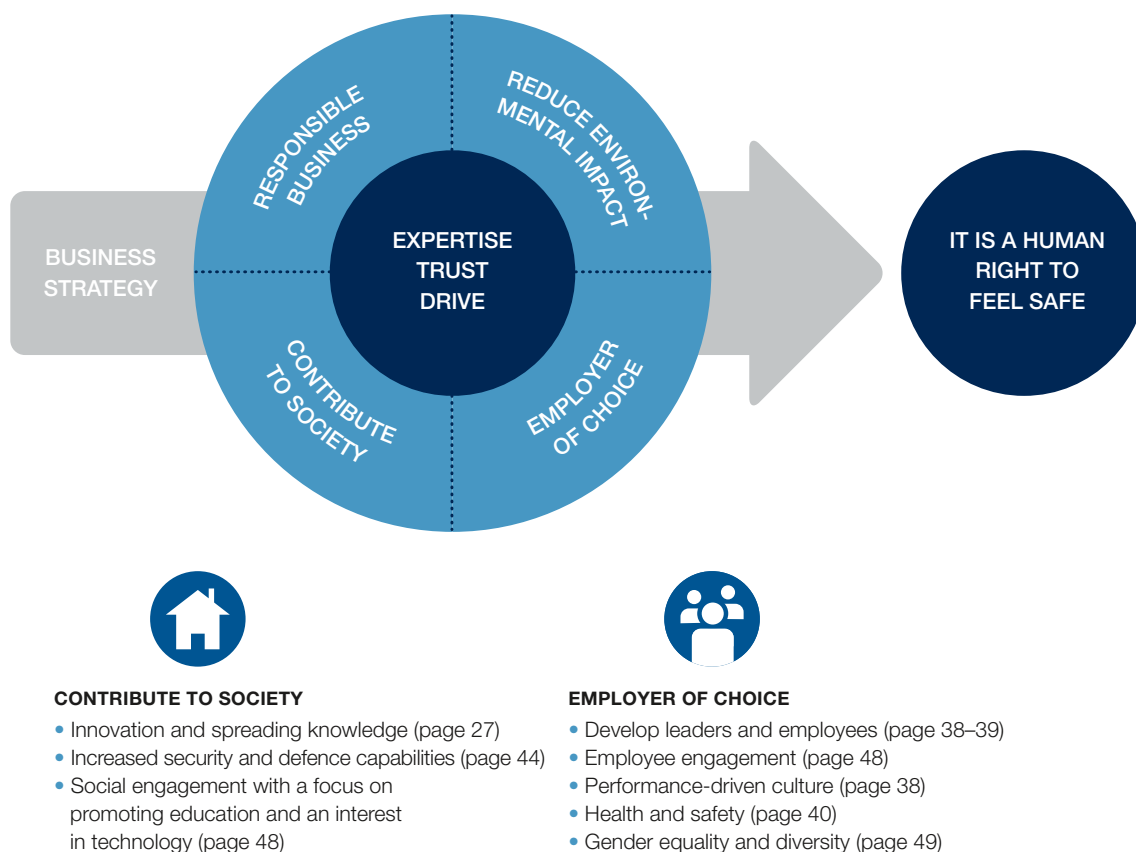
RESPONSIBLE BUSINESS

- Zero tolerance for corruption (page 28–29)
- Export compliance (page 30)
- Responsible supplier relationships (page 40)
- Information security (page 41)
- Product security (page 41)



REDUCE ENVIRONMENTAL IMPACT

- Reduce climate impact (page 36–37)
- Phase out hazardous chemical substances (page 36–37)
- Environmentally sustainable innovations (page 36–37)





SAAB CONTRIBUTES TO UN'S GLOBAL GOALS

In 2015, the UN adopted 17 global sustainable development goals to address the biggest sustainability challenges facing the world. Reaching the goals will require broad global cooperation, and there is clearly an expectation that businesses will contribute to the solutions.

Through Saab's products, innovation partnerships and social engagement, we already contribute to several of the goals today. Based on our established focus areas for sustainability (see previous page) and our ability to make a difference, we prioritised five goals during the year.

Goal 4. Quality education

Saab focuses in particular on the goal to teach more young people and adults the right job skills – technical and professional - work ethic and entrepreneurial spirit. Saab contributes to the goal through its social engagement by promoting education and an interest in technology. For more information, see page 48.

Goal 5. Gender equality

Saab focuses in particular on the goal to assure women of full and effective participation and equal leadership opportunities at all decision-making levels. Saab contributes to the goal by working actively to increase the share of female leaders in the company. For more information, see page 49.

Goal 9. Industry, innovation and infrastructure

Saab focuses in particular on the goal to support domestic technological research, development and innovation in developing countries. Saab contributes to the goal through industrial and innovation partnerships and technology transfers. For more information, see page 27.

Goal 13. Climate action

Saab contributes to the goal by developing environmentally sustainable innovations and by working systematically to reduce CO₂ emissions from its own operations. For more information, see pages 36–37.

Goal 16. Peace, justice and strong institutions

Saab focuses in particular on the goal to significantly reduce all forms of corruption and bribery. Saab contributes through its own anti-corruption work and by actively participating in international alliances. It is also our opinion that democracy and well-being are dependent on security. We believe that our products can contribute to this. For more information, see pages 12, 28–29, and 44–45.



GOVERNANCE OF SUSTAINABILITY WORK

The Board of Directors adopts the Group's Code of Conduct and through the business plan approves the priorities for the sustainability work. The Corporate Responsibility Council proposes priorities to Group Management. The Council is comprised of representatives from Saab's Group Management and led by the Executive Vice President. Saab's Corporate Responsibility function coordinates sustainability work within the Group.

ZERO TOLERANCE FOR CORRUPTION

The Board of Directors is responsible, through the Audit Committee, for overseeing the Code of Conduct and has ultimate responsibility for monitoring and evaluating business ethics. The Ethics and Compliance Board leads and draws up guidelines for this work, makes decisions on ethical issues and follows up whistleblowing cases. The board meets at least eight times a year and is led by Saab's General Counsel, who reports to the Board of Directors' Audit Committee. Two other key for business ethics functions are Ethics and Compliance, which is responsible for monitoring, coordinating and developing efforts to prevent corruption and providing expertise in the area, and Market Network Management, which, in collaboration with the marketing and product functions, manages the entire process for signing agreements with marketing consultants and other third parties.

REDUCE ENVIRONMENTAL IMPACT

Responsibility for Saab's strategic development and environmental work rests with Group Function Environmental Management. Within the business areas, the work is led by the head of each business area, who bears ultimate responsibility. The goals set at the Group level are broken down for each business area and subsidiary. The Group Environmental Council coordinates and monitors Saab's environmental work.

EMPLOYER OF CHOICE

Saab's Head of Group Human Resources has overarching responsibility for HR work within the Group. The Group's HR work is managed in close collaboration with the HR functions within each business area and is led by the HR staff.

CONTRIBUTE TO SOCIETY

Saab's contributions are guided by its vision and business idea. According to its strategy for social engagement, activities that contribute to social development mainly involve Saab's employees and technologies and focus on encouraging young people to take an interest in technology and education.

POLICIES

Saab's sustainability work is governed by established policies and similar documents, such as the Code of Conduct, HR policy, environmental policy, occupational health and safety policy, procurement policy, diversity policy, business travel policy and security policy. The Code of Conduct contains sections on business ethics, information security, social responsibility, the workplace, the environment etc. The Code is available in Swedish and English. Saab also has a Supplier Code of Conduct based on the UN Global Compact's ten principles and the International Labour Organization's core conventions. Saab does not have a separate policy for human rights, since it is covered in the other policies.

All Group policies are available to all employees on Saab's intranet. Saab's global enterprise systems and central processes and guidelines are also available on the intranet. Saab is certified according to the ISO 14001 environmental management system.



ALLIANCES AND MEMBERSHIPS

Saab has participated since 2011 in the UN Global Compact and has pledged to follow its ten principles on human rights, labour, the environment and anti-corruption. As guidance in its sustainability work, Saab follows the OECD's guidelines on multinational enterprises. In addition, Saab has chosen to participate in a number of sustainability initiatives and organisations.

Examples include:

- The business ethics committee of the Aerospace and Defence Industries Association of Europe (ASD).
- The steering committee of the International Forum on Business Ethical Conduct (IFBEC).
- Environmental collaborations through the Swedish Security and Defence Industry Association (SOFF).
- Environmental collaborations within Europe through the Aerospace and Defence Industries Association in Europe (ASD) and globally through International Aerospace Environmental Group (IAEG).
- Carbon Disclosure Project.
- Global Compact Network Nordic Countries.

GRI INDEX

Saab's annual report integrates sustainability information continuously, but is also in accordance with the framework for sustainability reporting GRI (Global Reporting Initiative). The table below contains page references and indicates which of the Global Compact principles the information applies.

STANDARD DISCLOSURES			
STRATEGY AND ANALYSIS	Governance and indicators	Page	Global Compact
	G4-1 Statement from the CEO	4	
ORGANISATIONAL PROFILE			
	G4-3 Name of organisation	Inside front cover	
	G4-4 Primary brands, products and services	2	
	G4-5 Location of the organisation's headquarters	Inside back cover	
	G4-6 Number of countries where the organisation operate	Inside back cover	
	G4-7 Nature of ownership and legal form	20	
	G4-8 Markets served	2	
	G4-9 Scale of the organisation	3	
	G4-10 Workforce	49, Inside back cover	
	G4-11 Percentage of total employees covered by collective bargaining agreements	In Sweden 100%, no information available on rest of the world	Principle 3
	G4-12 The organisation's supply chain	40	
	G4-13 Significant changes during the reporting period	3	
	G4-14 Precautionary approach	52	
	G4-15 External charters, principles, or other initiatives	52	
	G4-16 Memberships of associations and national or international advocacy organisations	52	
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES			
	G4-17 Entities included in the organisation's consolidated financial statements or equivalent documents	57	
	G4-18 Process for defining the report content	52	
	G4-19 Material aspects identified in the process for defining report content	52	
	G4-20 Aspect boundaries within the organisation	All the material aspects Saab has identified have an internal impact	
	G4-21 Aspect boundaries outside the organisation	All the material aspects Saab has identified have an external impact	
	G4-22 Effect of any restatements of information provided in previous reports	Non-applicable	
	G4-23 Significant changes from previous reporting periods in the scope and aspect boundaries	Non-applicable	
STAKEHOLDER ENGAGEMENT			
	G4-24 Stakeholder groups	www.saabgroup.com/responsibility	
	G4-25 Identification and selection of stakeholders	www.saabgroup.com/responsibility	
	G4-26 The organisation's approach to stakeholder engagement	www.saabgroup.com/responsibility	
	G4-27 Key topics and concerns that have been raised through stakeholder engagement	52	
REPORT PROFILE			
	G4-28 Reporting period	55	
	G4-29 Date of most recent previous report	55	
	G4-30 Reporting cycle	55	
	G4-31 Contact point for questions regarding the report or its contents	55	
	G4-32 GRI Content Index	53-55	
	G4-33 Policy and current practice with regard to seeking external assurance for the report	55	
GOVERNANCE			
	G4-34 Governance structure of the organisation	52	
ETHICS AND INTEGRITY			
	G4-56 Code of Conduct	52	Principle 10

SPECIFIC STANDARD DISCLOSURES			
Material aspects	Governance and indicators	Page	Global Compact
ECONOMIC IMPACT			
Economic Performance	DMA Economic performance	18	
	G4-EC1 Direct economic value generated and distributed	13	
Indirect Economic Impacts	DMA Indirect economic impacts	13,26,27,46,48	
	G4-EC8 Significant indirect economic impacts, including the extent of impacts	13,26,27,46,48	
ENVIRONMENTAL IMPACT			
Energy	DMA Energy	36–37	Principles 8, 9
	G4-EN3 Direct and indirect energy consumption by primary energy source	36	Principles 8, 9
	G4-EN5 Energy intensity	36	Principle 8
	G4-EN6 Reduction in energy consumption	36	Principles 7, 8
	G4-EN7 Reductions in energy requirements of products and services	37	Principles 7, 8
Emissions	DMA Emissions	36–37	Principles 7, 8
	G4-EN15 Direct greenhouse gas (GHG) emissions (Scope 1)	36	Principle 8
	G4-EN16 Energy indirect greenhouse gas (GHG) emissions (Scope 2)	36	Principles 8, 9
	G4-EN17 Other indirect greenhouse gas (GHG) emissions (Scope 3)	36	Principle 8
	G4-EN18 Greenhouse gas (GHG) emissions intensity	36	Principles 7, 8, 9
Effluents and Waste	G4-EN19 Reduction in greenhouse gas (GHG) emissions	36–37, 52	Principles 7, 8
	DMA Effluents and waste	36	
	G4-EN23 Total weight of waste by type and disposal method	36, Weights in some cases are estimated because non-hazardous waste is not always weighed when collected. Estimates in these cases are based on emptied volumes	Principles 7, 8
	G4-EN24 Total number and volume of significant spills	No significant spills recorded in 2016	
Products and Services	DMA Products and services	36–37, 52	Principles 7, 8
	G4-EN27 Extent of impact mitigation of environmental impacts of products and services	36–37	Principle 8
Compliance	DMA Compliance	36–37, 52	Principle 8
	G4-EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Saab has not had any significant fines or other sanctions due to non-compliance with environmental laws	Principles 7, 8
Transport	DMA Transport	36–37	Principles 7, 8
	G4-EN30 Significant environmental impacts of transporting products and other goods and materials for the organization's operations, and transporting members of the workforce	36–37	Principles 7, 8
Supplier Environmental Assessment	DMA* Supplier environmental assessment	40	Principle 8
	G4-EN32 Percentage of new suppliers that were screened using environmental criteria	40, The questionnaire sent to potential suppliers includes questions about environmental criteria	Principle 8

* DMA stands for Disclosure of Management Approach and refers to the governance of the sustainability work.

SOCIAL IMPACT – LABOUR PRACTICES AND DECENT WORK	Governance and indicators	Page	Global Compact
Occupational Health and Safety	DMA Occupational health and safety	40	
	G4-LA6 Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	40, Absenteeism in Sweden was 2,8 % totally, 4,6 % for women and 2,4 % for men. (Saab reported absenteeism only for Sweden in 2016)	
Training and Education	DMA Training and education	38,52	
	G4-LA9 Average hours of training per year per employee by gender, and by employee category	38, Saab did not report number of hours, since the company did not feel it is a good measure of quality	
	G4-LA11 Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	87 % according to the latest employee survey	Principle 6
Diversity and Gender equality	DMA Diversity and gender equality	49	Principle 6
	G4-LA12 Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	49	Principle 6
Supplier Assessment of Labour Practices	DMA Supplier assessment for labour practices	40, 52	Principle 4
	G4-LA14 Percentage of new suppliers that were screened using labour practices criteria	40, The questionnaire sent to potential suppliers includes questions about labour practices	Principle 4
SOCIAL IMPACT – HUMAN RIGHTS			
Supplier Human Rights Assessment	DMA Supplier human rights assessment	40, 52	Principle 2
	G4-HR10 Percentage of significant suppliers that were screened using human rights criteria	40, The questionnaire sent to potential suppliers includes questions related to human rights	Principle 2
SOCIAL IMPACT – SOCIETY			
Anti-corruption	DMA Anti-corruption	28–29, 52	
	G4-SQ3 Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	28–29	Principle 10
	G4-SQ4 Communication and training on anti-corruption policies and procedures	28–29	Principle 10
Supplier Assessment for Impacts on Society	DMA Supplier assessment for impacts on society	40	
	G4-SO9 Percentage of new suppliers that were screened using criteria for impacts on society	40, The questionnaire sent to potential suppliers includes questions about impacts on society	Principle 10
SOCIAL IMPACT – PRODUCT RESPONSIBILITY			
Marketing Communications	DMA Marketing communications	28–30	
	G4-PR6 Sale of banned or disputed products	30	
Customer Privacy	DMA Customer privacy	41	
	G4-PR8 Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	41, For strategic reasons Saab does not report data	

ABOUT THIS REPORT

Saab's sustainability report 2016 meets the GRI guidelines, G4, at level 'core'. The report comprises all of the Group's operations for the financial year 2016, unless indicated otherwise. This is Saab's third sustainability report, and from 2016 it's integrated in the annual report. The report is not subject to external review.

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ADMINISTRATION REPORT

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GROUP – FINANCIAL REVIEW 2016

FINANCIAL REVIEW 2016

Saab AB (publ.), corporate identity number 556036-0793, has its registered address in Linköping, Sweden and its head office at Gustavslundsvägen 42, Bromma, Sweden. The company's mailing address is Box 12062, SE-102 22 Stockholm, Sweden and its telephone number +46 8-463 00 00.

Saab has been listed on Nasdaq Stockholm since 1998 and on the Large Cap list since October 2006. The largest shareholder is Investor AB, with 30 per cent of the shares, corresponding to 40 per cent of the votes. The share of the votes is calculated based on the number of shares, excluding treasury shares, at year-end. The total number of shares in the company is 109,150,344, distributed between 1,907,123 Series A shares with 10 votes each and 107,243,221 Series B shares with one vote each. At year-end, a total of 2,744,821 Series B shares had been repurchased to guarantee the Group's share matching plans. The repurchased shares are held as treasury shares.

In accordance with the Swedish Annual Account Act, Saab has prepared a corporate governance report. The corporate governance report, found here on pages 70–82, contains the Board of Directors' report on internal control of financial reporting, which includes information for both the Parent Company and the Group.

OPERATIONS

As one of the world's leading high technology companies, Saab offers products, solutions and services for military defence and civil security. In 2016, the Group had customers in over 100 countries, while research and development is concentrated in Sweden. The Group's employees work mainly in Europe, South Africa, the US and Australia, with others in offices in more than 30 countries around the world.

Saab was organised in five business areas in 2016: Aeronautics, Dynamics, Surveillance, Support and Services, and Industrial Products and Services.

As of 1 January 2016, the business unit Saab Kockums is also reported as a separate operating segment and will be reported as a business area as of 1 January 2017.

CORPORATE

In addition to the business areas, Corporate comprises Group staff and departments as well as other operations outside the core operations.

Corporate reported operating income of MSEK -356 (-94) in 2016. A property sale during the second quarter positively contributed to operating income.

The reversal of risk provisions, attributable to the remaining risks related to the termination of Saab's leasing fleet of turboprop aircraft (SAL), contributed positively to operating income in 2015. The leasing portfolio was discontinued in 2015.

Operational cash flow attributable to Corporate amounted to MSEK -1,807 (126) in 2016. Lower sales of trade receivables had a negative effect on cash flow of MSEK 1,299.

LONG-TERM FINANCIAL GOALS

The long-term financial goals as of 2011 consist of goals for organic sales growth, operating margin (EBIT) and the equity/asset ratio.

Organic sales growth will average 5 per cent per year over a business cycle. In 2016, organic sales growth was 5 per cent (11).

The operating margin (EBIT) will average at least 10 per cent per year over a business cycle. In 2016, the operating margin (EBIT) was 6.3 per cent (7.0).

The equity/assets ratio will exceed 30 per cent. At year-end 2016, the equity/assets ratio was 32.3 per cent (36.8).

DIVIDEND AND DIVIDEND POLICY

Saab has a long-term dividend goal to distribute 20–40 per cent of net income over a business cycle to the shareholders. For 2016, the Board of Directors is proposing a dividend of SEK 5.25 (5.00) per share, corresponding to 49 per cent (39) of net income.

OUTLOOK 2017

We estimate that sales growth in 2017 will be higher than Saab's long-term financial goal: annual organic growth of 5 per cent.

We expect the operating margin, excluding material non-recurring items, to improve compared to 2016 and thus the company will take a step towards its financial goal: an operating margin of 10 per cent.

BUSINESS AREA AERONAUTICS

Aeronautics is the innovative supplier of world-class military aircraft systems and is engaged in research, development and production of military aircraft systems. It also conducts studies as preparation for future manned and unmanned aircraft systems as well as further development of existing products.

SERVICES AND SOLUTIONS

- Gripen is the world's most flexible and adaptable combat aircraft system. With its modular design, it can be upgraded and adapted to customers' requirements.
- Unmanned/autonomous systems.
- Boeing and Saab are jointly developing a series prototype for the next generation trainer aircraft for the U.S. Air Force's T-X program.

Aeronautics includes the following business units: Gripen E/F, Gripen C/D, Gripen Brazil, Advanced Pilot Training Systems and Operations Contracts.

ORDERS RECEIVED

During 2016, FMV ordered an upgrade of the IFF system (identification, friend or foe) in Gripen C/D. FMV also placed complementary orders for Gripen C/D during the year. For Gripen E, FMV ordered an advanced helmet mounted display (HMD) system that had previously been ordered for the Brazilian Air Force's Gripen fighters.

Orders received with a total value exceeding MSEK 100 represented 41 per cent (98) of total order bookings.

SALES, INCOME AND MARGIN

Sales increased in 2016 compared to 2015. The increase mainly relates to activities as part of the Gripen NG project for Brazil, which was ordered in the third quarter of 2015. During 2016 and 2015, major investments were made in the T-X program,

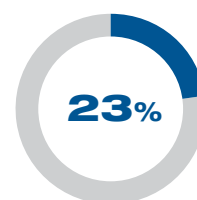


which had a negative impact on the operating margin. Smaller investments will continue in 2017. In December 2015, Saab and UMS Aero Group AG formed a joint venture, UMS Skeldar AG, which generated a capital gain of MSEK 117.

Markets outside Sweden accounted for 31 per cent (26) of sales.

CASH FLOW

Aeronautics received large advances and milestone payments in 2016, which led to a positive cash flow for the year.

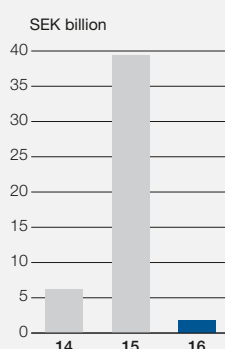


Share of sales 2016

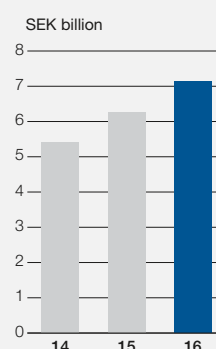
Key figures

MSEK	2016	2015
Order bookings	1,789	39,349
Order backlog	54,127	59,476
Sales	7,138	6,262
EBITDA	576	548
EBITDA margin, %	8.1	8.8
Operating income, EBIT	535	509
Operating margin, %	7.5	8.1
Operational cash flow	435	-632
No. of employees (FTE)	2,932	2,723

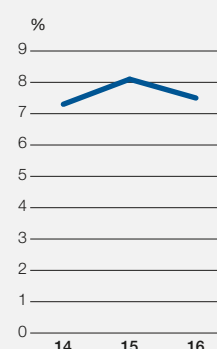
Order bookings



Sales



Operating margin



BUSINESS AREA DYNAMICS

Dynamics offers a market-leading product portfolio comprising ground combat weapons, missile systems, torpedoes, unmanned underwater vehicles, training systems and signature management systems for armed forces, as well as niche products for the civil and defence markets such as underwater vehicles for the offshore industry.

SERVICES AND SOLUTIONS

- Ground combat weapons, including NLAW, AT4, Carl-Gustaf and Bill 2.
- Land-based air defence systems, including RBS70, RBS70 NG and BAMSE.
- RBS 15 air-to-surface missile and international missile programmes such as Meteor, Taurus, IRIS-T and GLSDB.
- Underwater systems, including remotely operated and autonomous vehicles as well as torpedoes and underwater sensors.
- Advanced camouflage systems, including the products Barracuda MCS, ULCAS and SOTACS.

Products and solutions have been sold to more than 60 countries around the world.

Dynamics includes the following business units: Ground Combat, Missile Systems, Underwater Systems, Training & Simulation and Barracuda.

ORDERS RECEIVED

During 2016, Dynamics received an order for production and delivery of ammunition for the man-portable weapon system Carl-Gustaf. The total order value was approximately SEK 1.4 billion. An order was also received for the latest version of Saab's air-to-surface missile, RBS 70 NG VSHORAD (Very Short Range Air Defence System). FMV ordered the development and production of the New Light-weight Torpedo system to Sweden with a total value of SEK 1.5 billion. During the fourth quarter, Saab signed a contract for delivery of the new Carl-Gustaf M4 multi-role weapon system. This is Saab's fourth customer for the system since its launch in late 2014.

Orders received with a total value exceeding MSEK 100 represented 61 per cent (48) of total order bookings.



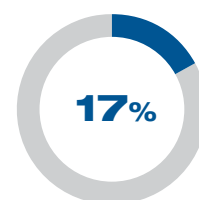
SALES, INCOME AND MARGIN

Sales increased in 2016 compared to 2015 due to strong order bookings in both 2015 and 2016. The operating margin improved in 2016 compared to 2015 as a result of increased deliveries and a change in the product mix.

Markets outside Sweden accounted for 80 per cent (82) of sales.

CASH FLOW

Operational cash flow was positive in 2016 due to advances and milestone payments as well as payments for completed deliveries.

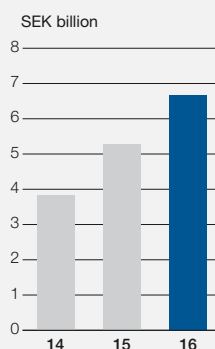


Share of sales 2016

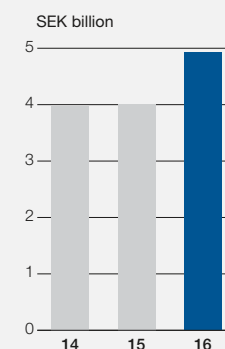
Key figures

MSEK	2016	2015
Order bookings	6,680	5,273
Order backlog	8,031	6,284
Sales	4,927	4,009
EBITDA	522	249
EBITDA margin, %	10.6	6.2
Operating income, EBIT	447	175
Operating margin, %	9.1	4.4
Operational cash flow	282	-101
No. of employees (FTE)	2,094	2,041

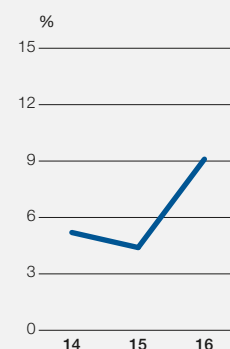
Order bookings



Sales



Operating margin



BUSINESS AREA SURVEILLANCE

Business area Surveillance provides efficient solutions for safety and security, for surveillance and decision support, and for threat detection, location, and protection. The portfolio covers airborne, ground-based and naval radar, electronic warfare, combat systems and C4I solutions, and traffic management systems.

SERVICES AND SOLUTIONS

- The airborne surveillance systems GlobalEye and Saab 2000 Erieye AEW&C (Airborne Early Warning & Control) for defence and civil security.
- The surface radar family Giraffe, Sea Giraffe and Arthur for air and maritime surveillance and weapon locating.
- Signals intelligence (SIGINT) systems that provide real-time situational awareness to localise and identify threats, for both tactical and strategic applications.
- Self-protection systems that warn of threats and protect aircraft, helicopters, vehicles and vessels, including IDAS, BOL, ESTL and LEDS.
- Combat management systems based on 9LV for navies as well as air forces and armies.
- Traffic management systems for secure and effective traffic flows, for maritime, seaport and airport applications.

Surveillance includes the following business units: Airborne Surveillance Systems, Combat Systems and C4I Solutions, Electronic Warfare Systems, Surface Radar Solutions and Traffic Management.

ORDERS RECEIVED

During 2016, Surveillance and Support and Services received an order in the Airborne Early Warning and Control segment amounting to about SEK 1.1 billion, of which MSEK 687 was related to Surveillance. The Australian government placed an order for the sustainment of the combat system on the Royal Australian Navy's ANZAC-class frigates. During the fourth quarter, the Spanish shipbuilder Navantia ordered an integrated combat system for two new replenishment ships for the Royal Australian Navy. In August, Saab acquired Phaeros Group



BVBA. Phaeros has 27 employees and offers port management and terminal operating system solutions for the global market. The acquisition is in line with Saab's strategy to grow in the maritime traffic management domain.

Orders received with a total value exceeding MSEK 100 represented 39 per cent (72) of total order bookings.

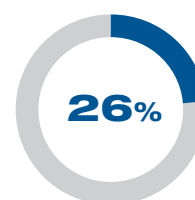
SALES, INCOME AND MARGIN

Sales and the operating margin were positively affected in 2016 by orders in 2015 and 2016 mainly for radar systems and combat systems.

Markets outside Sweden accounted for 81 per cent (78) of sales.

CASH FLOW

Operational cash flow was positive mainly due to advances and milestone payments in 2016 related to the GlobalEye order received in 2015.

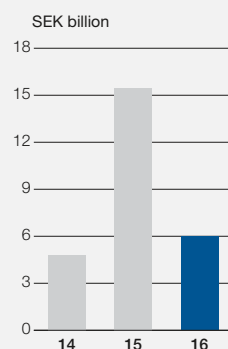


Share of sales 2016

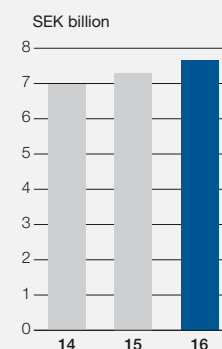
Key figures

MSEK	2016	2015
Order bookings	5,993	15,456
Order backlog	16,415	17,707
Sales	7,659	7,305
EBITDA	940	820
EBITDA margin, %	12.3	11.2
Operating income, EBIT	449	320
Operating margin, %	5.9	4.4
Operational cash flow	1,865	-49
No. of employees (FTE)	3,963	3,563

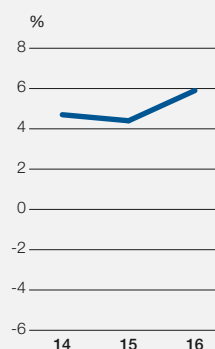
Order bookings



Sales



Operating margin



BUSINESS AREA SUPPORT AND SERVICES

Support and Services offers reliable, cost-efficient service and support for all of Saab's markets. This includes support solutions, technical maintenance and logistics as well as products, solutions and services for military and civil missions.

SERVICES AND SOLUTIONS

- Customised support solutions in all areas – over the product's entire life cycle.
- Supplies everything from individual spare parts to availability-based commitments.
- Technical services, maintenance and repair work.
- Products and integration for airborne surveillance systems, CBRN (chemical, biological, radiological and nuclear) defence solutions, military avionics and field solutions.

Support and Services includes the following business units: Aviation Services, Airborne ISR, Gripen Support, Networks and Public Safety, Tactical Solutions, and Maintenance Production.

ORDERS RECEIVED

Orders were received from FMV for support and maintenance of Gripen on behalf of the Swedish Armed Forces for the years 2016 and 2017 as well as for the continued delivery of complete support and maintenance for Helicopter 15 in 2018 and 2019. During 2016, Surveillance and Support and Services received an order in the Airborne Early Warning and Control segment amounting to about SEK 1.1 billion, of which MSEK 418 was related to Support and Services. A support contract was signed regarding an airborne surveillance system for the years 2016-2017 for spares and support services for the previously delivered Saab 2000 Airborne Early Warning and Control (AEW&C) system. In total, small order bookings increased by 11 per cent compared to 2015.

Orders received with a total value exceeding MSEK 100 represented 29 per cent (73) of total order bookings.



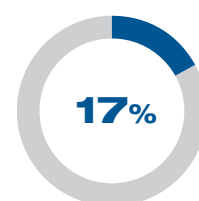
SALES, INCOME AND MARGIN

Sales were lower in 2016 than in 2015. During 2015, a large order was received for an airborne surveillance system from the United Arab Emirates, where revenue from preparatory work related to the order was recognised when the contract was signed and contributed to a high level of sales in the fourth quarter of 2015.

Markets outside Sweden accounted for 45 per cent (58) of sales.

CASH FLOW

Operational cash flow was positive mainly due to advances and milestone payments in 2016 related to the GlobalEye order received in 2015.

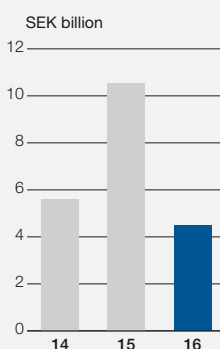


Share of sales 2016

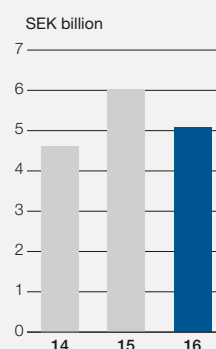
Key figures

MSEK	2016	2015
Order bookings	4,473	10,557
Order backlog	12,938	13,393
Sales	5,081	6,012
EBITDA	470	570
EBITDA margin, %	9.3	9.5
Operating income, EBIT	454	549
Operating margin, %	8.9	9.1
Operational cash flow	1,243	-637
No. of employees (FTE)	2,119	2,185

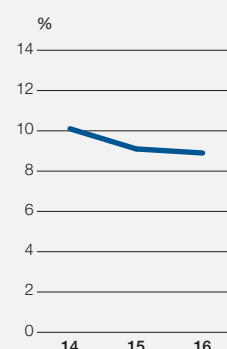
Order bookings



Sales



Operating margin



BUSINESS AREA INDUSTRIAL PRODUCTS AND SERVICES

The business units within Industrial Products and Services are focused on business-to-business (B2B) customers. There is also a minority portfolio containing Saab's ownership interests in companies in various stages of development.

SERVICES AND SOLUTIONS

- Technical consulting services to customers in industry, defence and the public sector through the independent subsidiary Combitech. The company offers a broad range of services, with cutting-edge expertise in Cyber Security, the Internet of things and R&D Excellence.
- Production of parts to the aviation industry; such as wings, flaps and doors for commercial aircraft manufacturers such as Boeing and Airbus.
- Safety critical systems and components such as computers, display systems and actuators for demanding environments for aircraft and helicopters.
- The minority portfolio gathers together and develops product ideas that derive from development projects but fall outside the core business. Industrial Products and Services also invests in small, fast-growing companies that could eventually complement the core portfolio.

Industrial Products and Services includes the following business units: Aerostructures, Avionics Systems and the independent consulting firm Combitech. The minority portfolio includes the interests in Vricon Inc., UMS Skeldar AG, Cold Cut Systems AB, C-leanship AS, ReVibe Energy AB and CIND AB.

ORDERS RECEIVED

During 2016, order bookings increased in the business unit Aerostructures due to several orders from Airbus. The consulting firm Combitech and Ericsson signed an agreement on the transfer of Ericsson's development organisation with focus on radio software development. The agreement further strengthens Combitech's turnkey capabilities and builds on its strong engineering expertise. Around 300 Ericsson engineers began working at Combitech in October, when the agreement took effect.



Orders received with a total value exceeding MSEK 100 represented 28 per cent (30) of total order bookings.

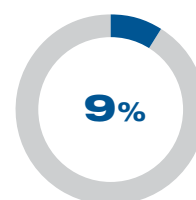
SALES, INCOME AND MARGIN

Sales in 2016 were in line with 2015, with Combitech increasing its sales and compensating for a slightly lower delivery rate in certain aircraft programmes in Aerostructures. Investments in the minority portfolio, where Saab owns shares in companies in various stages of development, had a negative effect on operating income. In late December, Combitech acquired 51.11 per cent of the shares in Watchcom Security Group AS of Norway. The acquisition strengthens Combitech's Cyber Security position in the Nordic region.

Markets outside Sweden accounted for 41 per cent (45) of sales.

CASH FLOW

Operational cash flow was negative in 2016 mainly due to investments in Saab's minority portfolio.

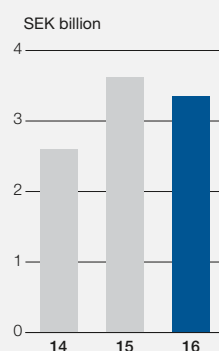


Share of sales 2016

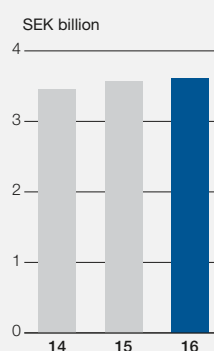
Key figures

MSEK	2016	2015
Order bookings	3,358	3,632
Order backlog	9,361	9,587
Sales	3,605	3,562
EBITDA	170	260
EBITDA margin, %	4.7	7.3
Operating income, EBIT	134	213
Operating margin, %	3.7	6.0
Operational cash flow	-54	-15
No. of employees (FTE)	2,679	2,381

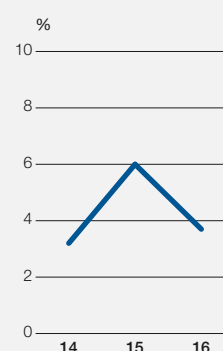
Order bookings



Sales



Operating margin





BUSINESS AREA KOCKUMS

Kockums designs, builds and maintains world-class naval solutions. Kockum's portfolio includes submarines with the air-independent Stirling system, surface vessels, mine countermeasures vessels and autonomous vehicles. The area's unique expertise is in signature management, shock resistance and advanced stealth technology.

SERVICES AND SOLUTIONS

- Design, construction and in-service support for submarines and surface vessels.
- Design, construction and in-service support for mine countermeasures vessels and autonomous underwater vehicles.

Kockums is a business area within Saab as of 1 January 2017. The area was previously a business unit but was reported as a business area in the external reporting. Kockums includes the business units Submarine and Surface Ships.

ORDERS RECEIVED

Saab received several orders from FMV, including for modifications and upgrades to the Swedish Navy's Koster-class mine countermeasures vessels, development and production of Torpedo Integration Systems (TIS) for the Swedish Navy's A26 submarines and an upgrade of existing systems on Visby-class corvettes and Gotland-class submarines. The high level of order bookings in 2015 was mainly due to orders from FMV to build two Type A26 submarines and for half-time modifications of two Gotland class submarines.

Orders received with a total value exceeding MSEK 100 represented 31 per cent (92) of total order bookings.



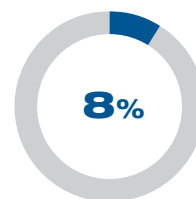
SALES, INCOME AND MARGIN

Sales increased in 2016 compared to 2015, mainly due to activity in the A26 programme for Sweden. The operating margin was positively impacted in 2015 by large project deliveries to markets outside Sweden.

Markets outside Sweden accounted for 7 per cent (7) of sales.

CASH FLOW

Operational cash flow was positive in 2016 due to timing differences in milestone payments and project activity.

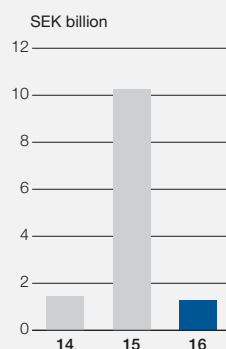


Share of sales 2016

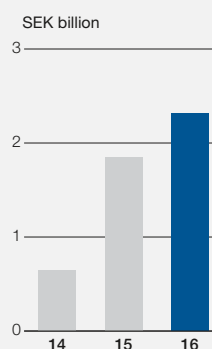
Key figures

MSEK	2016	2015
Order bookings	1,293	10,268
Order backlog	8,910	9,928
Sales	2,311	1,847
EBITDA	165	262
EBITDA margin, %	7.1	14.2
Operating income, EBIT	134	228
Operating margin, %	5.8	12.3
Operational cash flow	639	808
No. of employees (FTE)	853	803

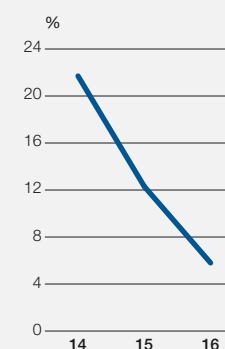
Order bookings



Sales



Operating margin



OTHER SIGNIFICANT EVENTS

OTHER SIGNIFICANT EVENTS DURING THE PERIOD JANUARY – DECEMBER 2016

- In February, Saab introduced GlobalEye, a new multi-role airborne surveillance system (AEW&C). GlobalEye combines Saab's all-new Erieye ER (Extended Range) radar and mission system with the high-end Global 6000 jet aircraft from Bombardier.
- The Annual General Meeting (AGM) on 14 April 2016 resolved to pay shareholders a dividend of SEK 5.00 per share (total MSEK 530), which was paid out on 21 April 2016.
- The AGM resolved to elect Bert Nordberg and re-elect Håkan Buskhe, Johan Forssell, Sten Jakobsson, Sara Mazur, Per-Arne Sandström, Cecilia Stegö Chilò, Lena Treschow Torell, Marcus Wallenberg, and Joakim Westh. Marcus Wallenberg was re-elected as Chairman of the Board.
- Gripen E was rolled out on May 18. Users of Gripen E can operate longer in the air. Improved sensors and electronic warfare provide better intelligence on the enemy, and Gripen E can carry more and better weapons. At the same time, Gripen E is highly cost-efficient. Deliveries of the next-generation Gripen to Sweden and Brazil will begin in 2019.



- On September 13, Boeing and Saab revealed the first two aircraft for the U.S. Air Force's T-X program. Boeing and Saab will use the two T-X aircraft to show the U.S. Air Force the performance, affordability and maintainability advantages of their approach. Boeing T-X is an all-new aircraft designed specifically for the U.S. Air Force training mission for future pilots and takes advantage of the latest technologies and the most modern manufacturing techniques. The Boeing T-X completed its first flight on December 20.
- On September 22, Saab announced the appointment of the members of the Nomination Committee based on the ownership structure as of 31 August 2016. The members of the Saab Nomination Committee for the Annual General Meeting 2017 are: Marcus Wallenberg, Chairman of the Board of Saab AB; Petra Hedengran, Investor AB; Peter Wallenberg Jr, Knut and Alice Wallenberg Foundation; Jan Andersson, Swedbank Robur Fonder; and Anders Algotsson, AFA Försäkring.
- In October, Saab acquired the Danish naval company Nordic Defence Industries (NDI), which designs and manufactures mine disposal charge systems for the naval defence industry. The acquisition strengthens Saab's market-leading position in the unmanned underwater domain when it comes to technology, innovative solutions and the company's regional reach.
- In November, Saab and Embraer Defense & Security inaugurated Gripen Design and Development Network (GDDN) in Gavião Peixoto, in the state of São Paulo. The GDDN will be the hub for Gripen NG technology development in Brazil for Saab and Embraer together with the Brazilian partner industries and institutions AEL, Sistemas, Atech, Akaer, and the Brazilian Air Force through its research department DCTA.



SIGNIFICANT EVENTS AFTER THE CONCLUSION OF THE PERIOD

- Saab received an order in January in the Airborne Early Warning and Control (AEW&C) segment. The order value was approximately MUSD 236 and deliveries will be made from 2019 to 2021. The AEW&C system provides access to detailed situational awareness that can be used, e.g., for border surveillance, search and rescue operations, and tackling terrorism and organised crime.

RISKS AND RISK MANAGEMENT

Saab's operations largely consist of major projects which are delivered over long periods of time, usually several years. Operations comprise high-tech development, extensive customer and supplier relationships and alliances with various companies and institutions. In addition, Saab runs various innovation programmes and offers technology transfers.

All businesses entail risk. Saab's operations primarily involve the development, production and supply of technologically advanced hardware and software to customers around the world. The risks described in the annual report are the ones Saab considers most material to its business. Each of these risks can have a significant impact on the company's operations.

The key risk areas are market and political, financial and operating risks.

Risk management

Significant identified risks are managed continuously at several different levels of the organisation and in the strategic planning process. Various guidelines, directives and methods regulate the management of significant risks. In addition, Saab's internal audit unit is responsible for independently reviewing the effectiveness of a sample of internal control processes each year. Risks are also managed by procuring insurance. Saab has a Group-wide programme where insurance is obtained on the market or through the Group's own insurer, Lansen Försäkrings AB.

MARKET AND POLITICAL RISKS

Regulations can change and adversely affect Saab's business and growth opportunities

The ability to establish and maintain long-term customer relationships is vital for Saab, as some projects extend over decades. The sale of defence materiel, which represents about 80 per cent of Saab's sales, is regulated by national laws and ordinances that also include international agreements. Access to vital components and systems may be subject to export restrictions and various types of regulations. In Saab's case, it is closely affected by Sweden's defence policy and regulations on the export of defence materiel. The risk to Saab's business is that laws, regulations or ordinances are amended in a way that impacts Saab's relationship with one or more customers.

The Swedish state, through the Armed Forces and FMV, has traditionally accounted for a large percentage of Saab's product renewal. The share of product development conducted collaboratively with nations other than Sweden is rising as Saab grows its business outside Sweden. In spite of this, Saab expects Sweden to account for the largest share of its development expenditures for many years to come. In 2016, expenditures on development of products and systems together with customers corresponded to 19 per cent of sales.

Market and political risks can affect a customer in a way that it cannot fulfil its current contracts

Natural disasters, economic crises, shifts in political power, and embargos are examples of market and political risks that could adversely impact Saab's customers in such a way that the delivery schedule for a project changes, the details of a project change, or the customer lacks the ability to fulfil the agreement. This could mean that the company does not get paid for products and systems it has delivered or that Saab e.g. has to break off a project after major investments have already been made. A large share of Saab's order backlog contains contracts with an order value over SEK 1 billion which will be delivered over many years.

Consequently, the impact on Saab could be significant if a major contract is broken or amended and renegotiated.

Management of market and political risks

By monitoring developments regarding laws, regulations and ordinances both globally and locally, Saab ensures that it always has access to information on changes that are being made or could be made in the future. In this way Saab can adapt its business to the changes that occur.

Saab also manages market and political risks through various types of export guarantees, insurance solutions and other instruments. It is impossible, however, to completely avoid losing business opportunities or incurring damage if market and political risks are realised.

FINANCIAL RISKS

In its operations, Saab is exposed to various financial risks. The financial risks are defined as: foreign currency risks, interest rate risks, liquidity and refinancing risks, credit and counterparty risks, and commodity risks. Management of financial risks is governed by the Group Treasury Policy established by the Board of Directors. For more information, see note 38.

Saab also has an extensive pension obligation managed by the Saab Pension Fund. Detailed directives and processes are in place for the operational management of each area related to financial risks. Overarching responsibility for managing financial risks lies with Group Treasury.

Pension obligations

The Group's pension obligations are substantial, as shown in note 34. To calculate the pension obligations, future obligations are discounted to present value. The size of the liability depends on the assumed discount rate: a low interest rate produces a high debt, and vice versa.

Management of pension liability

The predominant plan in Sweden is the ITP plan under the collective agreement between the Confederation of Swedish Enterprise and the Negotiation Cartel for Salaried Employees in the Private Business Sector (PTK). In Sweden, Saab has three different ways to secure its defined-benefit plans: as liabilities on the balance sheet, in pension funds or funded through insurance mainly with Alecta. The Saab

Financial risks		
Risk	Foreign currency risk Interest rate risk Liquidity and refinancing risk Credit and counterparty risk Commodity risk	Pension obligation
Management	Management of financial risks is regulated by a Group Treasury Policy established by the Board of Directors. For more information on financial risks, see note 38.	See above

Pension Fund, which secures part of the ITP plan, had assets of MSEK 5,579 (5,316) as of 31 December 2016, compared to an obligation of MSEK 7,811 (7,019) according to IAS 19, or a solvency margin of 71 per cent (76).

The Saab Pension Fund was established in 2006 and capitalised with the corresponding PRI liability. Actuarial calculations of the Group's obligations are performed each year and compared to the fund's assets. Deficits may require Saab to contribute additional funds. The objective of the Saab Pension Fund is a real annual return on invested capital of at least 3 per cent. The fund invests in interest-bearing securities, shares, property and hedge funds. In 2016, the fund generated a return of 5 per cent (4).

OPERATING RISKS

A number of significant areas have been identified with respect to operating risks, which are important in assessing the Group's results and financial position.

Development and introduction of new systems and products

Saab invests heavily in the research and development of its own products and systems as well as acquisitions of technology. Its own systems mainly include radar systems, command and control systems, tactical weapons, and electronic warfare systems. Certain technologies are developed in partnership with other companies. One significant investment in this area is the collaboration with Boeing to bid on the U.S. Air Force's new jet trainer as part of the so-called T-X program. An example of an acquired technology is the technology obtained through the acquisition of Saab Kockums in 2014. Investments in new systems and products are made after a strategic and financial analysis and assessment of future business opportunities. The risk in developing and introducing new systems and products is that they do not live up to the market's demands and therefore do not generate the expected return when the investment decision was made, or that the products were timed wrong in relation to demand. Due to long development cycles, changes in the market can mean that demand no longer exists or looks different when products are ready to be brought to market.

Management of development and introduction of new systems and products

Saab's offering is available in the company's product database. The product database is linked to the Customer Relationship Management (CRM) system and provides strong sales support for the global marketing organisation in its dialog with customers. Selling and design costs are reduced by packaging products in various offers. Saab continued in 2016 to improve product development efficiency through modularisation. With a modular design, new models can be developed continuously and cost efficiently, and new customer demands can be met faster and at lower cost. Saab's products rely on software, and the trend is clear, for every generation the amount of software grows larger. Traditionally, military systems have managed cyber threats by virtue of not being linked to civilian networks. This is no longer the case, because of which cyber security comes up very high on the agenda in our development projects. To manage this effectively, a special unit has been created

within the company to develop software components that can be used to protect our systems.

To reduce risk in new product development, it is critical early on to identify a first customer. In 2015, Saab tightened its requirement that a potential first customer be clearly identified prior to any decision to invest in development. Development costs are capitalised in accordance with established accounting principles. Amortisation of capitalised development costs is scheduled over the estimated production volume or an estimated period of use, though not more than ten years. Future business opportunities are periodically reassessed, which can lead to impairment losses. Capitalised development costs are shown in note 17.

Long-term customer contracts

Management of long-term customer contracts entails risks. Saab's operations involve complex development projects on the leading edge of technology where the competitive environment is complex. Success is dependent on the ability to offer cost-efficient high technology solutions and in some cases on participation in the customer-country's economy through various forms of industrial cooperation.

The risk in managing long-term customer contracts is that Saab will not be successful in implementing or delivering in accordance with the customer's requirements or the budget, as a result of which the commitment is not fulfilled or the costs run significantly higher.

Management of long-term customer contracts

The majority of all long-term customer projects involve significant development work, which is associated with risk. Before any contract is signed with a customer to supply a product, solution or service, it is preceded by a thorough analysis of the conditions and risks associated with delivery, based on Saab's internal quality assurance process – Win Business. This includes a comprehensive analysis of the risks in the project and requirements for managing the identified risks. Saab's legal, financial, and tax functions provide policies, guidelines and instructions as support.

During 2016, Saab further improved the process. During project implementation – the so-called Execute Business process – continuous reviews are conducted at various stages, including financial plan, design, project and decision reviews. An important element is to identify and assess risks and the measures taken to mitigate these risks with the help of a uniform risk assessment process.

The Group applies the percentage of completion method to recognise revenue from long-term customer contracts. An estimation of total costs is critical to revenue recognition. Provisions for project losses as well as inventory revaluations and the outcome of technical and commercial risks may impact results. Changed estimations of the projects' total costs cause retroactive effects that affect sales and revenue recognition. Today several major projects are in an early stage with greater uncertainties in risks to take into consideration in revenue recognition and estimation of total costs. The accounting of long-term customer contracts also affects balance sheet items such as receivables and liabilities from/to customers, accounts receivables, inventories and project loss provisions. Making delivery according to project plan and milestones are important for the cash flow since payments are made upon

achievement of milestones or deliveries in projects. Both Win Business and Execute Business are part of the internal control process within Saab. In this process the company systematically reviews the various parts of each project and verifies that all decisions have been made in the right way, that the material has been prepared in accordance with requirements and that the assessments have been accurate. The progress of long-term customer contracts is also monitored continuously by management and Board of Directors' Audit Committee.

During 2016, Saab entered into a major, multi-year development project with FMV involving the New Lightweight Torpedo. A year earlier, Saab was awarded three big projects: Gripen for Brazil, an AEW system for the United Arab Emirates and from FMV to build two A26 submarines. When combined with major orders received in previous years, this produced a record-high order backlog dominated by major projects. It is essential therefore that Saab focuses on implementing these major projects on schedule and according to the customer's requirements.

Environmental risks and liabilities

Saab works diligently to reduce its impact on the environment and climate change. The company works actively with research and development collaborations to find sustainable solutions that reduce impacts on the environment and climate change and to phase out hazardous chemicals. The biggest environmental risks are associated with unsafe handling of hazardous chemicals, building and plant fires, and soil contamination. For more information on environmental issues, risks and liabilities, see note 45.

Management of environmental risks and liabilities

Saab is active in research and development collaborations to find sustainable solutions that reduce impacts on the environment and climate impacts and to phase out hazardous chemicals.

The biggest environmental risks for the business are associated with unsafe handling of hazardous chemicals, building and plant fires, and soil contamination.

The operations in Linköping and Karlskoga, Sweden, are subject to Europe's Seveso law, which is designed to reduce risks in connection with the large-scale use of chemicals. Against this backdrop, Saab has introduced strict routines for risk assessment, supervision and control of chemicals. Established routines for safe chemical handling are also used in other Saab locations.

Saab works actively to assess and minimise fire risks in its operations. Since a fire in a production facility can cause extensive environmental damage to the local area, effective fire prevention is an important part of the efforts to reduce environmental risks.

The company analyses its operations and properties to estimate the probability of incurring costs due to past soil contamination. If a contaminated area is identified, liability is determined and an overall risk assessment is conducted; if necessary, remediation actions are taken. Information on contaminated areas is documented. Several soil inspections were conducted in 2016 and remediation actions were taken in Linköping, Karlskrona and Jönköping, among other locations. Further measures will be taken in 2017.

Overall risk assessments are made to determine how operations are affected by climate change. These risks are reported within the framework of the Carbon Disclosure Project (CDP). For more information on CDP, see www.cdp.net.

Compliance risks

Saab has clear guidelines on how to act in contacts with customers, suppliers, partners and society. Saab does business around the world and has relationships with customers and other stakeholders on every continent. Saab's commitment is to act ethically correct in everything the company does in accordance with current legislation, the company's Code of Conduct and industry codes of conduct. Saab has zero tolerance for corruption and clearly defined internal processes to prevent corruption risks. Saab strives to be a long-term, reliable business partner and promotes an open and transparent market. The risk involved when the company does business is that it breaks this commitment.

Management of compliance risks

Saab's Code of Conduct is based on the OECD's guidelines and the UN Global Compact. All employees receive Code of Conduct training. In 2015, Saab conducted a review of the Code of Conduct and launched a special code for suppliers. Saab also reviewed internal rules on gifts, entertainment and sponsorships. These rules were further updated in 2016. In addition to Code of Conduct training, all employees receive web-based anti-corruption training, which is designed to reflect the risks that arise in Saab's operations and is available in English and Swedish. By year-end 2016 about 10,000 employees had completed the training.

A cornerstone of Saab's compliance work is that every business transaction and marketing activity must be preceded by a corruption analysis. To make it easier for all employees to perform the analysis, special tools have been developed to single out factors that typically influence corruption risks. All employees of the marketing and sales organisation receive training on the importance of the requirement that project managers perform a corruption risk assessment in connection with every deal. The training also covers current laws and Saab's processes for hiring consultants and other advisors. Starting in autumn 2013, an audit was conducted to broaden the target group to include employees from other parts of the organisation such as Project Management, Commercial and Procurement. This resulted in the inclusion of another 300 employees in the target group. This training will continue in 2017. During 2016, special training in business ethics was provided to Saab's Board and the company's procurement organisation.

The use of marketing consultants and other advisors is customary in a complex market. At Saab, every cooperation is tested, evaluated and endorsed centrally. A clearly defined decision-making process is followed, and every decision is preceded by a thorough analysis. Saab also provides training for the marketing consultants it retains. Completing this training and signing a commitment to follow Saab's guidelines is a prerequisite to sign a new contract. A programme has been in place for a couple of years whereby the company's internal audit unit conducts an annual review of a number of randomly selected business relationships

to verify compliance with the process and ensure that the counterparty is acting in line with Saab's values.

Saab introduced a new whistleblower system in 2015. The system complements standard line reporting and allows reporting online and by telephone. It is administered by an outside party and guarantees anonymity.

Saab initiated a project in 2016 to comply with upcoming regulatory changes on protecting personal information. The project will continue in 2017.

Information security risk

Knowledge, information and intellectual assets are of vital importance to Saab's competitiveness, as are well-functioning IT systems, networks and efficient communication. Saab manages information that is vital to its customers and in many cases to their national security. Maintaining and continuously improving its information and IT security is critical therefore if Saab is to achieve its business goals.

To manage information security risks, Saab's employees must have the competence to resist sophisticated attempts to intercept, manipulate or block access to information. To help them, Saab must build useful and defensible information systems – at a time when the pace of technological developments is growing faster and faster, IT complexity is increasing and regulatory demands are growing.

Management of information security risk

To prevent risks in information management, Saab works with a set of administrative and technological protections that include clearly defined rules, processes, routines and technical solutions for information, IT and communication security. Continuous and systematic information and IT security is critical for Saab to stay competitive and profitable and maintain the confidence of a challenging market.

During the year, Saab continued to strengthen its Group-wide information and IT security strategy, to meet security challenges today and in the future.

Despite the usual technical vulnerabilities, people are often the weakest link in the system. To ensure that Saab's employees manage information in compliance with current regulations, we continuously offer training to increase their awareness and knowledge.

Significant risks		
Political and market risks	Financial risks (See note 38)	Operating risks
Export regulation Macroeconomic factors	Foreign currency risk Interest rate risk Liquidity and refinancing risk Credit and counterparty risk Commodity risk Pension obligation	Develop and introduce new systems and products Long-term customer projects Environmental risks and liabilities Compliance risks Information management risk

CORPORATE GOVERNANCE REPORT

INTRODUCTION

Saab AB is a Swedish public limited liability company and the company's Series B shares are listed on Nasdaq Stockholm.

Saab's corporate governance is based on the Swedish Companies Act, the Swedish Annual Accounts Act, Nasdaq Stockholm Rules for Issuers, the Swedish Code of Corporate Governance and other relevant Swedish and foreign laws, regulations and guidelines.

Saab has a Code of Conduct containing ethical guidelines in a number of areas on how the company and its employees are expected to act in contacts with customers, business partners and in society as well as their interaction with one another as colleagues. Saab's Code of Conduct is a part of the governance of Saab. For further information, see page 52.

Swedish Code of Corporate Governance

Since Saab's shares are traded on Nasdaq Stockholm and it must follow good practices in the securities market, Saab is also obligated to comply with the Swedish Code of Corporate Governance (the Code). The Code is available at www.bolagsstyrning.se.

Saab applies the Code and strives to maintain a high standard in its corporate governance. This Corporate Governance Report is prepared in accordance with the Annual Accounts Act and the Code, and describes how Saab applied the Code during the financial year 2016. Saab's website, www.saabgroup.com, has a special section for corporate governance issues, which is updated in accordance with the Code.

The Corporate Governance Report includes the Board of Directors report on internal control on financial reporting which can be found at the end of this Corporate Governance Report.

This Corporate Governance Report has been reviewed by the company's auditor.

Saab did not deviate from the provisions of the Code in 2016.

① SHAREHOLDERS' MEETING AND OWNERSHIP STRUCTURE

Pursuant to the Swedish Companies Act, the Shareholders' Meeting is the highest decision-making body in a company. At a Shareholders' Meeting, the shareholders are given the opportunity to exercise their voting rights. The Annual General Meeting shall be held within six months of the end of each financial year. Shareholders at the Annual General Meeting vote on resolutions relating to the annual report, dividend, Board election, Board fees, auditors' fees, adoption of remuneration guidelines for senior executives and, when applicable, election of the external auditor and other matters stipulated in the Companies Act. The preparations and implementation of the Annual General Meeting 2016 were carried out in accordance with the Code, and the Annual General Meeting 2017 will also comply with the provisions of the Code. The Annual General Meeting of Saab was held on 14 April 2016 in Linköping and attended by 480 shareholders, representing about 69 per cent of the total voting rights in the company. This year the Annual General Meeting will be held on 5 April 2017 in Stockholm. For more information, see page 146.

On 31 December 2016, Saab's share capital amounted to SEK 1,746,405,504 and consisted of 1,907,123 Series A shares and 107,243,221 Series B shares. Series A shares have ten votes each, while Series B shares have one vote each. One Series A share may, on demand of the owner, be converted into one Series B share. The Saab shares are registered with Euroclear Sweden AB. The quota value per share is SEK 16. The Series B shares are listed on Nasdaq Stockholm on the Large Cap list. The Series A shares are not listed. All Series A shares are owned by Investor AB.

The Board of Directors has an authorisation from the Shareholders' Meeting to repurchase shares; see page 82 for more information. As of 31 December 2016, Saab held 2,744,821 of its own Series B shares, corresponding to 2.5 per cent of the share capital. For more information on the ownership structure, see page 20.

LARGEST SHAREHOLDERS, 30 DECEMBER 2016

Source: Modular Finance	Share of capital, %	Share of votes, %
Investor AB, Sweden	30.0	40.4
Knut and Alice Wallenberg Foundation, Sweden	8.7	7.7
Swedbank Robur Funds, Sweden	4.8	4.2
Fidelity, USA	3.0	2.6
AFA Insurance, Sweden	2.7	2.3
Unionen, Sweden	2.7	2.3
Handelsbanken Funds, Sweden	1.6	1.4
Dimensional Fund Advisors, USA	1.4	1.2
Lannebo Funds, Sweden	1.3	1.1
Norges Bank, Norway	1.0	0.9

② NOMINATION COMMITTEE

According to the Nomination Committee process adopted by the Annual General Meeting 2011, which applies until further notice, Saab shall have a Nomination Committee consisting of one representative of each of the four shareholders or groups of shareholders with the greatest number of votes, along with the Chairman of the Board. The names of the four shareholder representatives and the shareholders they represent shall be announced at least six months prior to the Annual General Meeting based on known voting rights as per the last business day of August in the year before the Annual General Meeting. The Nomination Committee process includes procedures, where necessary, to replace a member who leaves the committee before its work has been completed.

According to the process, the Nomination Committee drafts a proposal on the following issues to be presented to the Annual General Meeting for resolution:

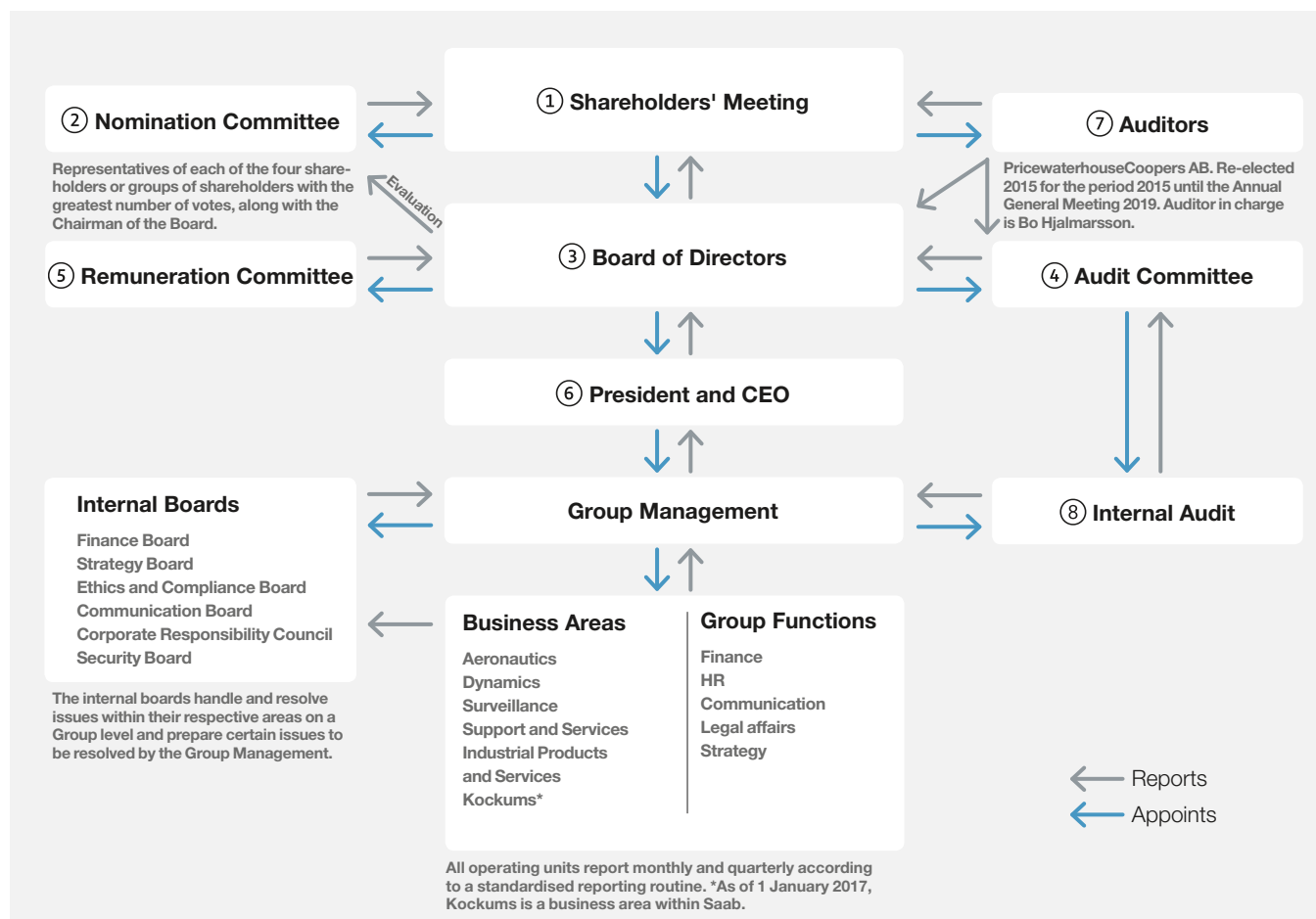
- Chairman of the Shareholders' Meeting
- Board of Directors
- Chairman of the Board
- Remuneration to the members of the Board, allocated between the Chairman and other members of the Board, and remuneration for committee work
- Election of auditors, if applicable, and
- Fees paid to Saab's auditors.

Ahead of Saab's Annual General Meeting on 5 April 2017, it was announced in a press release on 22 September 2016 that, in addition to Chairman of the Board Marcus Wallenberg, the following shareholder representatives had been appointed to Saab's Nomination Committee (shareholder's name in parentheses): Petra Hedengran (Investor AB), Peter Wallenberg Jr (Knut and Alice Wallenberg Foundation), Jan Andersson (Swedbank Robur Funds) and Anders Algotsson (AFA Insurance). Petra Hedengran is Chairman of the Nomination Committee.

These persons in the aggregate represent approximately 55 per cent of the votes in Saab based on the ownership structure as of 31 August 2016.

The proposals of the Nomination Committee have been presented in connection with the notice of the Annual General Meeting 2017.

GOVERNANCE AND REPORTING 2016



MEMBERS OF THE NOMINATION COMMITTEE FOR ANNUAL GENERAL MEETING 2017

Member	Representing	Share of votes, % 31 August 2016	Share of capital, % 31 August 2016
Petra Hedengran	Investor AB	39.5	30.0
Peter Wallenberg Jr	Knut and Alice Wallenberg Foundation	7.6	8.7
Jan Andersson	Swedbank Robur Funds	4.6	5.3
Anders Algotsson	AFA Insurance	3.3	3.9
Marcus Wallenberg	Chairman of the Board of Saab AB		

Johan Forssell, Sten Jakobsson, Sara Mazur, Per-Arne Sandström, Cecilia Stegö Chilò, Lena Treschow Torell, Marcus Wallenberg and Joakim Westh were re-elected. Bert Nordberg was elected as a new Board member. Marcus Wallenberg was elected Chairman of the Board of Directors. At the statutory Board meeting after the Annual General Meeting, Sten Jakobsson was elected Deputy Chairman of the Board. Among the Board members, only President Håkan Buskhe is employed by the company.

Information on remuneration to the members of the Board as resolved by the Annual General Meeting 2016 is set forth in note 10.

Members of the Board elected by the Shareholders' Meeting

Regulars

Marcus Wallenberg	Sara Mazur	Lena Treschow Torell
Håkan Buskhe	Bert Nordberg	Joakim Westh
Johan Forssell	Per-Arne Sandström	
Sten Jakobsson	Cecilia Stegö Chilò	

Employee representatives

Regulars

Stefan Andersson
Conny Holm
Nils Lindskog

Deputies

Göran Gustavsson
Magnus Gustafsson
Tina Mikkelsen

The Board members' other significant professional commitments, work experience, shareholdings etc. are set forth in the presentation of the Board of Directors on pages 76–77.

③ BOARD OF DIRECTORS

Composition of the Board

According to Saab's Articles of Association, the Board of Directors shall, in addition to the employee representatives, consist of at least six and not more than twelve members. Board members are elected annually by the Shareholders' Meeting. According to the resolution of the Annual General Meeting on 14 April 2016, Saab's Board of Directors shall consist of ten members elected by the Shareholders' Meeting with no deputies. In addition, the employee organisations appoint three Board members with an equal number of deputies.

At the Annual General Meeting on 14 April 2016, Håkan Buskhe,

Independence requirement

The table below sets forth the members of the Board elected by the Shareholders' Meeting who, according to the provisions of the Code, are considered independent in relation to the company and its management, as well as in relation to the company's major shareholders.

COMPOSITION AND INDEPENDENCE OF THE BOARD IN 2016

Member	Elected	Independent of the company/-management	Independent of major shareholders
Marcus Wallenberg	1992	Yes	No ¹⁾
Håkan Buskhe	2011	No ²⁾	Yes
Johan Forssell	2010	Yes	No ³⁾
Sten Jakobsson	2008	Yes	Yes
Sara Mazur	2013	Yes	Yes
Bert Nordberg	2016	Yes	Yes
Per-Arne Sandström	2005	Yes	Yes
Cecilia Stegö Chilò	2010	Yes	Yes
Lena Treschow Torell	2005	Yes	No ⁴⁾
Joakim Westh	2010	Yes	Yes

¹⁾ Member of Investor AB's Board.

²⁾ President and CEO of Saab.

³⁾ Member of Investor AB's Board and CEO of Investor AB.

⁴⁾ Member of Investor AB's Board.

Accordingly, the company fulfils the requirement of the Code that a majority of the Board Members appointed by the Shareholders' Meeting are independent of the company and its management, and that at least two of them are independent of the major shareholders.

Work of the Board

According to the Board's rules of procedure, eight ordinary meetings shall normally be held each year, in addition to the statutory meeting. The Board may also meet when circumstances demand. During 2016, the Board held one statutory meeting and seven ordinary meetings, or a total of eight meetings. All of the Board meetings in 2016 were held in Stockholm, with the exception of two meetings in connection with the Annual General Meeting in April, which was held in Linköping.

The Board annually adopts rules of procedure, an instruction on the allocation of work between the Board and the President, and an instruction on financial reporting to the Board.

The rules of procedure contain provisions on the number of Board meetings, a list of matters to be considered at the meetings, reporting from the auditor, and special decisions to be taken at the statutory meeting. The rules of procedure and special instruction for the President set forth the delegation of responsibilities between the Board and its two committees, the Remuneration Committee and the Audit Committee, including the Chairman's role, as well as between the Board and the President. The instruction for the President sets forth the President's duties and authority, including matters which require a Board decision. Policies on investments, financing and reporting are also connected to the instruction.

During the year, the Board was assisted by the Secretary of the Board of Directors, General Counsel Annika Bäreimo, who is not a member of the Board.

The Board of Directors' meetings follow an agenda. Prior to the meetings, the Board Members receive documentation and supporting material for the issues on the agenda. At each Board meeting the President presents a Market and Operations Report. A financial report is

also presented at each Board meeting and addressed in detail prior to the publication of the interim reports and year-end report. The Board regularly considers investments, research and development matters, organisational issues, management of significant risks, mergers and acquisitions, and company divestments. The Board's annual work includes deciding on the company's business plan and strategy, which it addressed in September. The Board meeting every December considers the company's budget for the coming year. The Board also decided then on the minimum and maximum levels for each performance target in the company's Performance Share Plan. During 2016, the Board has, as in recent years, especially focused on issues related to Gripen NG to Brazil and Gripen E to Sweden. It also worked during the year with other material export and marketing issues and was kept informed of the work on the company's Sustainability Report. In October, the members of the Board participated in business ethics training. The training was based on case studies and was a continuation of the training made in 2013. During 2016, the company arranged two special information sessions for the Board's members, where they received detailed information on for example a specific business area, a product or potential business opportunities.

Committee work represents an important part of the Board's work. After each meeting of the Audit and Remuneration Committees, the respective Chairman submits a report to the Board on the issues that were dealt with at the meeting. The Board then adopts resolutions on any matters prepared by the committees.

BOARD OF DIRECTORS' COMMITTEE WORK

4 Audit Committee

In accordance with the principles set out in the Swedish Companies Act and the Code, the Board of Directors has appointed an Audit Committee consisting of three members. The work of the Audit Committee is mainly of a preparatory nature, i.e., preparing matters for resolution by the Board. The Audit Committee has certain limited decision-making power. For example, it has established guidelines for services other than auditing that the company may procure from its auditors. The Audit Committee consists of the following members: Per-Arne Sandström (Chairman of the Committee), Johan Forssell and Joakim Westh, of whom Per-Arne Sandström and Joakim Westh are independent of the company and its management as well as of the major shareholders. All members of the committee have accounting or auditing competence. The General Counsel, Annika Bäreimo, was Secretary to the Audit Committee during 2016.

The Audit Committee's assignment is set forth in the Board's rules of procedure, which were updated in 2016 in accordance with new EU audit rules. The Audit Committee shall, among other things, monitor the company's financial reporting and submit proposals to ensure the integrity of the financial reporting, monitor the efficiency of the company's internal control, internal audit and risk management in respect of the financial reporting, keep informed of the audit of the annual report and consolidated accounts, inform the Board of the results of the audit, review and monitor the auditors' independence, assist the Nomination Committee in preparing the proposal for the Shareholder Meeting's election of the auditors and in certain cases procure auditing services, in addition to establishing guidelines for services other than auditing that may be provided by the company's auditor. Moreover, the Audit Committee shall annually monitor and evaluate the effectiveness and appropriateness of the company's business ethics programme, including the Code of Conduct, and keep itself informed of material devia-

tions or non-compliance with the company's ethical standards, including whistleblower reports, through regular reporting from the Ethics and Compliance Board. The company's external auditor participates in the meetings of the Audit Committee. During 2016, the Audit Committee focused especially on current issues relating to the company's financial position, the financial reporting, budget, risk management, internal control and issues relating to the company's ethical standards. The Committee also decided in 2016 on updated guidelines on which services other than auditing may be procured from the company's auditor.

The Audit Committee keeps minutes of its meetings, which are distributed to the other members of the Board. In 2016, the Committee held six meetings.

5 Remuneration Committee

In accordance with principles set out in the Code, the Board of Directors has appointed a Remuneration Committee consisting of three members: Marcus Wallenberg, Sten Jakobsson and Lena Treschow Torell. Lena Treschow Torell is Chairman of the committee. All the members are independent of the company and its management. The General Counsel, Annika Bärems, was Secretary to the committee during 2016.

The Remuneration Committee's tasks are to prepare the Board's resolutions on remuneration principles, remuneration and other terms of employment for the Group Management, monitor and evaluate variable remuneration programmes for the Group Management, both ongoing and those ended during the year, and monitor and evaluate the application of the remuneration guidelines for senior executives adopted by the Annual General Meeting as well as the current remuneration structures and levels in the company. The Remuneration Committee also proposes remuneration guidelines for senior executives to be submitted to the Annual General Meeting following resolution by the Board of Directors. Matters concerning the employment terms, remuneration and other benefits for the President are prepared by the Remuneration Committee for resolution by the Board. The Remuneration Committee is responsible for interpretation and application of the remuneration guidelines for senior executives. The Remuneration Committee has no decision-making powers of its own. During 2016, the Remuneration Committee focused especially on issues relating to the company's long-term incentive programmes, including proposals for minimum and maximum levels for each performance target in the company's

Performance Share Plan as well as the introduction of Special Projects Incentive.

The Remuneration Committee keeps minutes of its meetings, which are distributed to the other members of the Board. In 2016, the Committee held three meetings.

EVALUATION

The Chairman of the Board annually performs an evaluation of the Board's work and possible improvements to the forms and effectiveness of its work. The evaluation is made by having the Board members respond to a questionnaire and give their opinions on the Board's performance. The results are compared with previous years and discussed at the Board meeting in December. The questionnaire consists of six parts covering the breadth of the Board's competence, how the Board conducts its work, the Chairman, the Board's composition, the cooperative atmosphere and possible improvements. The Chairman of the Board does not participate in the Board's discussion on the results of the Chairman's evaluation.

The Nomination Committee is informed of the results of the evaluation in connection with its proposal on the composition of the Board.

The Board continuously evaluates the President's work by monitoring the company's performance relative to established goals. It also evaluates the President's work by responding to a questionnaire about the President in the areas of performance, organisation, people and leadership. The President does not participate in this evaluation.

6 CHIEF EXECUTIVE OFFICER

The President and CEO of Saab, Håkan Buskhe, is also a member of the Board. His significant professional commitments outside the company, earlier positions and shareholding in the company are set forth in the presentation of the Board of Directors and the Group Management; see page 76. Håkan Buskhe does not own shares nor is he a partner in any company with which Saab has material business ties.

GUIDELINES FOR REMUNERATION AND OTHER BENEFITS FOR SENIOR EXECUTIVES

The guidelines for remuneration and other benefits for senior executives are explained on pages 80–81.

ATTENDANCE AND BOARD REMUNERATION IN 2016

Name	Audit Committee	Remuneration Committee	Board meetings attended ¹⁾	Committee meetings attended ²⁾	Board remuneration KSEK ³⁾	Audit Committee remuneration KSEK	Remuneration Committee remuneration KSEK	Total remuneration KSEK
Marcus Wallenberg		x	8	3	1,430		80	1,510
Håkan Buskhe			8					
Johan Forssell	x		8	6	560	135		695
Sten Jakobsson		x	8	3	610		80	690
Sara Mazur			8		560			560
Bert Nordberg ⁴⁾			6		560			560
Per-Arne Sandström	x		8	6	560	200		760
Cecilia Stegö Chilò			8		560			560
Lena Treschow Torell		x	8	3	560		135	695
Joakim Westh	x		8	6	560	135		695

¹⁾ Of a total of 8 meetings in 2016.

²⁾ Of a total of 6 meetings of the Audit Committee in 2016 and 3 meetings of the Remuneration Committee in 2016.

³⁾ Refers to the fee resolved by the Annual General Meeting 2016 for the period until the Annual General Meeting 2017. The President Håkan Buskhe does not receive a fee.

⁴⁾ Elected at the Annual General Meeting in April 2016, thereafter a total of 6 board meetings.

7 AUDITOR

On behalf of the shareholders and in accordance with current laws and regulations, the external auditor examines the financial statements, consolidated accounts, annual report, and administration and management of the company by the Board of Directors and the President, and also carries out the statutory audit of the Corporate Governance Report. In addition, the Q1, Q2 and Q3 interim reports have been reviewed by the auditor. The auditor also presents an Auditors' Report to the Annual General Meeting.

The Shareholders' Meeting elects the auditors. PricewaterhouseCoopers AB was re-elected as the auditor by the Annual General Meeting 2015, for the period 2015–2019.

PricewaterhouseCoopers (PwC)

- Elected by the Annual General Meeting 2015 for the period 2015 through the Annual General Meeting 2019.
- Bo Hjalmarsson, Authorised Public Accountant, auditor in charge as of the end of March 2016. Other audit assignments: Telefonaktiebolaget LM Ericsson and SAS AB.
- Anna-Clara af Ekenstam, Authorised Public Accountant, auditor in charge during the period January–March 2016.

PricewaterhouseCoopers AB is a member of PwC's global network in around 150 countries. PwC has competence and experience in areas important to Saab: auditing of large and listed companies, accounting issues, industry experience and practice with international business.

The Audit Committee is responsible for ensuring that the independence of the auditor is maintained, including by staying updated on ongoing consulting assignments. The Audit Committee has also established guidelines on which services other than auditing that the company may procure from its auditors. Where applicable, the Committee will also approve such services in accordance with these guidelines.

AUDIT FEES 2015-2016

Saab's auditor receives a fee according to approved invoices as resolved by the Annual General Meeting.

PwC has performed services on behalf of the company in 2016 in addition to its audit assignments by consulting on accounting and tax issues.

AUDITORS' FEES FOR THE GROUP 2015–2016

MSEK	2016	2015
Audit assignments:		
PwC	18	18
Others	3	2
Other assignments:		
PwC	5	4

THE BOARD'S REPORT ON INTERNAL CONTROL OF THE FINANCIAL REPORTING

The Board of Directors is responsible for internal control of financial reporting pursuant to the Swedish Companies Act and the Swedish Code of Corporate Governance. This report on internal control of financial reporting has been prepared pursuant to the provisions of the Swedish Annual Accounts Act.

Financial reporting

The Board of Directors documents how it assures the quality of the financial reports and communicates with the company's auditor. The Board assures the quality of the financial accounting through the Audit Committee. The entire Board reviews the interim reports before they are published. The Audit Committee follows up the internal control of the financial reporting on a regular basis. After each meeting of the Audit Committee, a report is submitted to the Board. For more information on the Audit Committee, see above.

The Audit Committee considers not only critical accounting questions and the financial reports presented by the company, but also matters of strategic importance, e.g. asset acquisitions and sales and how the company will obtain financing. It also covers issues such as internal control, regulatory compliance, any significant uncertainty in reported values, post-statement events, changes in assessments and evaluations, and other circumstances that may affect the quality of the financial statements. The auditor participated in all meetings of the Audit Committee in 2016.

The Board of Directors has met with the auditor to discuss their review of the company for the financial year 2016. The Board has also on the same occasion met with the auditor while not in the presence of the CEO or other members of the Group Management.

Internal control of financial reporting

Saab's system of internal control is designed to assist the business in achieving its strategic and financial goals by monitoring risk exposure in a structured way. Internal control of financial reporting is part of all internal control processes within Saab and is designed in accordance with the Committee of Sponsoring Organizations' (COSO) framework. Internal control of financial reporting aims to provide reasonable assurance of the reliability of the internal and external financial reporting and to ensure that it is prepared in accordance with laws, applicable accounting standards and other requirements for listed companies.

Control environment

Internal control is based on Saab's organisation, where operating responsibilities and powers are delegated to the business areas and support units, which are also supported and monitored by Group functions with specific competencies. These Group functions issue guidelines that clarify responsibilities and powers and constitute part of the internal control in specific areas such as finance, accounting, investments and tenders.

Risk assessment

Saab's operations are characterised in large part by the development, production and supply of technologically advanced hardware and software for customers around the world. Slightly more than half of sales are outside Sweden. As a rule, projects entail considerable sums of money, stretch over long periods of time and involve technological development or refinement of products.

For Saab, the material risk areas in financial reporting are project accounting, business combinations and goodwill, development costs, hedging and other financial transactions, taxes, and accounting for pensions. In addition to the risk of inaccurate financial reporting, the processes are also assessed on the basis of the risk of exposure to any improprieties.

Group Finance continuously coordinates an overall risk assessment of the financial reporting. This process involves self-assessments by

Group functions and business areas. The current risk assessment is reviewed by Saab's Internal Audit, which adjusts its annual audit plan accordingly. Information on developments in essential risk areas as well as a report on planned and executed activities in these areas are provided to Saab's Audit Committee on a regular basis. Saab's risk assessment is also communicated to Saab's external auditors on a regular basis.

Each business area designs its risk management routines and structure for internal control based on overall routines and Group guidelines. The most significant risks identified in financial reporting are managed through control structures within the business areas and Group staffs and are based on Saab's minimum requirements for good internal control in the financial reporting processes.

Information, communication and control activities

Internal control within Saab is based on clearly defined areas of responsibility and authority, Group guidelines, processes and controls. Uniform handling of financial reporting is assured by adopting and issuing Group guidelines approved by the CEO or by function managers appointed by the CEO. All Group directives are updated on an ongoing basis, are clearly communicated and are available through Saab's internal enterprise management system, which is available on the internal website.

The control activities are both manual and automated and include authorisation routines, account reconciliations, process compliance, performance analyses and qualifications.

Monitoring and evaluation

All operating units report monthly and quarterly according to a standardised routine. Quarterly reports are the basis of Saab's external financial reporting. In the operating reporting, each business area is measured in terms of profitability and financial position and consolidated to measure the Group's overall profitability and financial position. Accounting managers and controllers are in regular contact with Group Finance concerning any questions related to finance and accounting. To assist in evaluating internal control in each business area, Saab uses the previously mentioned self-assessments to identify and test key control functions in each business process.

- ⑧ The Internal Audit department, part of the internal control structure, is a dedicated resource for independent review of the effectiveness of the internal control processes. At the same time, Internal Audit supports the locally applied internal control process and the central controller staff. Together they serve as a resource for monitoring financial reporting routines.

Internal Audit's tasks are initiated by the Audit Committee or on its own initiative and then reported to the Committee. From time to time, Group Management and its members can also submit assignments to Internal Audit. The Audit Committee reports on the status of the financial controls and the self-assessment to the Board of Directors.

Activities in 2016

During 2016, controls and self-assessments were performed in accordance with Saab's framework for internal control of financial reporting. Controls were conducted repeatedly during the year and two self-assessment processes were implemented. Status reports on completed controls and the results of controls and self-assessments are an integral part of Saab's financial closing process and are reported to Group Management and the Audit Committee. The Group's Internal Audit unit and our auditors reviewed the Group's internal control work during the year.

The framework was improved in 2016, e.g. with a classification of specific controls from a risk perspective and new guidelines for reporting the results of the self-assessment process.

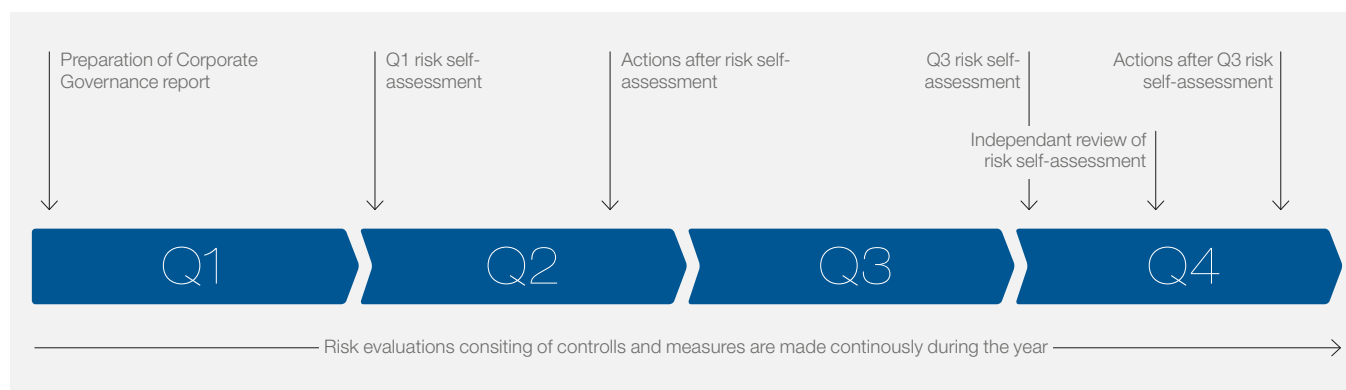
During the year, our operations in South Africa were integrated into the framework for internal control. The focus was also on increasing the number of IT controls.

Focus in 2017

In 2017, the processes within the framework for internal control of financial reporting within Human Resources will be updated. We will also work on continuous improvements to our framework for internal control and implement a web-based tool to administer and document controls and self-assessments.

In 2017, more foreign units will be integrated into the internal control process and IT controls will be improved.

THE ANNUAL ASSESSMENT PROCESS OF INTERNAL FINANCIAL CONTROLS





BOARD OF DIRECTORS

Seated from left:

GÖRAN GUSTAVSSON

Deputy Board member since 2008
President of the local trade union IF Metall at Saab AB, Linköping
Born 1953
Shares in Saab: 2,066

NILS LINDSKOG

Member of the Board since 2016 and Deputy Board member 2007-2016
Member of the Local Swedish Association of Graduate Engineers at Saab AB, Gothenburg
Born 1955
M.S.E.E. from Chalmers University of Technology
Shares in Saab: 884

CECILIA STEGÖ CHILÓ

Member of the Board since 2010
Adviser to corporate and organisational managements
Born 1959
Studies in political science and economics
Shares in Saab: 1,500

Other board commitments:

Chairman of Gotlands Bryggeri AB;
Board member of Spendrups Bryggeri AB, Linköpings Universitets Holding AB, Investment AB Spiltan, Stiftelsen Yump and Centrum för Näringslivshistoria

Former employment and positions:

Vice Chairman of Fortum Värme AB;
Board member of the Expo Foundation, AMF Fonder, Länsförsäkringar Liv, Linköping Universitets Holding AB and Marginalen Kredit och Finans; CEO of the Free Enterprise Foundation of Sweden and the think-tank Timbro;

Cabinet member and Head of the Ministry of Culture; Editorial writer and foreign policy commentator at Svenska Dagbladet, Commentator at Sveriges Radio, Swedish Employers' Confederation, Swedish Conservative Party

HÅKAN BUSKHE

Member of the Board since 2011
President and CEO of Saab AB
Born 1963
M.Sc., Licentiate of Engineering
Employed 2010
Shares in Saab: 47,152

Other board commitments:
Board member of Nefab AB

Former employment and positions:

Board member of Vattenfall AB and Teknikföretagen; Chairman of Green Cargo; President and CEO of E.ON Nordic AB and E.ON Sweden AB; Executive Vice President of E.ON Sweden AB; Senior Vice President of E.ON Sweden AB; CEO of Land Operations, Schenker AG, CEO Schenker North, CEO Schenker-BTL AB, CEO Störel, CEO Carlsberg och Coca-Cola Distribution AB; Production Director, Carlsberg Sweden

MARCUS WALLENBERG

Chairman of the Board since 2006
Deputy Chairman of the Board 1993-2006
Member of the Board since 1992
Member of Saab's Remuneration Committee
Born 1956
B.Sc. of Foreign Service
Lieutenant in Royal Swedish Naval Academy
Shares in Saab: 100,000

Other board commitments:

Chairman of SEB and Foundation Asset Management AB; Board member of AstraZeneca PLC, Investor AB, Temasek Holding Ltd and the Knut and Alice Wallenberg Foundation

Former employment and positions:

Chairman of Electrolux AB and LKAB; Board member of Stora Enso Oyj and EQT Holdings AB; President and CEO of Investor AB; Director, Stora Feldmühle AG, Düsseldorf; Skandinaviska Enskilda Banken, Stockholm and London; Citicorp (Hong Kong), Citibank N.A. (New York)

SARA MAZUR

Member of the Board since 2013
Vice President and Head of Ericsson Research, Ericsson AB
Born 1966
Associate Professor Electrical Engineering, Royal Institute of Technology (KTH); Ph.D., Electrical Engineering, KTH; M.Sc., Electrical Engineering, KTH; Honorary Doctorate, Luleå University of Technology
Shares in Saab: 1,300

Other board commitments:

Vice Chair of Wallenberg Autonomous System and Software Program (WASP); Member of the Board of Combient AB, Nobel AB and SICS North Swedish ICT AB and the Royal Swedish Academy of Engineering Sciences (IVA), Division XI - Education and Research

Former employment and positions:

Vice President of System Management, Business Unit Networks, Ericsson AB; Director of Wireless Access Networks Research, Ericsson Research, Ericsson AB; Board member of the School and the Strategic Advisory Board of Electrical Engineering, KTH; Integrated Transport Research Lab and Wireless@KTH

BERT NORDBERG

Member of the Board since 2016
Chairman of Vestas Wind Systems A/S
Born 1956
Engineer
Shares in Saab: 8,500

Other board commitments:

Board member of AB Electrolux, Svenska Cellulosa Aktiebolaget (SCA), Skistar and Axis AB

Former employment and positions:

Chairman of Imagination Technologies Group Plc, Sony Mobile Communications AB; Chairman and CEO of Sony Ericsson Communication AB; various senior positions within the Ericsson group, Data General Corporation and Digital Equipment Corporation

MAGNUS GUSTAFSSON

Deputy Board member since 2016
President of the Local Swedish Association of Graduate Engineers at Saab AB in Linköping/Tannefors
Born 1965
M.Sc. in Applied Physics and Electrical Engineering, Linköping Institute of Technology
Shares in Saab: 464

STEFAN ANDERSSON

Employee representative since 2008
President of the Local Salaried Employees' union, Unionen, at Saab Dynamics AB, Linköping
Born 1974
B.Sc.
Shares in Saab: 2,897



Seated from left:

TINA MIKKELSEN

Deputy Board member since 2016
President of the Local Salaried Employees' union, Unionen, at Saab AB, Järfälla
Born 1973
Electrical Engineer, Stockholms Tekniska Institut (STI)
Shares in Saab: 1,915

JOAKIM WESTH

Member of the Board since 2010
Board member of Saab's Audit Committee
Born 1961
M.Sc. in Aeronautics, Royal Institute of Technology (KTH); M.Sc. in Aerospace Engineering, Massachusetts Institute of Technology (MIT)
Shares in Saab: 8,000

Other board commitments:

Board member of CGI Group Inc., Absolut Group AB, Swedish Match AB and Arcam AB

Former employment and positions:

Chairman of EMA Technology AB and Absolut AB; Board member of Intrum Justitia AB, Rönvik Timber AB, Telelogic AB and VKR Holding A/S; Deputy Board member of Sony Ericsson Mobile Communications AB; Senior Vice President, Group Function Strategy & Operational Excellence, LM Ericsson AB and member of the Group Management Team, LM Ericsson AB; Group Vice President and member of the Executive Management Group, Assa Abloy AB; Partner; McKinsey & Co. Inc.

JOHAN FORSSELL

Member of the Board since 2010
Member of Saab's Audit Committee
President and CEO of Investor AB
Born 1971
M. Sc. in Economics and Business Administration, Stockholm School of Economics
Shares in Saab: 7,000

Other board commitments:

Board member of Atlas Copco, Investor AB, Patricia Industries and EQT Holdings AB

Former employment and positions:

Director, Investor AB, Head of Core Investments, Project Manager at Aleris AB; Head of Research, Head of Capital Goods and Healthcare Sector, Head of Capital Goods Sector and Analyst Core Holdings, Investor AB

LENA TRESCHOW TORELL

Member of the Board since 2005
Chairman of Saab's Remuneration Committee
Born 1946
Professor in Physics, Ph.D.
Shares in Saab: 5,400

Other board commitments:

Board member of Investor AB and SKF AB, Chairman of Chalmers University of Technology

Former employment and positions:

Deputy Chairman of ÅF AB; President and Chairman of the Royal Swedish Academy of Engineering Sciences (IVA); Board member of Getinge AB, Telefonaktiebolaget L M Ericsson, Gambro AB and Micronic Mydata AB; Chairman of the European Council of Applied Sciences, Technologies and Engineering (Euro-

CASE) and the Foundation for Strategic Environmental Research (MISTRA); Director, Joint Research Centre, European Commission (Brussels); Vice President, Chalmers, Gothenburg; Professor of Material Physics at Chalmers, Gothenburg; Professor of Solid State Physics, University at Uppsala

STEN JAKOBSSON

Member of the Board since 2008 and Deputy Chairman since 2010
Member of Saab's Remuneration Committee
Born 1949
M.Sc. in Engineering
Shares in Saab: 5,500

Other board commitments:

Chairman of Power Wind Partners AB and LKAB; Board member of Stena Metall AB, FLSmidth A/S and Xylem Inc.

Former employment and positions:

President and CEO of ABB, Sweden; Executive Vice President of Asea Brown Boveri AB, Sweden; Business Area Manager, Business Area Cables; President of ABB Cables AB, President of Asea Cylinda, Production Manager for Asea Low Voltage Division, Asea central staff – Production trainee

PER-ARNE SANDSTRÖM

Member of the Board since 2005
Chairman of Saab's Audit Committee
Born 1947
Upper secondary engineering school
Shares in Saab: 3,000

Former employment and positions:

Deputy CEO and COO of Telefonaktiebolaget L M Ericsson; President and CEO, Ericsson Inc., USA; Vice President and General Manager, Business Unit GSM,

Ericsson Radio Systems AB; Executive Vice President and Managing Director, Cellular Systems, Ericsson Ltd, UK; Vice President and General Manager, GSM Western Europe, Ericsson Radio Systems AB; Vice President and General Manager, Airborne Radar Division, Ericsson Microwave Systems AB; Department Manager, Naval Command and Control Systems, Ericsson Microwave Systems AB; Board member of TeliaSonera

CONNY HOLM

Employee representative since 2008 and Deputy Board member 1995–2008
President of the local trade union IF Metall at Avionics Systems, Jönköping
Born 1947
Upper secondary engineering education
Shares in Saab: 1,726

AUDITORS

PricewaterhouseCoopers AB

BO HJALMARSSON

Authorised Public Accountant, auditor in charge.

ANNA-CLARA AF EKENSTAM

Authorised Public Accountant, auditor in charge through end of March 2016

Information on shareholdings includes holdings of closely affiliated natural persons and legal entities, where applicable.



GROUP MANAGEMENT

LENNART SINDAHL

Senior Advisor to the CEO
Born 1956
M.Sc. in Engineering
Employed 1986
Shares in Saab: 22,275

SEBASTIAN CARLSSON

Senior Vice President and Head
of Group Communication
Born 1984
Employed 2012
Shares in Saab: 0

DAN JANGBLAD

Senior Vice President and Head of
Business Area Industrial Products
and Services
Born 1958
M.Sc. in Engineering
Employed 2000
Shares in Saab: 25,293

GÖRGEN JOHANSSON

Senior Vice President and Head
of Business Area Dynamics
Born 1964
MBA
Employed 2004
Shares in Saab: 5,963

ANNIKA BÄREMO

Senior Vice President and Head of Group
Legal Affairs, General Counsel, Secretary
of the Board of Directors
Born 1964
LLB
Employed 2012
Shares in Saab: 5,245

MAGNUS ÖRNBERG

Executive Vice President and
Chief Financial Officer (CFO)
Born 1965
MBA
Employed 2012
Shares in Saab: 8,535



MICAEL JOHANSSON

Deputy CEO, Senior Executive Vice President
Born 1960
B.Sc.
Employed 1985
Shares in Saab: 7,557

HÅKAN BUSKHE

President and Chief Executive Officer (CEO)
Member of the Board of Saab AB since 2011
Born 1963
M.Sc., Licentiate of Engineering
Employed 2010
Shares in Saab: 47,152

ANN-KRISTIN ADOLFSSON

Senior Vice President and Chief Strategy Officer, Head of Group Strategy
Born 1962
MBA
Employed 1986
Shares in Saab: 1,909

GUNNAR WIESLANDER

Senior Vice President and Head of Business Area Kockums
Born 1962
Naval Officer
Employed 2015
Shares in Saab: 189

LENA ELIASSON

Senior Vice President and Head of Group Human Resources
Born 1967
M.Sc. in Engineering
Employed 2012
Shares in Saab: 7,983

ANDERS CARP

Senior Vice President and Head of Business Area Surveillance
Born 1971
Employed 2001
Shares in Saab: 2,496

JONAS HJELM

Senior Vice President and Head of Business Area Support and Services
Born 1971
Employed 2006
Shares in Saab: 9,616

Missing from photo:

ULF NILSSON

Senior Vice President and Head of Business Area Aeronautics
Born 1964
M.Sc. in Engineering
Employed 1989
Shares in Saab: 6,131

The following changes in Group Management took effect on 1 January 2017

Micael Johansson, former Head of Business Area Surveillance, became the new Deputy CEO and Senior Executive Vice President. Anders Carp became the new Head of Business Area Surveillance, Gunnar Wieslander became the Head of Business Area Kockums, Sebastian Carlsson became the Head of Group Communication and Lennart Sindahl, former Deputy CEO, became Senior Advisor to the CEO and stepped down from Group Management.

OTHER INFORMATION

GUIDELINES FOR REMUNERATION AND OTHER TERMS OF EMPLOYMENT FOR SENIOR EXECUTIVES 2016

Pursuant to the Swedish Companies Act, the Board of Directors shall propose remuneration guidelines for the company's senior executives to the Annual General Meeting. The Annual General Meeting 2016 adopted the Board's proposed guidelines for senior executives as described below.

The senior executives comprise the President and other members of the Group Management. The members of this group are presented on the company's website. In special cases these guidelines apply to Saab AB Board members, as described below.

Saab shall offer market terms in order to recruit and retain senior executives. To the greatest extent possible, remuneration structures shall be characterised by predictability with respect to both the cost for the company and the benefit for the employee. They shall be based on factors such as position, competence, experience and performance. Benchmarking against comparable industries and markets shall be practiced.

The guidelines are based primarily on agreements in effect between Saab AB and individual executives. No board fees are paid to members of the Group Management for participation on the boards of the business areas or Saab's subsidiaries.

The Remuneration Committee is responsible for developing and reviewing remuneration and other employment terms for the Group Management.

The Board is entitled to divert from the guidelines if there are reasonable grounds to do so in specific cases.

These guidelines apply as of the Annual General Meeting 2016.

Fixed remuneration

Cash remuneration shall consist of a fixed salary. The fixed salary shall be reviewed annually as per 1 January for all members of the Group Management. Fixed salary shall be set at market terms and based on factors such as position, competence, experience and performance.

Variable remuneration

Saab's operations are dominated by the development of complex products and systems. The products are marketed, further developed, produced and maintained over long periods – in some cases, three or four decades – and normally involve significant investments and long-term relationships with customers around the world. It is important therefore that senior executives share a long-term view and commitment to the company's operations and profits. As a result, long-term incentives are particularly well-suited to Saab and its shareholders, and consist of a share-based incentive programme.

The President and senior executives are entitled to participate in the

long-term share based incentive programmes adopted by the Shareholders' Meeting.

One-off agreements on variable cash remuneration may be made in extraordinary circumstances, provided that such agreements are made solely on an individual basis for recruitment or retention purposes or as compensation for extraordinary efforts above and beyond the individual's ordinary duties. Such remuneration shall never exceed the fixed annual salary and shall not be paid more than once a year per individual. Resolutions on such cash remuneration shall be made by the Board based on a proposal from the Remuneration Committee.

Variable cash remuneration shall not be paid under any other circumstances.

Other benefits

All members of the Group Management may be entitled to other benefits in accordance with local practice. The benefits shall contribute to facilitating the executive's discharge of his or her duties. These benefits shall not constitute a material part of total compensation and shall be equivalent to what is considered reasonable in relation to market practice. Other benefits may for example be a company car, travels, overnight accommodation and medical insurance.

Pension

The retirement age is minimum 62 under pension agreements entered into after 1 January 2005. In addition to the ITP agreement, the pension is premium based and provisions are made annually. For the President the provision is limited to 35 per cent of fixed salary. For other senior executives the percentage is based on "Saab Plan" regulation. According to this plan, the percentage is dependent on the number of years remaining until retirement age upon joining the plan. The aggregate insurance balance should cover a targeted pension from age 65 of approximately 32.5 per cent of salary levels between 20 and 30 basic income amounts and approximately 50 per cent of segments above 30 basic income amounts.

All senior executives may also be entitled to enhanced disability pension and survivors' pension.

Miscellaneous terms

All Group Management executives, including the President, may terminate their employment with six months' notice. If employment is terminated by Saab the notice period is six months, after which severance equal to one year's salary is paid. An additional year's salary may be paid in the event no new employment has been obtained during the first 18 months from the time notice of termination was served.

With respect to employment agreements signed after 1 January 2005 that are terminated by Saab, a maximum severance pay of 18 months

can be payable in addition to the normal six-month notice period. The notice period and severance pay in total shall not exceed 24 months.

In both cases, any income from termination pay and severance pay will be deducted against income from other employment during the corresponding time.

Consulting fees to Board members

In special cases Saab AB's shareholder-elected Board Members may receive a fee for services performed within their respective areas of expertise, separately from their Board duties and for a limited period of time. Compensation for these services shall be paid at market terms.

INFORMATION IN THE ANNUAL REPORT NOTE 10

Note 10 of the Annual Report includes a description of current remuneration for senior executives, including fixed and variable compensation, long-term incentive programmes and other benefits.

INCENTIVE PROGRAMMES PROPOSED TO THE ANNUAL GENERAL MEETING 2016

The Board of Directors proposed that the Annual General Meeting 2016 resolve to adopt a long-term incentive programme 2016 consisting of a Share Matching Plan and Performance Share Plan. The Annual General Meeting resolved in accordance with the Board's proposal.

BOARD OF DIRECTORS PROPOSAL FOR GUIDELINES FOR REMUNERATION AND OTHER TERMS OF EMPLOYMENT FOR SENIOR EXECUTIVES, APPLICABLE AS OF THE ANNUAL GENERAL MEETING 2017

The Remuneration Committee has evaluated the remuneration for Saab AB senior executives, including variable remuneration, the application of the remuneration guidelines and other employment terms for senior executives resolved at the Annual General Meeting 2016, and the current remuneration structures and remuneration levels in the company.

The Remuneration Committee has recommended that the Board of Directors propose that the Annual General Meeting adopt remuneration guidelines with terms and conditions in principle identical to those that were adopted by the Annual General Meeting 2016. In light of the above, the Board of Directors proposes that the Annual General Meeting 2017 adopt guidelines for remuneration and other terms of employment for senior executives with terms and conditions in principle identical to those resolved at the Annual General Meeting 2016.

With respect to fixed and variable remuneration, other benefits and consulting fees to Board members and pension, the guidelines are unchanged compared to 2016. Certain clarifications have been proposed in the guidelines miscellaneous terms as described below.

Miscellaneous terms

All Group Management executives, including the President, may terminate their employment with a maximum of six months' notice. If employment is terminated by Saab the notice period is also six months, after which severance equal to one year's salary is paid. An additional year's salary may be paid in the event no new employment has been obtained during the first 18 months from the time notice of termination was served.

With respect to employment agreements made after 1 January 2005, and in cases where Saab terminates the employment, a maximum severance pay of 18 months can be payable in addition to the normal six-month notice period. The notice period and severance pay in total shall not exceed 24 months.

Any income from severance pay will normally be deducted against income from other employment during the corresponding time.

INCENTIVE PROGRAMMES PROPOSED TO THE ANNUAL GENERAL MEETING 2017

The Board of Directors proposes that the Annual General Meeting 2017 resolve to adopt a long-term incentive programme 2017/2018 consisting of three parts, Share Matching Plan, Performance Share Plan, and Special Projects Incentive. The terms and conditions and costs of the long-term incentive programme 2017/2018 is disclosed in the Board of Director's complete proposal to the Annual General Meeting.

SAAB'S LONG-TERM INCENTIVE PROGRAMMES AND AUTHORISATION TO REPURCHASE SHARES

The Annual General Meeting of Saab has resolved for a number of years to offer a long-term incentive programme consisting of two parts: a Share Matching Plan and a Performance Share Plan. The reason is that the Board considers it important that Saab's employees share a long-term interest in a good value development of the company's shares. The long-term incentive programme comprises not more than 1,340,000 Series B shares in Saab per year.

Since 2007, Saab offers permanent employees the opportunity to participate in the Share Matching Plan. Employees can withhold up to 5 per cent of their gross base salary to purchase Series B shares on Nasdaq Stockholm during a twelvemonth period. Provided that a participant retains the purchased shares for three years after the investment date and is still employed by the Saab Group, the participant will be allotted a corresponding number of Series B shares free of charge. Currently, Share Matching Plans 2013–2016 are ongoing.

Since 2008, Saab also has a Performance Share Plan for senior Executives and key employees. In the Performance Share Plans for 2011–2013, up to 286 key employees (in each plan), including the President, are able to allocate a maximum of 7.5 per cent of their gross fixed salary to purchase Saab Series B shares during a 12-month period. Investments made under this plan also count as a basis for participation in the Share Matching Plan, up to a maximum of 5 per cent of base salary. In addition to the requirement that the employee remain employed by Saab after three years, earnings per share must grow by an annual average of 5 to 15 per cent during the three-year period to qualify for matching performance shares. The Performance Share Plans 2011–2013 entitle participants to 1–4 performance shares, depending on employee category. The Board may reduce the number of performance shares if the Board considers it reasonable given the company's financial results and position, conditions on the stock market and other circumstances.

In April 2014, Saab's Annual General Meeting resolved to modify the Performance Share Plan to increase interest among the target group. The Performance Share Plan now covers a maximum of 175 key employees, including the President. Participants can also save up to 7.5 per cent of their base salary in this plan to purchase Series B shares during a twelve-month period, while participating in the Share Matching Plan as well. Depending on which category they belong to, participants are entitled to 2–7 performance shares for each purchased share. Participants are entitled to performance matching shares, free of consideration, provided that the performance targets are achieved and the participants have retained the purchased shares for three years after the investment date and remain employed by the Saab Group.

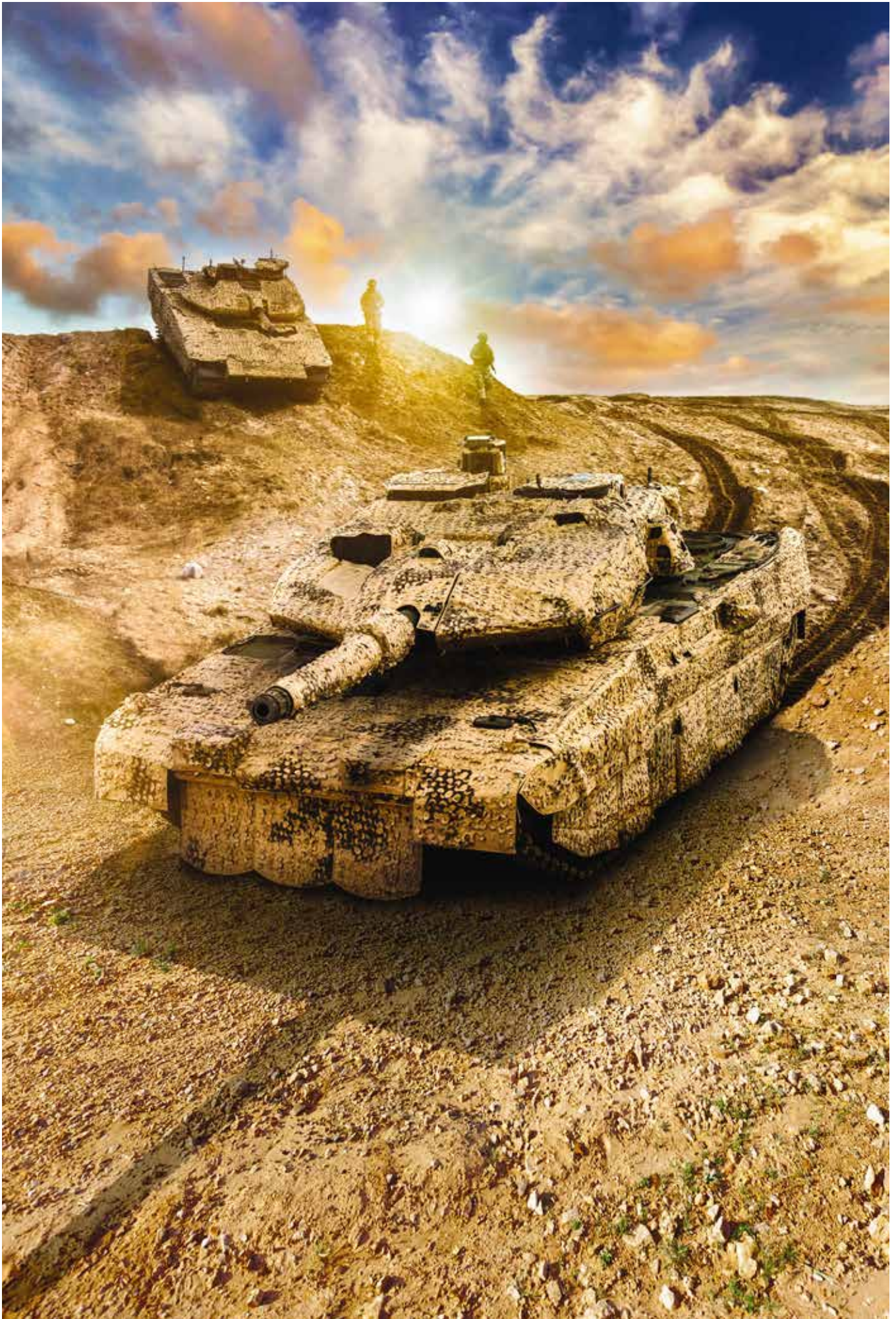
The number of performance shares is linked to the performance targets established by the Board of Directors. The terms for the performance matching are based on three independent targets for a one-year performance period: organic sales growth, EBIT margin and free cash flow. The relative apportionment between the targets is as follows: 30 per cent of the allotment is attributable to organic sales growth, 40 per cent to EBIT margin and 30 per cent to free cash flow. The performance targets are established by the Board of Directors with a minimum and maximum level for each target. The Board of Directors decides on the performance matching after the end of the one-year performance period. If the maximum levels for the performance targets are reached or exceeded, the performance matching will amount to (and not exceed) the maximum of 440,000 shares. If the performance outcome falls short of the maximum level but exceeds the minimum level, a linear proportionate performance matching will occur. No performance matching will occur if the performance outcome is equal to or below the minimum level. Before the performance matching is ultimately determined, the Board of Directors will assess whether it is reasonable in relation to the company's financial results and position, conditions in the stock market and other circumstances. If it determines that this is not the case, the Board of Directors will reduce the number of performance shares that will be matched to the lower number of shares it considers appropriate.

Performance shares are allotted three years after the investment. Currently, Performance Share Plans 2013–2016 are ongoing.

The Annual General Meeting 2016 also resolved to authorise the Board of Directors to decide to acquire not more than 1,340,000 Saab Series B shares to secure delivery of shares to participants in Saab's long-term Share Matching Plan and Performance Share Plan and for subsequent transfers to cover certain expenses associated with LTI 2016, mainly social security costs. Repurchases may be effected on Nasdaq Stockholm.

Furthermore, the Annual General Meeting 2016 resolved to authorise the Board of Directors to decide to repurchase Saab Series B shares up to a maximum of 10 per cent of all the shares in the company. The purpose of the authorisation is to be able to adapt the company's capital structure and thereby contribute to increased shareholder value as well as to enable continuous use of repurchased shares in connection with potential company acquisitions and for the company's share-based incentive programmes. Repurchases may be effected on Nasdaq Stockholm.

During 2016, the Board of Directors did not resolve to utilise any of the two repurchase mandates. Both repurchase mandates apply until the Annual General Meeting 2017.



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FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT

MSEK	Note	2016	2015
Sales	4, 5	28,631	27,186
Cost of goods sold		-21,748	-20,700
Gross income		6,883	6,486
Other operating income	6	201	371
Marketing expenses		-2,223	-2,061
Administrative expenses		-1,364	-1,323
Research and development costs		-1,592	-1,565
Other operating expenses	7	-70	-48
Share in income of associated companies and joint ventures	21	-38	40
Operating income	5, 11, 12	1,797	1,900
Financial income		90	169
Financial expenses		-276	-338
Net financial items	13	-186	-169
Income before taxes		1,611	1,731
Taxes	15	-436	-329
Net income for the year		1,175	1,402
Attributable to:			
Parent Company's shareholders		1,133	1,362
Non-controlling interest		42	40
Earnings per share before dilution (SEK)	16	10.67	12.88
Earnings per share after dilution (SEK)	16	10.60	12.79

ORDERS

Order bookings were lower in 2016 than in 2015, when the company received several large orders related to Gripen to Brazil, the submarine A26 to Sweden and an airborne surveillance system, among others.

Orders received, where the total order value exceeded MSEK 100, represented 45 per cent (86) of total order bookings. Order intake of smaller orders increased with 3 per cent compared to 2015.

In all, 84 per cent (95) of order bookings were attributable to defence-related operations and 59 per cent (80) were attributable to markets outside Sweden.

During 2016, index and price changes had a positive effect on order bookings of MSEK 545 compared to MSEK 183 during 2015.

The order backlog at the end of the year amounted to MSEK 107,606 compared to MSEK 113,834 at the beginning of the year.

Order backlog duration:
2017: SEK 24.5 billion
2018: SEK 17.0 billion
2019: SEK 13.5 billion
2020: SEK 15.8 billion
After 2020: SEK 36.8 billion

SALES PER REGION

MSEK	2016	2015
Sweden	12,389	11,399
Rest of Europe	4,981	4,933
North America	2,740	2,477
Latin America	2,014	1,584
Asia	5,107	5,370
Africa	495	541
Australia, etc.	905	882
Total	28,631	27,186

SALES PER MARKET SEGMENT

MSEK	2016	2015
Air	12,787	12,642
Land	6,453	5,581
Naval	4,897	4,286
Civil Security	1,987	2,127
Commercial Aeronautics	1,987	2,096
Other	520	454
Total	28,631	27,186

SALES

Sales during 2016 increased by 5 per cent compared to 2015.

Acquisitions had no effect on sales 2016 compared to a positive net effect of 3 per cent 2015. Currency effects had no material impact on sales 2016 compared to a positive effect of 2 per cent 2015. The organic sales growth was 5 per cent (11).

Sales in markets outside of Sweden amounted to MSEK 16,242 (15,787), or 57 per cent (58), of total sales.

83 per cent (82) of sales was related to the defence market.

INCOME, MARGIN AND PROFITABILITY

The gross margin of 24.0 per cent (23.9) was in line with 2015.

Total depreciation and amortisation amounted to MSEK 946 (959). Depreciation of tangible fixed assets amounted to MSEK 493 (451).

Total expenditures in research and development (R&D) amounted to MSEK 7,421 (6,841). Internally funded R&D expenditures amounted to MSEK 2,065 (1,765), of which MSEK 784 (524) was capitalised. Internally funded R&D expenditures are mainly related to radar and sensor technology as well as to the T-X program. The increased capitalisation of development costs is related to GlobalEye.

Amortisation of intangible fixed assets amounted to MSEK 453 (508), of which amortisation of capitalised development expenditures amounted to MSEK 311 (323).

The share of income in associated companies and joint ventures amounted to MSEK -38 (40), mainly related to a lower result within the minority portfolio, where Saab owns shares in companies in various stages of development. The portfolio is managed within the business area Industrial Products and Services.

Operating income amounted to MSEK 1,797 (1,900) with an operating margin of 6.3 per cent (7.0). The business areas Dynamics and Surveillance saw improvements in operating income due to increased deliveries and a change in product

mix. In 2015, an order for an airborne surveillance system was received where preparation work was recognised as operating income upon signing of the contract. This contributed to a strong operating margin for the business areas Surveillance and Support and Services.

Adjusted for non-recurring items, operating income amounted to MSEK 1,782 in 2015 and the operating margin was 6.6 per cent.

During 2015, the reversal of risk provisions for the remaining risks related to the termination of Saab's leasing fleet of turbo prop aircraft contributed positively to operating income.

Current and deferred taxes amounted to MSEK -436 (-329), equivalent to an effective tax rate of 27 per cent (19). A revaluation of deferred tax assets during the year led to a higher tax rate in 2016. The lower rate in 2015 was also affected by tax-exempt income, such as capital gains.

The pre-tax return on capital employed was 8.9 per cent (11.2) and the after-tax return on equity was 9.0 per cent (11.5), both measured over a rolling 12-month period.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

MSEK	2016	2015
Net income for the year	1,175	1,402
Other comprehensive income/loss:		
Items that will not be reversed in the income statement:		
Revaluation of net pension obligations	-623	839
Tax attributable to revaluation of net pension obligations	137	-183
Total	-486	656
Items that may be reversed in the income statement:		
Translation differences	387	-20
Available-for-sale financial assets	-	-27
Net gain/loss on cash flow hedges:		
Change in value	-711	-381
Reversed through profit or loss	462	361
Tax attributable to net gain/loss on cash flow hedges	39	11
Total	177	-56
Other comprehensive income	-309	600
Net comprehensive income for the year	866	2,002
of which Parent Company's shareholders' interest	778	2,007
of which non-controlling interest	88	-5

Revaluation of net pension obligations has had a pre-tax effect of MSEK -623 (839) on net comprehensive income for the year, see note 34 for more information.

The after-tax effect of net gain/-losses of cash flow hedges on net comprehensive income amounted to MSEK -210 (-9), see note 38 for more information.

FINANCIAL NET

MSEK	2016	2015
Financial net related to pensions	-60	-64
Net interest items	-76	-79
Currency gains/losses	-11	-118
Other net financial items	-39	92
Total	-186	-169

Financial net related to pensions is the financial cost for net pension obligations recognised in the balance sheet. See note 34 for more information regarding defined-benefit pension plans.

Net interest items refer to return on liquid assets and short-term investments and to interest expenses on short-term and long-term interest-bearing liabilities as well as realised derivative results.

Currency gains/losses recognised in the financial net are mainly related to hedges of the tender portfolio, which are valued at fair value through profit or loss.

Other net financial items consist of costs attributable to

the programme for the sale of trade receivables, unrealised results from the market valuation of short-term investments and derivatives, and other currency effects, for example changes related to liquid assets in currencies other than SEK. Derivatives are used to reduce interest rate risk in the investment portfolio, consisting of long-term interest-bearing securities.

In December 2015, Saab divested its holding in the Indian company Pipavav Defence and Offshore Engineering Company Limited. The divestment resulted in a capital gain of MSEK 117, which was recognised in other financial items.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MSEK	Note	31-12-2016	31-12-2015
ASSETS			
Intangible fixed assets	17	7,094	6,476
Tangible fixed assets	18	4,811	4,472
Biological assets	19	291	290
Investment properties	20	33	34
Shares in associated companies and joint ventures	21	788	602
Financial investments	24	165	190
Long-term receivables	26	505	444
Deferred tax assets	15	252	351
Total fixed assets		13,939	12,859
Inventories	27	6,660	5,243
Derivatives	38	1,290	1,058
Tax assets		120	106
Accounts receivable	28	5,402	2,913
Other receivables	26	6,821	8,102
Prepaid expenses and accrued income	29	1,035	962
Short-term investments	24	4,542	2,995
Liquid assets	30	1,402	850
Total current assets		27,272	22,229
TOTAL ASSETS		41,211	35,088

STATEMENT OF FINANCIAL POSITION

At the end of December 2016, net debt amounted to MSEK 1,836, a decrease of MSEK 1,381 compared to year-end 2015.

Cash flow from operating activities amounted to MSEK 4,154.

Net provisions for pensions, excluding special employers' contribution, amounted to MSEK 2,424, as of 31 December 2016 compared to MSEK 1,893 at year-end 2015. This had a negative impact on net debt of MSEK 531. The increase in provisions is mainly due to the reduction in the discount rate used in the valuation of the pension obligation to 2.75 per cent from 3.25 per cent during the year. The inflation assumption for calculating the pension obligation was 1.75 per cent, in line with the assumption at year-end 2015. For more information about Saab's defined-benefit plans, see note 34.

During 2016, net debt also increased due to net investments amounting to MSEK 1,745. Sale of subsidiaries and acquisitions of operations reduced net debt by MSEK 28. In addition, a dividend of MSEK 530 was paid to the Parent Company's shareholders. Currency exchange rate differences in liquid assets and unrealised results from financial investments had a positive impact on net debt of MSEK 5.

As of 31 December 2016, short-term investments and liquid assets amounted to MSEK 5,944 compared to MSEK 3,845 at year-end 2015. The increase is mainly attributable to advances from customers during the year.

Capitalised development costs on the balance sheet amounted to MSEK 1,652 as of 31 December 2016 compared to MSEK 1,157 as of 31 December 2015. The increase is mainly related to GlobalEye.

Inventories increased by MSEK 1,417 during 2016, mainly due to preparations for deliveries on major projects during 2017.

Tangible fixed assets amounted to MSEK 4,811, an increase of approximately MSEK 400 compared to year-end 2015. The increase is mainly attributable to investments in real estate.

Accounts receivable amounted to MSEK 5,402 as of 31 December 2016 and to MSEK 2,913 as of 31 December 2015. Receivables from customers amounted to MSEK 6,222 as of 31 December 2016 and to MSEK 7,549 as of 31 December 2015. The decrease is mainly attributable to payments received on orders for GlobalEye and Gripen.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MSEK	Note	31-12-2016	31-12-2015
EQUITY AND LIABILITIES			
Equity	31		
Capital stock		1,746	1,746
Other capital contributions		543	543
Other reserves		-243	-374
Retained earnings		11,110	10,936
Equity attributable to Parent Company's shareholders		13,156	12,851
Non-controlling interest		145	61
Total equity		13,301	12,912
Liabilities			
Long-term interest-bearing liabilities	32	5,624	4,872
Other liabilities	36	202	136
Provisions for pensions	34	3,069	2,373
Other provisions	35	811	1,097
Deferred tax liabilities	15	30	34
Total long-term liabilities		9,736	8,512
Short-term interest-bearing liabilities	32	292	853
Advance payments from customers		5,161	1,098
Accounts payable		2,880	2,340
Derivatives	38	1,955	1,614
Tax liabilities		81	37
Other liabilities	36	695	725
Accrued expenses and deferred income	37	6,711	6,549
Provisions	35	399	448
Total current liabilities		18,174	13,664
Total liabilities		27,910	22,176
TOTAL EQUITY AND LIABILITIES		41,211	35,088

For information on the Group's assets pledged and contingent liabilities, see note 39.

NET LIQUIDITY/DEBT

MSEK	Note	31-12-2016	31-12-2015
Assets			
Liquid assets	30	1,402	850
Short-term investments	24	4,542	2,995
Total liquid investments		5,944	3,845
Short-term interest-bearing receivables	26	29	48
Long-term interest-bearing receivables	26	391	367
Long-term receivables attributable to pensions	26	51	49
Long-term interest-bearing financial investments	24	140	141
Total interest-bearing assets		6,555	4,450

MSEK	Note	31-12-2016	31-12-2015
Liabilities			
Liabilities to credit institutions	32	5,107	4,762
Liabilities to associated companies and joint ventures	32	239	251
Other interest-bearing liabilities	32	570	712
Provisions for pensions ¹⁾	34	2,475	1,942
Total interest-bearing liabilities		8,391	7,667
Net liquidity (+) / debt (-)		-1,836	-3,217

¹⁾ Excluding provisions for pensions attributable to special employers' contribution.

The average net liquidity/debt during 2016 amounted to MSEK -1,810 (-3,634). Net liquidity/debt excluding interest-bearing receivables and net pension obligations amounted to MSEK 28 (-1,880) on 31 December 2016.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

MSEK	Other reserves					Retained earnings	Total equity attributable to Parent Company's shareholders	Non-controlling interest	Total equity
	Capital stock	Other capital contributions	Net result of cash flow hedges	Translation reserve	Available-for-sale and revaluation reserve				
Opening balance, 1 January 2015	1,746	543	-562	161	38	9,365	11,291	82	11,373
Net comprehensive income/loss for the year			24	-8	-27	2,018	2,007	-5	2,002
Transactions with shareholders:									
Share matching plan	-	-	-	-	-	66	66	-	66
Dividend	-	-	-	-	-	-501	-501	-10	-511
Acquisition and sale of non-controlling interest	-	-	-	-	-	-12	-12	-6	-18
Closing balance, 31 December 2015	1,746	543	-538	153	11	10,936	12,851	61	12,912
Opening balance, 1 January 2016	1,746	543	-538	153	11	10,936	12,851	61	12,912
Net comprehensive income/loss for the year			-241	372		647	778	88	866
Transactions with shareholders:									
Share matching plan	-	-	-	-	-	84	84	-	84
Dividend	-	-	-	-	-	-530	-530	-18	-548
Acquisition and sale of non-controlling interest	-	-	-	-	-	-27	-27	14	-13
Closing balance, 31 December 2016	1,746	543	-779	525	11	11,110	13,156	145	13,301

For a definition of other reserves, see note 31.

CONSOLIDATED STATEMENT OF CASH FLOWS

MSEK	Note	2016	2015
Operating activities			
Income after financial items		1,611	1,731
Adjustments for items not affecting cash flow	43	1,226	688
Dividend from associated companies and joint ventures		16	25
Income tax paid		-120	-266
Cash flow from operating activities before changes in working capital		2,733	2,178
Cash flow from changes in working capital			
Increase (-)/Decrease(+) in inventories		-1,329	349
Increase (-)/Decrease(+) in current receivables		-1,129	-3,573
Increase (+)/Decrease (-) in advance payments from customers		4,025	284
Increase (+)/Decrease (-) in other current liabilities		177	1,426
Increase (+)/Decrease (-) in provisions		-323	-306
Cash flow from operating activities		4,154	358
Investing activities			
Investments in intangible fixed assets		-98	-70
Capitalised development costs		-784	-524
Investments in tangible fixed assets		-807	-799
Sales and disposals of tangible fixed assets		27	7
Investments in and sales of short-term investments		-1,525	-1,722
Investments in financial assets		-169	-368
Sale of financial assets		25	226
Investments in operations, net effect on liquidity	3, 43	-49	-221
Sale of subsidiaries, net effect on liquidity	43	77	312
Cash flow from investing activities		-3,303	-3,159
Financing activities			
Repayment of loans		-582	-1,865
Raising of loans		732	4,758
Dividend paid to Parent Company's shareholders		-530	-501
Dividend paid to non-controlling interests		-5	-10
Transactions with non-controlling interests		15	-
Cash flow from financing activities		-370	2,382
CASH FLOW FOR THE YEAR	43	481	-419
Liquid assets at beginning of year		850	1,284
Exchange rate difference in liquid assets		71	-15
Liquid assets at year-end	43	1,402	850

CAPITAL EXPENDITURES

The cash flow effect of capital expenditures in tangible fixed assets amounted to MSEK 807 (799).

Investments in intangible fixed assets amounted to MSEK 882 (594), of which MSEK 784 (524) was related to capitalised development costs and MSEK 98 (70) to other intangible fixed assets.

CASH FLOW

Cash flow from operating activities excluding taxes and other financial items amounted to MSEK 4,348 (886), see note 43.

Saab has an established programme to sell trade receivables to strengthen its financial position and increase financial flexibility. As of 31 December 2016, no receivables had been sold, compared to MSEK 1,299 as of 31 December 2015. This had a negative impact on cash flow from operating activities of MSEK 1,299 during 2016. Saab's aim is to utilise this programme in situations where greater financial flexibility is needed.

Operational cash flow amounted to MSEK 2,603 (-500). It is defined as cash flow from operating activities, excluding taxes and other financial items, and acquisitions and divestments of intangible and tangible fixed assets.

The strong operational cash flow in 2016 compared to 2015 is mainly due to advances from customers related to the Gripen programmes and the order for GlobalEye.

Free cash flow amounted to MSEK 2,359 (-726). For more detailed information about the cash flow, see note 43.

PARENT COMPANY INCOME STATEMENT

MSEK	Note	2016	2015
Sales	4, 5	17,988	18,022
Cost of goods sold		-14,125	-14,209
Gross income		3,863	3,813
Marketing expenses		-1,250	-1,204
Administrative expenses		-850	-817
Research and development costs		-1,807	-1,591
Other operating income	6	76	54
Other operating expenses	7	-38	-47
Operating income		-6	208
Result from financial items:	13		
Result from shares in Group companies		430	-67
Result from shares in associated companies and joint ventures		11	-
Result from other securities and receivables held as fixed assets		-16	53
Other interest income and similar items		110	176
Interest expenses and similar items		-218	-94
Income after financial items		311	276
Appropriations	14	-141	-160
Income before taxes		170	116
Taxes	15	-73	-153
Net income for the year		97	-37

SALES AND INCOME

The Parent Company includes units within the business areas Aeronautics, Surveillance, Support and Services, and Industrial Products and Services as well as one unit within Dynamics. Group staff and Group support are also included.

PARENT COMPANY COMPREHENSIVE INCOME

MSEK	2016	2015
Net income for the year	97	-37
Other comprehensive income	-	-
Net comprehensive income for the year	97	-37

PARENT COMPANY BALANCE SHEET

MSEK	Note	31-12-2016	31-12-2015
ASSETS			
Fixed assets			
Intangible fixed assets	17	545	803
Tangible fixed assets	18	3,033	2,882
Financial fixed assets:			
Shares in Group companies	41	5,848	6,817
Receivables from Group companies	23	50	19
Shares in associated companies and joint ventures	22	398	199
Receivables from associated companies and joint ventures	23	311	288
Other long-term securities holdings	25	23	45
Other long-term receivables	26	7	15
Deferred tax assets	15	88	91
Total financial fixed assets		6,725	7,474
Total fixed assets		10,303	11,159
Current assets			
Inventories	27	4,980	3,668
Current receivables:			
Tax assets		67	81
Accounts receivable	28	3,184	1,252
Receivables from Group companies		3,261	1,358
Receivables from associated companies and joint ventures		20	46
Other receivables	26	5,157	6,596
Prepaid expenses and accrued income	29	1,109	800
Total current receivables		12,798	10,133
Short-term investments		4,524	2,994
Cash and bank balances		651	211
Total current assets		22,953	17,006
TOTAL ASSETS		33,256	28,165

LIQUIDITY, FINANCING, CAPITAL EXPENDITURES AND NUMBER OF EMPLOYEES

The Parent Company's net debt amounted to MSEK 3,041 at 31 December 2016 compared to MSEK 5,154 at 31 December 2015.

Investments in tangible fixed assets amounted to MSEK 471 (602). Investments in intangible assets amounted to MSEK 78 (49). At year-end, the Parent Company had 8,941 employees, compared to 8,632 at the beginning of the year.

PARENT COMPANY BALANCE SHEET

MSEK	Note	31-12-2016	31-12-2015
EQUITY AND LIABILITIES			
Equity	31		
Restricted equity:			
Capital stock		1,746	1,746
Revaluation reserve		682	688
Statutory reserve		543	543
Unrestricted equity:			
Retained earnings		4,579	5,057
Net income for the year		97	-37
Total equity		7,647	7,997
Untaxed reserves	42	2,280	2,139
Provisions			
Provisions for pensions and similar commitments	34	153	137
Other provisions	35	654	618
Total provisions		807	755
Liabilities			
Liabilities to credit institutions	33	5,107	4,762
Liabilities to Group companies		6,465	5,636
Advance payments from customers		3,930	400
Accounts payable		2,056	1,705
Liabilities to associated companies and joint ventures		239	251
Other liabilities	36	512	611
Accrued expenses and deferred income	37	4,213	3,909
Total liabilities		22,522	17,274
TOTAL EQUITY AND LIABILITIES		33,256	28,165

For information on the Parent Company's assets pledged and contingent liabilities, see note 39.

STATEMENT OF CHANGES IN EQUITY FOR THE PARENT COMPANY

MSEK	Restricted equity			Unrestricted equity		Total equity
	Capital stock	Revaluation reserve	Statutory reserve	Retained earnings	Net comprehensive income for the year	
Opening balance, 1 January 2015	1,746	694	543	5,486	-	8,469
Items reported directly in equity:						
Change in revaluation reserve	-	-6	-	6	-	-
Net comprehensive income for the year	-	-	-	-	-37	-37
Transactions with shareholders:						
Dividend to shareholders	-	-	-	-501	-	-501
Share matching plan	-	-	-	66	-	66
Closing balance, 31 December 2015	1,746	688	543	5,057	-37	7,997
Opening balance, 1 January 2016	1,746	688	543	5,020	-	7,997
Items reported directly in equity:						
Change in revaluation reserve	-	-6	-	6	-	-
Net comprehensive income for the year	-	-	-		97	97
Transactions with shareholders:						
Dividend to shareholders	-	-	-	-530	-	-530
Share matching plan	-	-	-	84	-	84
Closing balance, 31 December 2016	1,746	682	543	4,579	97	7,647

PARENT COMPANY STATEMENT OF CASH FLOWS

MSEK	Note	2016	2015
Operating activities			
Income after financial items		311	276
Adjustments for items not affecting cash flow	43	762	617
Income tax paid		-56	-212
Cash flow from operating activities before changes in working capital		1,017	681
Cash flow from changes in working capital			
Increase(-)/Decrease(+) in inventories		-1,291	716
Increase(-)/Decrease(+) in current receivables		-1,673	-2,479
Increase(+)/Decrease(-) in advance payments from customers		3,529	-39
Increase(+)/Decrease(-) in other current liabilities		763	2
Increase(+)/Decrease(-) in provisions		-131	3
Cash flow from operating activities		2,214	-1,116
Investing activities			
Shareholders' contributions paid		-41	-112
Investments in intangible fixed assets		-78	-49
Investments in tangible fixed assets		-472	-617
Sale of tangible fixed assets		8	3
Sale of and investments in short-term investments		-1,508	-1,728
Investments in financial assets		-166	-509
Sale of financial assets		38	212
Investments in operations		-44	-208
Sale of subsidiaries		79	319
Cash flow from investing activities		-2,184	-2,689
Financing activities			
Change in receivables/liabilities from Group companies		496	457
Raising of loans		732	4,758
Repayment of loans		-553	-1,543
Dividend paid to shareholders		-530	-501
Group contributions and dividends received		265	468
Cash flow from financing activities		410	3,639
CASH FLOW FOR THE YEAR		440	-166
Liquid assets at beginning of year		211	377
Liquid assets at year-end	43	651	211

NOTE 1 ACCOUNTING PRINCIPLES

OPERATIONS

Saab AB is a Swedish limited company with its registered address in Linköping. The company's Series B shares are listed on Nasdaq Stockholm's large cap list. The operations of Saab AB with its subsidiaries, joint ventures and associated companies (jointly referred to as Saab or the Group) were divided into five business areas and one business unit in 2016: Aeronautics, Dynamics, Surveillance, Support and Services, Industrial Products and Services and Saab Kockums. The operations in each business area/unit are described in note 4.

On 24 February 2017, the Board of Directors and the President approved this annual report and consolidated accounts for publication, and it will be presented to the Annual General Meeting on 5 April 2017 for adoption.

CONFORMITY TO STANDARDS AND LAWS

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as approved by the EU.

The consolidated accounts have also been prepared in accordance with the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups, which contains certain additional disclosure requirements for Swedish consolidated accounts prepared in accordance with IFRS.

The annual report for Saab AB has been prepared according to the Annual Accounts Act, the Swedish Financial Reporting Board's recommendation RFR 2 Reporting by Legal Entities and the pronouncements of the Swedish Financial Reporting Board. Differences between the accounting principles applied by the Parent Company and the Group are the result of limitations on opportunities to apply IFRS by the Parent Company owing to the Annual Accounts Act, the Act on Safeguarding Pension Commitments and in certain cases current tax rules. Significant differences are described below under "Significant differences between the Group's and the Parent Company's accounting principles."

ASSUMPTIONS IN THE PREPARATION OF THE FINANCIAL REPORTS

The Parent Company's functional currency is Swedish kronor (SEK), which is also the reporting currency for the Parent Company and for the Group. The financial reports are presented in SEK. All amounts, unless indicated otherwise, are rounded off to the nearest million.

The preparation of the financial reports in accordance with IFRS requires the Board of Directors and Management to make estimates and assumptions that affect the application of the accounting principles and the carrying amounts of assets, liabilities, revenue and expenses. Estimates and assumptions are based on historical experience and knowledge of the industry that Saab operates in, and under current circumstances seem reasonable. The result of these estimates and assumptions is then used to determine the carrying amounts of assets and liabilities that otherwise are not clearly indicated by other sources. Actual outcomes may deviate from these estimates and assumptions.

Estimates and assumptions are reviewed regularly, and the effect of changed estimates is recognised in profit or loss.

Estimates made by the Board of Directors and Management in applying the accounting principles in compliance with IFRS that may have a significant impact on the financial reports as well as estimates that may necessitate significant adjustments in financial reports in subsequent years are described in more detail in note 2.

The accounting principles described below for the Group and the accounting principles concerning significant profit/loss and balance sheet items described in respective note disclosure have been applied consistently for all periods presented in the Group's financial reports, unless otherwise indicated.

APPLICATION OF NEW AND REVISED ACCOUNTING RULES

No significant new or revised standards applicable as of the financial year 2016 were added during the year.

NEW AND AMENDED STANDARDS AND INTERPRETATIONS THAT HAVE NOT YET ENTERED INTO FORCE

IASB has issued the following new and amended standards that have not yet entered into force:

Standards	Will apply to financial years beginning:
IFRS 9 Financial Instruments	1 January 2018 (adopted by EU)
IFRS 15 Revenue from Contracts with Customers	1 January 2018 (adopted by EU)
IFRS 16 Leases	1 January 2019 (not adopted by EU)

IFRS 9 Financial Instruments sets out the requirements for classification, measurement and accounting of financial assets and liabilities and introduces new rules for hedge accounting. Saab has begun evaluating the effects of the introduction of the standard and in 2017 will conduct a detailed evaluation.

IFRS 15 Revenue from Contracts with Customers governs the recognition of revenue. The principles that IFRS 15 are based on give users of financial statements more useful information on the company's revenue. The expanded disclosure obligation means that information must be provided on the nature, timing and uncertainty of revenue as well as cash flows arising from contracts with customers. According to IFRS 15, revenue is recognised when customers obtain control over purchased goods or services and are able to use and obtain benefits from the goods or services. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. In 2015, Saab began evaluating the effects of the introduction of the new standard, and in 2016 Saab actively carried out a project to prepare for the implementation of IFRS 15. The implementation of IFRS 15 was led by a steering group with Saab's CFO as chairman and staff from various parts of the company such as Finance, Legal and Sales. An analysis of existing customer contracts was conducted during the year. A large part of the Group's operations comprises long-term customer contracts with both the development and manufacture of complex systems that stretch over several reporting periods and where the so-called percentage of completion method has been used. The conclusion of the contract analysis that was done is that Saab will largely continue to recognise revenue from long-term customer contracts over time in accordance with IFRS 15 and the percentage of completion method. For a few customer contracts, the method for recognition will be adjusted. The impact on the opening balance in 2017 is considered insignificant. Processes, systems and internal control have been analysed as well, and the impact on them is considered minor. Preparations will continue in 2017 to fully introduce the standard in 2018. Saab will apply full retroactivity to the transition to IFRS 15 as of 2018 with certain exceptions approved by the standard.

IFRS 16 Leases is a new standard for recognition of leases that replaces IAS 17 Leasing. For companies that are lessees, the current classification of operating and finance leasing disappears and is replaced by a model where assets and liabilities for all leases are reported on the balance sheet. For leases with a term of not more than 12 months or where the underlying asset has a low value, there is an option to apply a simplified approach. Saab has not yet evaluated the effects of the introduction of the standard.

Other IFRS or IFRIC interpretations that have not yet entered into force are not expected to have a material effect on the Group.

CLASSIFICATION OF ASSETS AND LIABILITIES

Current assets and current liabilities generally consist of amounts that can be recovered or paid within twelve months of the closing day. Other assets and liabilities are recognised as fixed assets or long-term liabilities.

CONSOLIDATION PRINCIPLES

Group companies

Group companies are companies in which Saab AB has a decisive influence through a direct or indirect shareholding amounting to more than 50 per cent of the votes, other than in exceptional circumstances where it can be clearly demonstrated that such ownership does not constitute a decisive influence. Decisive influence also exists when the parent owns not more than half of the voting power of an entity but otherwise has a decisive influence over more than half the voting rights or the power to govern the company's financial and operating policies under a statute or agreement. When determining whether a decisive influence exists, potential voting shares that can be exercised or converted without delay are taken into account.

Subsidiaries and acquired operations (business combinations) are recognised according to the purchase accounting method. This means that a business combination is treated as a transaction whereby the Group indirectly acquires the business's assets and takes over its liabilities and contingent liabilities. The Group's cost is determined through an acquisition analysis with regard to the acquisition of operating entities. Cost is comprised of the sum of the fair value of what is paid in cash on the acquisition date through the assumption of liabilities or shares issued. Contingent consideration is included in cost and recognised at its fair value on the acquisition date. The subsequent effects of revaluations of contingent consideration are recognised in profit or loss. Acquired identifiable assets and assumed liabilities are initially recognised at their acquisition-date fair value. The exceptions to this principle are acquired tax assets/liabilities, employee benefits, share-based payment and assets held for sale, which are valued in accordance with the principles described in respective note disclosure. Exceptions are also made for indemnification assets and repurchased rights. Indemnification assets are valued according to the same principle as the indemnified item. Repurchased rights are valued based on the remaining contractual period regardless of whether other market players might consider opportunities for contract extensions in connection with valuations.

Note 1, cont.

Recognised goodwill consists of the difference between, on the one hand, the cost of Group company's interests, the value of non-controlling interests in the acquired company and the fair value of the previously owned interest and, on the other, the carrying amount of the acquired assets and assumed liabilities in the acquisition analysis. Non-controlling interests are recognised on the acquisition date either at fair value or their proportionate share of the carrying amount of the acquired company's identified assets and liabilities. Acquisitions of non-controlling interests are recognised as transactions affecting the owners' equity.

The financial reports of Group companies are included in the consolidated accounts from the point in time when a decisive influence arises (acquisition date) until this influence ceases. When decisive influence over the Group company ceases but the Group retains an interest in the company, the remaining shares are initially recognised at fair value. The gain or loss that arises is recognised in profit or loss.

Associated companies and joint ventures

Associated companies are companies over which the Group has a significant, but not decisive, influence. Joint ventures are companies that the Group, through a cooperative agreement with one of more parties, shares a decisive influence over. Associated company and joint venture are recognised according to the equity method in the consolidated accounts. See note 21 for further information.

Eliminated transactions

Intra-Group receivables and liabilities, revenue or expenses, and gains or losses that arise from transactions between Group companies are eliminated in their entirety in the preparation of the consolidated accounts.

Gains that arise from transactions with associated companies and joint ventures are eliminated to an extent corresponding to the Group's ownership interest in the company. Losses are eliminated in the same way as gains, but only to the extent that there is no impairment loss.

FOREIGN CURRENCY

Functional currencies are the currencies in each primary economic environment where units of the Group conduct their operations.

Transactions and assets and liabilities in foreign currency

Transactions in foreign currency are recognised in the functional currency at the exchange rate on the transaction day. Monetary assets and liabilities are translated to the functional currency on the closing day at the exchange rate then in effect. Exchange rate differences that arise through these translations are recognised in profit and loss. Non-monetary assets and liabilities recognised at fair value are translated to the functional currency at the rate in effect at the time of valuation at fair value. Changes in exchange rates are then recognised in the same way as other changes in value of the asset or liability.

Translation of financial reports of foreign operations to SEK

Assets and liabilities in operations with a functional currency other than SEK are translated to SEK at the closing day exchange rate. Revenue and expenses in foreign operations are translated to SEK at the average rate. Translation differences that arise through currency translations are recognised directly in other comprehensive income. The amount is recognised separately as a translation reserve in equity.

SIGNIFICANT DIFFERENCES BETWEEN THE GROUP'S AND THE PARENT COMPANY'S ACCOUNTING PRINCIPLES

The Parent Company follows the same accounting principles as the Group with the following exceptions.

Business combinations

Transaction costs are included in the cost of business combinations.

Associated companies and joint ventures

Shares in associated companies and joint ventures are recognised by the Parent Company according to the acquisition cost method. Revenue includes dividends received.

Intangible fixed assets

All development costs are recognised in profit or loss.

Tangible fixed assets

Tangible fixed assets are recognised after revaluation, if necessary.

Investment properties

Investment properties are recognised according to acquisition cost method.

Financial assets and liabilities and other financial instruments

The Parent Company carries financial fixed assets at cost less write-down and financial current assets according to the lowest value principle. If the reason for write-down has ceased, it is reversed. The Parent Company does not apply the rules for setting off financial assets and liabilities.

Derivatives and hedge accounting

Derivatives that are not used for hedging are carried by the Parent Company according to the lowest value principle based on net value of different portfolios. For derivatives used for hedging, recognition is determined by the hedged item. This means that the derivative is treated as an off balance sheet item as long as the hedged item is recognised at cost or is not included on the balance sheet. Receivables and liabilities in foreign currency hedged with forward contracts are valued at the forward rate.

Employee benefits

The Parent Company complies with the provisions of the Law on Safeguarding of Pension Commitments and the regulations of the Swedish Financial Supervisory Authority, since this is a condition for tax deductibility.

Untaxed reserves

The amounts allocated to untaxed reserves constitute taxable temporary differences. Due to the connection between reporting and taxation, the deferred tax liability is recognised in the Parent Company as part of untaxed reserves.

Group contributions and shareholders' contributions

Shareholders' contributions are recognised directly in the equity of the recipient and capitalised in the shares and participating interests of the contributor, to the extent write-down is not required. Group contributions received are recognised through profit or loss in financial income and expenses. Group contributions paid are capitalised in the shares and participating interests of the parent, to the extent write-down is not required.

NOTE 2 ASSUMPTIONS IN THE APPLICATION OF THE ACCOUNTING PRINCIPLES

The Board of Directors and Group Management together have identified the following areas where estimates and assumptions in the application of the accounting principles may have a significant impact on the accounting of the Group's results of operations and financial position and may result in significant adjustments in subsequent financial reports. Developments in these areas are monitored continuously by Group Management and the Board of Directors' Audit Committee.

UNCERTAINTIES IN ESTIMATES AND ASSUMPTIONS

Long-term customer contracts

A majority of all long-term customer contracts contain significant development aspects, which are associated with risks. Before a contract is signed with a customer on delivery of a product or service, a thorough analysis is always made of the prerequisites and risks of the delivery through a project management process established within Saab. In the execution stage, continuous reviews are made of the work in the project according to the same process. An important aspect is to identify risks and assess them and the measures that are taken to mitigate the risks with the help of a risk assessment method.

The Group applies the percentage of completion method to recognise revenue from long-term customer contracts. An estimation of total costs including an estimation of technical and commercial risks is critical in revenue recognition. Changed estimations of the projects' total costs cause retroactive effects that affect sales and revenue recognition. Today several major projects are in an early stage with greater uncertainties in risks to take into consideration in revenue recognition and estimation of total costs. The accounting of long-term customer contracts also affects balance sheet items such as receivables and liabilities from/to customers, accounts receivables, inventories and project loss provisions. Making delivery according to project plan and milestones are important for the cash flow since payments are made upon achievement of milestones or deliveries in projects. See note 5 for more information regarding long-term customer contracts.

Recovery of value of development costs

The Group has invested significant amounts in research and development. The reported amounts in the statement of financial position are primarily due to development projects relating to radar and sensors, electronic warfare systems, Air Traffic

Note 2, cont.

Management, and airborne surveillance systems. Capitalised development costs amount to MSEK 1,652 (1,157). The recognition of development expenditures as an asset on the statement of financial position requires an assumption that the product is expected to be technically and commercially usable in the future and that future economic benefits are likely. Capitalised development costs are amortised over the estimated production volume or linearly over the period of use, up to a maximum of 5 years, with the exception of acquired development costs, where the maximum period of use is 10 years. Projected production volumes and periods of use may later be reassessed, which could necessitate impairment. See note 17 for further information.

Impairment testing of goodwill

In the calculation of cash-generating units' recovery value to determine whether there is a need or impairment of goodwill, assumptions have been made with regard to the calculation of value in use, based on discounted cash flow projections. A significant deviation in the conditions could necessitate impairment of goodwill. The carrying amount for goodwill amounts to MSEK 5,196 (5,045). See note 17 for further information.

Pensions

Saab has two types of pension plans: defined-benefit and defined-contribution. In defined-benefit plans, post-employment compensation is based on a percentage of the recipient's salary. The present value of defined-benefit obligations amounts to MSEK 8,608 (7,742). The value of the pension obligation is determined through a number of actuarial assumptions, because of which the obligation can significantly increase or decrease if the actuarial assumptions change. Changes in actuarial gains and losses directly affect the pension obligation and hence the Group's financial position. See note 34 for further information.

NOTE 3 BUSINESS COMBINATIONS

No significant acquisitions through business combinations were made during 2016.

NOTE 4 SEGMENT REPORTING

OPERATING SEGMENTS

Saab is a leading high-technology company, with its main operations in defence, aviation and civil security. Operations are primarily focused on well-defined areas in defence electronics and missile systems as well as military and commercial aviation. Saab is also active in technical services and maintenance. Saab has a strong position in Sweden and the main part of sales is generated in Europe. In addition, Saab has a local presence in South Africa, Australia, the US and other selected countries globally.

Segment information is presented based on management's view, and operating segments are identified based on internal reporting to the company's chief operating decision maker. Saab has identified the Chief Executive Officer as its chief operating decision maker, while the internal reports used by the CEO to oversee operations and make decisions on allocating resources serve as the basis of the information presented. The segments are monitored at the operating income level. The accounting principles for reportable segments conform to the principles applied by the Group as a whole. Sales of goods and services between segments are made on market terms. As of 1 January 2016, Saab's operations are divided into five business areas and one business unit, which are also operating segments:

- Aeronautics
- Dynamics
- Surveillance
- Support and Services
- Industrial Products and Services
- Saab Kockums

The business areas and the business unit are described below. Complementing the six segments is Corporate, which comprises Group staffs and departments as well as other non-core operations.

Aeronautics

Aeronautics is an innovative provider of world class Air Power Systems and is engaged in development and production of military aviation systems. It also conducts studies of future manned and unmanned aircraft systems and research as preparation for new products and further development of existing products.

Dynamics

Dynamics offers a market-leading product portfolio comprising ground combat weapons, missile systems, torpedoes, unmanned underwater vehicles, systems for training and simulation, signature management systems for armed forces around the world, and niche products for the civil and defence markets.

Surveillance

Business area Surveillance provides efficient solutions for safety and security, for surveillance and decision support, and for threat detection and protection. The portfolio covers airborne, ground-based and naval radar, electronic warfare, combat systems and C4I solutions, and traffic management systems.

Support and Services

Support and Services offers reliable, cost-efficient service and support for all of Saab's markets. This includes support solutions, technical maintenance and logistics as well as products, solutions and services for military and civil missions.

Industrial Products and Services

The business units within Industrial Products and Services are focused on business-to-business (B2B) customers. There is also a minority portfolio containing Saab's ownership interests in companies in various stages of development.

Saab Kockums

The business unit Saab Kockums develops, delivers and maintains world-class solutions for naval environments. The business unit's portfolio includes submarines with the Stirling system for air independent propulsion, surface combatants, mine hunting systems and autonomous vessels. Saab Kockums' unique competence is in signature management, impact strength and advanced stealth technology.

Significant non-recurring items not affecting cash flow

During 2016, no significant non-recurring items not affecting cash flow were recognised. Significant non-recurring items not affecting cash flow in 2015 is a non-recurring item of MSEK 117, attributable to a transfer of assets related to the unmanned helicopter Skeldar to UMS Skeldar AG.

Information on large customers

In 2016, Saab had one customer that accounted for 10 per cent or more of the Group's sales: the Swedish Defence Materiel Administration (FMV). FMV is a customer of all business areas and total sales amounted to MSEK 9,804 (9,252) in 2016.

Information on geographical areas

External sales are distributed to the market where the customer is domiciled, while fixed assets are distributed to the market where the asset is geographically located.

Seasonal variation

A major part of Saab's business is related to large projects where the revenue is recognised by using the percentage of completion method. The costs incurred in these projects are normally lower during the third quarter compared with the other quarters. The fourth quarter is also usually affected by a higher number of deliveries, mainly within Dynamics.

Note 4, cont.

Group	Aeronautics		Dynamics		Surveillance		Support and Services		Industrial Products and Services		Saab Kockums		Corporate		Eliminations		Group	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
MSEK																		
External sales	6,728	5,934	4,786	3,884	7,383	7,031	4,901	5,812	2,510	2,613	2,306	1,846	17	66	-	-	28,631	27,186
Internal sales	410	328	141	125	276	274	180	200	1,095	949	5	1	-	-	-2,107	-1,877	-	-
Total sales	7,138	6,262	4,927	4,009	7,659	7,305	5,081	6,012	3,605	3,562	2,311	1,847	17	66	-2,107	-1,877	28,631	27,186
Operating income before share in income of associated companies and joint ventures	524	509	413	136	449	320	454	549	209	230	135	209	-349	-93	-	-	1,835	1,860
Share in income of associated companies and joint ventures	11	-	34	39	-	-	-	-	-75	-17	-1	19	-7	-1	-	-	-38	40
Operating income	535	509	447	175	449	320	454	549	134	213	134	228	-356	-94	-	-	1,797	1,900
Financial income	-	2	2	2	19	12	1	1	2	-	-	-	152	262	-86	-110	90	169
Financial expenses	-83	-82	-47	-49	-70	-76	-30	-38	-21	-22	-7	-8	-104	-173	86	110	-276	-338
Income before taxes	452	429	402	128	398	256	425	512	115	191	127	220	-308	-5	-	-	1,611	1,731
Taxes ¹⁾	-4	6	-64	-26	-45	-47	-100	-66	-32	-5	-27	-41	-164	-150	-	-	-436	-329
Net income for the year	448	435	338	102	353	209	325	446	83	186	100	179	-472	-155	-	-	1,175	1,402
Assets	7,123	4,556	4,988	4,934	12,748	11,667	5,050	5,137	3,574	3,058	3,332	3,061	20,576	18,847	-16,180	-16,172	41,211	35,088
Of which shares in associated companies and joint ventures	40	29	144	127	4	4	-	-	248	212	24	23	328	207	-	-	788	602
Liabilities	6,659	4,224	2,995	3,077	6,870	6,493	3,804	4,072	2,566	2,117	2,598	2,426	11,139	8,515	-8,721	-8,748	27,910	22,176
Operational cash flow	435	-632	282	-101	1,865	-49	1,243	-637	-54	-15	639	808	-1,807	126	-	-	2,603	-500
Capital employed	2,303	2,186	3,320	3,243	7,206	7,445	2,614	3,389	2,326	2,028	749	647	3,173	1,641	-	-	21,691	20,579
Investments	96	109	84	68	575	524	457	272	130	27	92	26	338	367	-	-	1,772	1,393
Depreciation and amortisation	41	39	75	74	491	500	16	21	36	47	31	34	256	244	-	-	946	959

¹⁾ Current taxes in the Parent Company are reported in Corporate**Geographical areas**

Group	Sweden		Rest of Europe		North America		Latin America		Asia	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
MSEK										
External sales	12,389	11,399	4,981	4,933	2,740	2,477	2,014	1,584	5,107	5,370
as % of sales	43	42	17	18	10	9	7	6	18	20
Fixed assets	12,103	10,949	486	506	690	783	4	3	118	98

Group	Africa		Australia, etc.		Total	
	2016	2015	2016	2015	2016	2015
MSEK						
External sales	495	541	905	882	28,631	27,186
as % of sales	2	2	3	3	100	100
Fixed assets	417	415	121	105	13,939	12,859

Note 4, cont.

Sales by operating segment

MSEK	Parent Company	
	2016	2015
Aeronautics	6,732	5,979
Dynamics	938	729
Surveillance	4,519	4,527
Support and Services	4,356	5,230
Industrial Products and Services	1,443	1,557
Total	17,988	18,022

Sales by geographical market

MSEK	Parent Company	
	2016	2015
Sweden	8,671	8,461
Rest of Europe	3,124	2,770
North America	1,387	1,344
Latin America	1,983	1,424
Asia	2,392	3,552
Africa	273	311
Australia, etc.	158	160
Total	17,988	18,022

NOTE 5

SALES DISTRIBUTION AND OPERATING EXPENSES

ACCOUNTING PRINCIPLES**Sales**

Revenue is measured at the fair value of what is received or will be received after deducting sales tax, returns, discounts or other similar deductions.

Long-term customer contracts

A large part of the Group's operations comprises long-term customer contracts. Long-term customer contracts relate to the development and manufacture of complex systems that stretch over several reporting periods.

For long-term customer contracts where the outcome can be calculated reliably, revenue and expenditures attributable to the assignment are recognised in the consolidated income statement in relation to the assignment's stage of completion, i.e., according to the percentage of completion method.

The stage of completion is based on a determination of the relationship between expenditures incurred for services rendered as of the closing day and estimated total expenditures. Of the estimated total revenue for an assignment, the portion corresponding to the stage of completion is recognised in each period. The stage of completion can also be determined in certain cases based on milestones or deliveries.

An anticipated loss is recognised in profit or loss as soon as it is identified.

Recognised subcontracting revenue for which the customer has not yet been invoiced is recognised as a receivable from that customer. All projects in progress from customers for whom invoiced amounts exceed project expenses and reported profits are recognised as liabilities to those customers.

Sale of goods

The sale of goods includes goods manufactured by Saab and goods purchased for resale, e.g. spare parts and other equipment that are sold separately.

Revenue from the sale of goods is recognised in profit or loss when the significant risks and benefits associated with ownership have been transferred to the buyer, when it is considered likely that payment will be received and the revenue and related expenses can be calculated reliably.

Service assignments

Service assignments refer to the performance of a service on behalf of a customer during a contractual period, e.g., consulting and support services.

Revenue from service assignments rendered on current account is recognised when the services are rendered. Revenue from services rendered as part of fixed-price contracts is recognised in accordance with the principles that apply to long-term customer contracts. Revenue is recognised only if it is likely that the economic benefits will accrue to the Group.

Royalties

Royalties include revenue from outside parties for the use of Saab's assets such as patents, trademarks and software.

Sales by significant source

MSEK	Group		Parent Company	
	2016	2015	2016	2015
Long-term customer contracts	19,160	16,798	12,546	11,356
Sale of goods	3,759	3,606	2,045	2,543
Service assignments	5,703	6,733	3,390	4,120
Royalties	9	49	7	3
Total	28,631	27,186	17,988	18,022

Operating expenses

The income statement is classified according to function as follows:

Cost of goods sold comprises costs for material handling and manufacturing costs, including salary and material costs, purchased services, premises, and the depreciation/amortisation and write-down of intangible and tangible fixed assets other than self-financed capitalised development cost (see below). Customer-financed research and development is recognised in cost of goods sold.

Administrative expenses relate to expenses for the Board of Directors, Group Management and staff functions as well as expenses attributable to business area and business unit managements.

Marketing expenses comprise expenses for the in-house marketing and sales organisation as well as external marketing and selling expenses.

Research and development costs are recognised separately and comprise the cost of self-financed new and continued product development as well as amortisation of capitalised development costs.

Other operating revenue and expenses relate to secondary activities, exchange rate differences on items of an operating nature, changes in the value of derivatives of an operating nature and capital gains/losses on the sale of tangible fixed assets. Also included at the Group level are capital gains/losses on the sale of subsidiaries and associated companies and joint ventures.

Operating expenses classified by the type of cost, excluding other operating income and expenses, are distributed as follows:

MSEK	Group	
	2016	2015
Materials and components	7,497	6,949
Purchased services	2,955	2,654
Personnel costs	11,642	11,248
Depreciation/amortisation and write-downs	932	1,008
Other external costs	3,900	3,789
Total	26,926	25,648

Depreciation/amortisation and write-downs include write-downs and reversal of write-downs on inventory.

NOTE 6 OTHER OPERATING INCOME

MSEK	Group		Parent Company	
	2016	2015	2016	2015
Gain on sale of Group companies	49	245	-	-
Exchange rate gains on operating receivables/liabilities and change in value of derivatives	36	-	28	-
Gain from other operating activities	28	47	-	-
Insurance compensation	15	3	14	3
Government grants	13	16	11	14
Trading results	7	21	7	21
Gain from revaluation of earn out liability	-	16	-	-
Other	53	23	16	16
Total	201	371	76	54

Trading result refers to the result in Saab Treasury from trading in interest rate and currency instruments according to the risk mandate approved by the Board of Directors; see note 38.

Other operating activities consist of results from subsidiaries that fall outside core operations and net rental income from property rentals.

NOTE 7 OTHER OPERATING EXPENSES

MSEK	Group		Parent Company	
	2016	2015	2016	2015
Exchange rate losses on operating receivables/liabilities and change in value of derivatives	-30	-12	-	-16
Loss on sale and disposal of tangible fixed assets	-14	-17	-17	-27
Loss from other operating activities	-4	-	-	-
Other	-22	-19	-21	-4
Total	-70	-48	-38	-47

Other operating activities consist of results from subsidiaries that fall outside core operations.

NOTE 8 LEASE AGREEMENTS**ACCOUNTING PRINCIPLES**

Leasing is classified in the consolidated accounts as either finance or operating leasing. Finance leasing exists when the economic risks and benefits tied to ownership are essentially transferred to the lessee; otherwise it is operating leasing.

Leasing fees for assets obtained via operating leases

Leasing fees refer to premises, computers and cars.

The Group also has a finance lease on a building and an aircraft, see note 18.

MSEK	Group	
	Premises and buildings	Machinery and equipment
Outcome		
2015	391	146
2016	300	147
Contracted		
2017	300	113
2018	252	64
2019	229	19
2020	203	2
2021	182	1
2022 and forward	400	-
Total contracted	1,566	199

MSEK	Parent Company	
	Premises and buildings	Machinery and equipment
Outcome		
2015	306	110
2016	222	110
Contracted		
2017	233	85
2018	200	46
2019	192	13
2020	178	-
2021	167	-
2022 and forward	348	-
Total contracted	1,318	144

NOTE 9 GOVERNMENT GRANTS**ACCOUNTING PRINCIPLES**

Saab receives government grants, mainly various grants from EU related to research and development projects. These are recognised when there is reasonable certainty that the grant will be received and that the Group will meet the conditions associated with the grant. Government grants are systematically recognised in the income statement in the same way and over the same periods as the expenses for which the grants are intended to compensate. Government grants related to assets are recognised in the statement of financial position as a reduction in the asset's carrying amount.

For 2016, MSEK 42 (72) has been received. MSEK 28 (76) has been recognised through profit or loss by reducing research and development expenditures and as other operating income. In the statement of financial position at year-end, MSEK 27 (13) is recognised as prepaid income.

Saab and the Ministry of Enterprise, Energy and Communications have reached an agreement with the National Debt Office to co-finance Saab's participation in the Airbus A380 project. The co-financing is in the form of a royalty loan maximised at MSEK 350. Repayment will take the form of a royalty on each delivery to Airbus. Through 2016, the National Debt Office has paid out a net amount of MSEK 263 (263). The debt as of 31 December 2016 amounted to MSEK 137 (148), which reduces inventory in the financial statements.

No contingent liabilities or contingent assets are reported.

NOTE 10 EMPLOYEES AND STAFF COSTS

The average number of employees in 2016 amounted to 14,890 (14,545), of whom 78 per cent (79) were men. A complete list of the number of employees by country has been sent to the Swedish Companies Registration Office and can be downloaded at www.saabgroup.com, Investor, Financial Data.

Average number of employees¹⁾

	2016	of whom men	2015	of whom men
Parent company				
Sweden	8,460	79%	8,428	79%
Rest of Europe	58	76%	41	83%
North America	17	76%	9	100%
Latin America	5	60%	2	50%
Asia	69	90%	73	89%
Africa	44	91%	31	87%
Parent company, total	8,653	79%	8,584	79%
Group companies				
Sweden	3,610	78%	3,402	78%
Rest of Europe	842	82%	860	81%
North America	615	75%	583	75%
Latin America	19	53%	13	54%
Asia	121	79%	104	76%
Africa	734	72%	684	73%
Australia, etc	296	82%	315	81%
Group companies, total	6,237	77%	5,961	78%
Group, total	14,890	78%	14,545	79%

¹⁾ The average number of employees has been calculated as an average of the number of Full Time Equivalents (FTE). The term Full-Time Equivalents excludes long-term absentees and consultants. Fixed term employees and probationers are however included in the calculation.

Gender distribution of corporate management

	Parent Company	
Share of women, per cent	2016	2015
Board of Directors	30	33
Other senior executives	27	33

Salaries, other remuneration and social security expenses

	2016		2015	
MSEK	Salaries and other remuneration	Social security expenses	Salaries and other remuneration	Social security expenses
Parent Company	4,718	2,350	4,621	2,256
of which pension costs ¹⁾		868		820
Group companies	3,592	982	3,394	977
of which pension costs ²⁾		358		399
Group, total	8,310	3,332	8,015	3,233
of which pension costs ³⁾		1,226		1,219

¹⁾ Of the Parent Company's pension costs, MSEK 14 (13) referred to the Parent Company's Board and President, including deputies and Executive Vice President. The company's outstanding pension obligations for these individuals, amount to MSEK 21 (22), of which MSEK 21 (21) referred to former Board members and President, including deputies and Executive Vice Presidents.

²⁾ Adjustment according to different accounting principles regarding defined-benefit plans between Parent Company and Group. See notes 1 and 34 for more information.

³⁾ Of the Group's pension costs, MSEK 21 (9) referred to the Group's and Group companies' boards and Presidents. The Group's outstanding pension obligations for these individuals amounted to MSEK 28 (28), of which MSEK 21 (21) referred to former board members and Presidents.

Salaries and other remuneration distributed between Board members, President and Executive Vice Presidents and other employees

	2016		2015	
MSEK	Board, President and Executive Vice Presidents	Other employees	Board, President and Executive Vice Presidents	Other employees
Parent Company	30	4,688	27	4,594
Group companies	71	3,521	80	3,314
Group, total	101	8,209	107	7,908

Of the salaries and remuneration paid to other employees in the Group, MSEK 35 (43) referred to senior executives other than Board members and the President.

For information on post-employment benefits, see note 34.

SENIOR EXECUTIVES' BENEFITS

Remuneration to Board members

In accordance with the resolution of the Annual General Meeting, the fees paid to members of the Board, for the term April 2016 – April 2017, amount to SEK 5,960,000 (5,300,000), consisting of SEK 1,430,000 (1,400,000) to the Chairman, SEK 610,000 (600,000) to the Deputy Chairman and SEK 560,000 (550,000) to each of the other members elected by the Annual General Meeting, with the exception of the President.

For audit committee work during the term April 2016 – April 2017, committee chairman Per-Arne Sandström also received a fee of SEK 200,000 (180,000) and committee members Johan Forssell and Joakim Westh each received a fee of SEK 135,000 (120,000).

For remuneration committee work, during the term April 2016 – April 2017, committee chairman Lena Treschow Torell also received a fee of SEK 135,000 (135,000) and committee members Marcus Wallenberg and Sten Jakobsson each received a fee of SEK 80,000 (80,000).

Remuneration to Board members and committee members recognised as cost for fiscal year 2016 is shown in the table below.

Note 10, cont.

Remuneration to the President

The remuneration to the President and CEO consists of a fixed salary. No short-term variable remuneration is paid. The preparation process for compensation issues regarding the President is handled by the Board's Remuneration Committee according to the principles laid down by the Annual General Meeting and then voted on by the Board.

Håkan Buskhe has participated since 1 September 2010 in the Performance Share Plans approved by each Annual General Meeting from 2009 to 2015 and in the Share Matching Plans for 2011–2015.

Outstanding matching rights in the Performance Share Plan and Share Matching Plan 2012 amounted to SEK 75,992 (347,112) as of 31 December 2016 at estimated outcomes and in the Performance Share Plan and the Share Matching Plan 2013 to SEK 2,600,965 (1,477,871) at estimated outcomes. Corresponding figures for the Performance Share Plan and the Share Matching Plan 2014 are SEK 1,392,788 (345,360) at estimated outcomes, and for Saab's Performance Share Plan and the Share Matching Plan 2015 to SEK 478,142 at estimated outcomes.

During the period 1 January through 31 December 2016, Håkan Buskhe received salary and other benefits totalling SEK 16,575,461 (13,673,590), of which other benefits, including share related plans, amounted to SEK 2,964,874 (1,792,923).

Pension terms

The retirement age for the President is 62 years. The President has a defined-contribution pension plan. He may decide himself on the payment term, though this must fall within the provisions of Swedish income tax law. The pension cost for Saab consists of pension premiums amounting to 35 per cent of the fixed salary. Pension premiums are paid as long as the President remains an employee of the company, but not beyond the age of 62.

To this is added the cost of pension premiums according to the ITP plan. The pension commitment is vested.

For 2016, the cost of Håkan Buskhe's pension, including ITP, was SEK 4,808,228 (4,280,797).

Severance terms

If terminated by the company, the President will receive a salary and pension benefits for a period of six months (period of notice). Thereafter he will receive severance pay equivalent to one year of salary, based on his current fixed salary. If the President does not obtain new employment, he will receive an additional six months of severance pay. The severance will be deducted from income received from other employment during the same period. If the President resigns voluntarily, there is a six-month period of notice with salary and pension benefits, but no severance pay. The President's agreement includes a non-compete clause.

Remuneration to other senior executives

The group of other senior executives included 10 (11) individuals at 31 December 2016; specifically, Executive Vice Presidents, Heads of the Business Areas and Heads of Group staffs. At 31 December 2016 Group Management was comprised of Håkan Buskhe (President), Lennart Sindahl, Magnus Örnberg, Görgen Johansson, Micael Johansson, Jonas Hjelm, Ann-Kristin Adolfsson, Ulf Nilsson, Annika Bärems, Dan Jangblad, and Lena Eliasson.

The remuneration paid to other senior executives consists of a fixed salary. No short-term variable remuneration is paid. Compensation issues regarding the other senior executives are prepared by the Head of Group Human Resources and presented to the President, who makes a decision pending the approval of the Compensation Committee and the Board.

Since November 2008, all eligible executives have participated in the Performance Share Plans approved by each Annual General Meeting from 2009 to 2015 and in the Share Matching Plans for 2011–2015. The Performance Share Plan 2012 was concluded in January 2017. Outstanding matching rights in the Performance Share Plan and the Share Matching Plan 2012 amount to SEK 159,722 (714,479) as of 31 December 2016 at estimated outcomes. Corresponding figures for the Performance Share Plans and the Share Matching Plans 2013 and 2014 amount to SEK 3,923,300 (2,245,682) and SEK 2,629,207 (670,135), respectively, at estimated outcomes and for Saab's Performance Share Plan and the Share Matching Plan 2015 to SEK 915,983 at estimated outcomes.

In 2016, other senior executives received salaries and other benefits totalling SEK 41,987,229 (49,480,374), of which other benefits, including share related plans, amounted to SEK 7,204,460 (5,912,308).

Pension terms

As of 1 January 2005, the pension age 62 years is applied to all other senior executives. However, one person has the pension age 60 years and one person has a pension age according to existing law and collective agreement.

In addition to ITP, 9 members of the group (9) are affiliated with the Saab plan, which is defined-contribution and vested. The Saab plan provides pension benefits in addition to ITP or its equivalent on salary levels between 20 and 30 basic amounts as well as on salary segments over 30 basic amounts. The individuals themselves can decide on the payment term, though this must fall within the provisions of Swedish income tax law. Moreover, an insurance policy finances the period between the ages of 60 or 62 years and 65 years.

The pension cost for Saab consists of pension premiums, which are based on a percentage of qualifying salaries. The percentage rate is determined by each executive's time remaining until the pension age, 60 or 62 years, when joining the plan. The aggregate insurance balance should cover a targeted pension from 65 years of approximately 32.5 per cent of salary levels between 20 and 30 basic amounts and approximately 50 per cent of segments over 30 basic amounts of qualifying salaries. Premium payments continue as long as the individuals remain in their positions or as employees of the company.

Pension obligations are vested. In 2016, pension costs for other senior executives, including ITP and its equivalent, amounted to SEK 13,277,774 (14,325,571). Other senior executives are entitled, or obliged if the company so requests, to retire on pension as of the age of 60 or 62 years.

Severance terms and severance pay

If terminated by the company, the group of other senior executives normally receives salary and pension benefits for six months (period of notice). Thereafter 9 senior executives receive severance pay, according to agreement, equivalent to a maximum of 18 months of salary, based on their fixed salary. Severance is paid monthly with the first payment in the month after the employment has ended. Severance is not paid for the period falling after the contractual pension age. Employees hired before 1 January 2005 who have reached the age of 55 are entitled to an additional six months of severance. Together, the term of notice and severance may not exceed 24 months.

The severance will be deducted from income received from other employment during the same period. If they resign voluntarily, there is a six-month period of notice with salary and pension benefits, but no severance pay.

Other benefits

All senior executives have a company car and medical insurance. Several senior executives also have benefits in the form of overnight housing and travel.

Note 10, cont.

Summary of compensation and other benefits during 2016

SEK	Base salary/ Board and committee fee	Variable compensation	Share related plans ³⁾	Other benefits ²⁾	Pension cost	Total	Outstanding matching rights in share related plans at estimated outcomes ³⁾
Chairman of the Board							
Marcus Wallenberg	1,502,500	-	-	-	-	1,502,500 ¹⁾	-
Deputy Chairman							-
Sten Jakobsson	687,500	-	-	-	-	687,500	-
Other Board members							-
Sara Mazur	557,500	-	-	-	-	557,500	-
Johan Forssell	688,750	-	-	-	-	688,750	-
Per-Arne Sandström	752,500	-	-	-	-	752,500 ¹⁾	-
Cecilia Stegö Chilò	557,500	-	-	-	-	557,500 ¹⁾	-
Lena Treschow Torell	692,500	-	-	-	-	692,500 ¹⁾	-
Joakim Westh	688,750	-	-	-	-	688,750 ¹⁾	-
Bert Nordberg	420,000	-	-	-	-	420,000 ¹⁾	-
President and CEO Håkan Buskhe	13,610,587	-	2,751,150	213,724	4,808,228	21,383,689	4,547,886
Other senior executives	34,782,769	-	4,802,000	2,402,460	13,277,774	55,265,003	7,628,211
Total	54,940,856	-	7,553,150	2,616,184	18,086,002	83,196,192	12,176,097

¹⁾ Social security costs are additional, since the fees are invoiced through a limited company. Board members who invoice their Board and Committee fees through a limited company may on their invoices add social security contributions. The social security contributions included in the invoiced amount may not exceed the employer's contribution that the company otherwise would have paid.

²⁾ Including compensation for the additional costs incurred due to the benefits.

³⁾ Share related plans relate to both Share Matching Plans and Performance Share Plans.

Guidelines for remuneration and other benefits for senior executives are described in the administration report.

Summary of compensation and other benefits during 2015

SEK	Base salary/ Board and committee fee	Variable compensation	Share related plans ⁵⁾	Other benefits ³⁾	Pension cost	Total	Outstanding matching rights in share related plans at estimated outcomes ⁵⁾
Chairman of the Board							
Marcus Wallenberg	1,437,500		-	-	-	1,437,500 ²⁾	-
Deputy Chairman							-
Sten Jakobsson	661,250		-	-	-	661,250	-
Other Board members							-
Sara Mazur	532,500		-	-	-	532,500	-
Johan Forssell	652,500		-	-	-	652,500	-
Per-Arne Sandström	712,500		-	-	-	712,500 ²⁾	-
Cecilia Stegö Chilò	532,500		-	-	-	532,500	-
Lena Treschow Torell	667,500		-	-	-	667,500 ²⁾	-
Joakim Westh	652,500		-	-	-	652,500 ²⁾	-
President and CEO Håkan Buskhe	11,880,667		1,707,903	85,020	4,280,797	17,954,387	2,241,391
Other senior executives	43,262,786 ⁴⁾	305,280 ¹⁾	3,817,590 ⁴⁾	2,094,718	14,325,571	63,805,945	3,778,455
Total	60,992,203	305,280	5,525,493	2,179,738	18,606,368	87,609,082	6,019,846

¹⁾ Including remuneration to two senior executives, which, as agreed, was paid in the form of pension premiums.

²⁾ Social security costs are additional, since the fees are invoiced through a limited company. Board members who invoice their Board and Committee fees through a limited company may on their invoices add social security contributions. The social security contributions included in the invoiced amount may not exceed the employer's contribution that the company otherwise would have paid.

³⁾ Including compensation for the additional costs incurred due to the benefits.

⁴⁾ Including estimated remuneration for the senior executives who left Group Management in 2015.

⁵⁾ Share related plans relate to both Share Matching Plans and Performance Share Plans.

Note 10, cont.

SHARE-BASED PAYMENT

ACCOUNTING PRINCIPLES

Share-based payment refers solely to remuneration to employees, including senior executives. Share-based payment settled with the company's shares or other equity instruments is comprised of the difference between the fair value at the time these plans were issued and the consideration received. This remuneration is recognised as staff costs during the vesting period. To the extent the vesting conditions in the plan are tied to market factors (such as the price of the company's shares), they are taken into consideration in determining the fair value of the plan. Other conditions (such as earnings per share) affect staff costs during the vesting period by changing the number of shares or share-related instruments that are expected to be paid.

Saab has a Share Matching Plan where all permanent employees are entitled to participate. The payroll expenses for matching shares in the plan are recognised during the vesting period based on the fair value of the shares. The employees pay a price for the share that corresponds to the share price on the investment date. Three years after the investment date, employees are allotted as many shares as they purchased three years earlier provided that they are still employees of the Saab Group and that the shares have not been sold.

In certain countries, social security expenses are paid on the value of the employee's benefit when matching takes place. During the vesting period, provisions are allocated for these estimated social security expenses. Share repurchases to fulfil the commitments of Saab's Share Matching Plans are recognised in equity.

In addition, a performance-based Share Matching Plan for senior executives entitles them to 2–7 performance shares, depending on the employee category to which they belong. The 2011–2013 plans pay out 1–4 performance shares.

Long-term incentive programme

The Annual General Meeting of Saab has resolved for a number of years to offer a long-term incentive programme consisting of two parts: a Share Matching Plan and a Performance Share Plan. The reason is that the Board considers it important that Saab's employees share a long-term interest in a good value development of the company's shares.

The long-term incentive programme comprises not more than 1,340,000 Series B shares in Saab per year.

Since 2007, Saab offers permanent employees the opportunity to participate in the Share Matching Plan. Employees can withhold up to 5 per cent of their gross base salary to purchase Series B shares on Nasdaq Stockholm during a twelve-month period. Provided that a participant retains the purchased shares for three years after the investment date and is still employed by the Saab Group, the participant will be allotted a corresponding number of Series B shares free of charge. Currently, Share Matching Plans 2013–2016 are in place.

Since 2008, Saab also has a Performance Share Plan for senior Executives and key employees. In the Performance Share Plans for 2011–2013, up to 286 key employees (in each plan), including the President, are able to allocate a maximum of 7.5 per cent of their gross fixed salary to purchase Saab Series B shares during a 12-month period. Investments made under this plan also count as a basis for participation in the Share Matching Plan, up to a maximum of 5 per cent of base salary. In addition to the requirement that the employee remain employed by Saab after three years, earnings per share must grow by an annual average of 5 to 15 per cent during the three-year period to qualify for matching performance shares. The Performance Share Plans 2011–2013 entitle participants to 1–4 performance shares, depending on employee category. The Board may reduce the number of performance shares if the Board considers it reasonable given the company's financial results and position, conditions on the stock market and other circumstances.

In April 2014, Saab's Annual General Meeting resolved to modify the Performance Share Plan to increase interest in the target group. The Performance Share Plan now covers a maximum of 175 key employees, including the President. Participants can also save up to 7.5 per cent of their base salary in this plan to purchase Series B shares during a twelve-month period, while participating in the Share Matching Plan as well. Depending on which category they belong to, participants are entitled to 2–7 performance shares for each purchased share.

Participants are entitled to matching of performance shares, free of consideration, provided that the performance targets are achieved and the participants have retained the purchased shares for three years after the investment date and remain employed by the Saab Group.

The number of performance shares is linked to the performance targets established by the Board of Directors. The terms for the performance matching are based on three independent targets for a one-year performance period: organic

sales growth¹⁾, EBIT margin²⁾ and free cash flow³⁾. The relative apportionment between the targets is as follows: 30 per cent of the allotment is attributable to organic sales growth, 40 per cent to EBIT margin and 30 per cent to free cash flow. The performance targets are established by the Board of Directors with a minimum and a maximum level for each target. The Board of Directors decides on the performance matching after the end of the one-year performance period. If the maximum levels for the performance targets are reached or exceeded, the performance matching will amount to (and not exceed) the maximum of 440,000 shares. If the performance outcome falls short of the maximum level but exceeds the minimum level,

a linear proportionate performance matching will occur. No performance matching will occur if the performance outcome is equal to or below the minimum level.

Before the performance matching is ultimately determined, the Board of Directors will assess whether it is reasonable in relation to the company's financial results and position, conditions in the stock market and other circumstances. If it determines that this is not the case, the Board of Directors will reduce the number of performance shares that will be matched to the lower number of shares it considers appropriate.

Performance shares are allotted three years after the investment. Currently, Performance Share Plans 2013–2016 are in place.

¹⁾ Adjusted for acquisitions and divestments as well as exchange rate differences.

²⁾ Adjusted for acquisitions and divestments as well as non-recurring items.

³⁾ Adjusted for acquisitions and divestments as well as non-recurring items.

Events 2016

2012 Share Matching Plan and Performance Share Plan

In Share Matching Plan 2012, matching took place on three occasions in 2016 and once in January 2017 with a total of 419,991 shares. Consequently, the plan is closed. Following the close of the measurement period for Performance Share Plan 2012, on 31 December 2015, it was determined that the requirement of annual average earnings per share growth of 5 to 15 per cent during the three-year period had not been met, due to which no performance shares were allocated in 2016. The plan is closed.

2013 Share Matching Plan and Performance Share Plan

Matching in the Share Matching Plan will take place on three occasions in 2017 and once in January 2018. Following the close of the measurement period for Performance Share Plan 2013, on 31 December 2016, it was determined that the requirement of annual average earnings per share growth of 5 to 15 per cent during the three-year period had been achieved and totalled approximately 28 per cent. The Board of Directors approved performance matching. Accordingly, participants will receive maximum matching award. Matching in the Performance Share Plan will take place on three occasions in 2017 and once in January 2018.

2014 Share Matching Plan and Performance Share Plan

Matching in the Share Matching Plan will take place on three occasions in 2018 and once in February 2019. After the end of the one-year performance period in Performance Share Plan 2014, on 31 December 2015, it was determined that the annual target had been partly achieved and the Board of Directors approved performance matching as follows. Performance matching will take place on three occasions in 2018 and one occasion in February 2019.

Performance Share Plan 2014	Reported outcome	Outcome performance targets, %		
		Weighted, %	Allotment, %	
Organic sales growth	11 %	73	30	22
EBIT margin ¹⁾	6,7 %	60	40	24
Free cash flow ²⁾	MSEK -807	-	30	-
Total allotment				46

¹⁾ Adjusted for acquisitions and divestments as well as non-recurring items, including restructuring costs related to the reorganisation of the former business area Security and Defence Solutions for the full year 2015.

²⁾ Previously named operating cash flow. Adjusted for acquisitions and divestments of operations, group and associated companies.

2015 Share Matching Plan and Performance Share Plan

Matching in the Share Matching Plan will take place on three occasions in 2019 and once in February 2020. After the end of the one-year performance period in Performance Share Plan 2015, on 31 December 2016, it was determined that the

Note 10, cont.

annual target had been partly achieved and the Board of Directors approved performance matching as follows. Performance matching will take place on three occasions in 2019 and one occasion in February 2020.

Performance Share Plan 2015	Reported outcome	Outcome performance targets, %	Weighted, %	Allotment, %
Organic sales growth	5%	73	30	22
EBIT margin	6,3%	10	40	4
Free cash flow	MSEK 2,359	100	30	30
Total allotment				56

2016 Share Matching Plan and Performance Share Plan

In April 2016, Saab's Annual General Meeting resolved, similar to previous years, to offer employees the opportunity to participate in a long-term incentive programme 2016, consisting of a Share Matching Plan and a Performance Share Plan with terms comparable to the 2015 plans. The Performance Share Plan covers senior executives and key employees and entitles them to 2–7 performance shares, depending on the employee category to which they belong. The plans started in January 2017 and continue to February 2021. The performance period for Performance Share Plan 2016 extends through the calendar year 2017. The two plans comprise a maximum of 1,340,000 shares.

Number of Series B shares purchased and number of participants, Share Matching Plan, 2012–2015

Share Matching Plan	Number of shares	Number of participants
2012	491,142	3,475
2013	389,346	3,781
2014	448,921	4,997
2015	313,439	5,310

Number of Series B shares purchased and number of participants, Performance Share Plan, 2012–2015

Performance Share Plan	Number of shares	Number of participants
2012	72,213	177
2013	53,307	164
2014	48,935	145
2015	35,338	151

Share Matching Plan	2012	2013	2014	2015	Total
Number of matching shares at beginning of the year	435,044	366,269	368,893	-	1,170,206
Allotted during the year (purchased shares)			72,723	313,439	386,162
Early share matching	-7,214	-6,225	-6,974	-1,469	-21,882
Ordinary share matching	-362,812	-	-	-	-362,812
Forfeited matching shares	-7,839	-11,391	-16,687	-4,938	-40,855
Number of matching shares eligible at year-end	57,179	348,653	417,955	307,032	1,130,819
Number of participants, 31 December 2016	2,830	3,300	4,621	5,300	
% of total number of employees	19	22	31	36	
Average remaining maturity, years	-	0.8	1.8	2.8	

Performance Share Plan	2012 ¹⁾	2013	2014	2015	Total
Number of matching shares at beginning of the year	-	51,069	40,278	-	91,347
Allotted during the year (purchased shares)	-	-	7,423	35,338	42,761
Early share matching	-	-1,781	-1,288	-397	-3,466
Ordinary share matching	-	-	-	-	-
Forfeited matching shares	-	-1,554	-2,495	-545	-4,594
Number of matching shares eligible at year-end	-	47,734	43,918	34,396	126,048
Number of participants, 31 December 2015	-	155	135	151	
Average remaining maturity, years	-	0.8	1.8	2.8	

1) The number of matching shares at the beginning of the year for the 2012 Performance Share Plan have been adjusted following that it was determined at the end of the year 2015 that the requirements for performance matching not had been achieved.

Total number of shares eligible at year-end	2012	2013	2014	2015	Total
Share Matching Plan	57,179	348,653	417,955	307,032	1,130,819
Performance Share Plan	-	47,734	43,918	34,396	126,048
Less: Shares included in both plans	-	-47,734	-43,918	-34,396	-126,048
Total	57,179	348,653	417,955	307,032	1,130,819

Recognised expense for above-mentioned plan, including social security expenses, MSEK

	2016	2015
Share Matching Plan 2011	-	30
Share Matching Plan 2012	36	31
Share Matching Plan 2013	35	32
Share Matching Plan 2014	46	16
Share Matching Plan 2015	17	-
Performance Share Plan 2013	6	6
Performance Share Plan 2014	6	2
Performance Share Plan 2015	3	-
Total	149	117

The expense for the share matching plans is included in operating income and is recognised in the balance sheet as equity and accrued expenses (social security expenses). Administrative expenses for the share matching plans amounted to MSEK 4 (7) in 2016.

The expense is based on the share price of the matching shares that are expected to be allotted. The share price is determined at the time of the participants' investment adjusted by the dividend that does not accrue to the employee during the vesting period.

NOTE 11 AUDITORS' FEES AND COMPENSATION

	Group		Parent Company	
MSEK	2016	2015	2016	2015
PwC				
Audit assignments	18	18	10	10
Audit work in excess of the audit assignment	4	2	4	2
Tax advice	1	1	-	-
Other services	-	1	-	-
Other audit firms				
Audit assignments	3	2	-	-
Total	26	24	14	12

Note 11, cont.

Audit assignments refer to expenses for the statutory audit, i.e. the work that was necessary to issue the audit report as well as advice in connection with the audit assignment.

Audit work in excess of the audit assignment relates to expenses for opinions and other assignments associated to a fairly high degree with audits and which are normally performed by the external auditor, including consultations on advisory and reporting requirements, internal control and the review of interim reports.

Other services relate to expenses that are not classified as audit assignments, audit work in excess of the audit assignment and tax advice.

NOTE 12 DEPRECIATION/AMORTISATION AND WRITE-DOWNS

	Group	
MSEK	2016	2015
Depreciation/amortisation		
Capitalised development costs	-311	-323
Other intangible fixed assets	-142	-185
Operating properties	-92	-95
Plant and machinery	-223	-197
Equipment, tools and installations	-178	-159
Total	-946	-959

	Parent Company	
MSEK	2016	2015
Depreciation/amortisation		
Capitalised development costs	-200	-205
Goodwill	-40	-40
Other intangible fixed assets	-96	-116
Buildings	-58	-60
Plant and machinery	-121	-113
Equipment, tools and installations	-116	-107
Total	-631	-641

No write-downs were recognised during 2016 or 2015.

NOTE 13 FINANCIAL INCOME AND EXPENSES

	Group	
MSEK	2016	2015
Interest income on loans receivable	33	9
Financial income from disposals of financial assets available for sale	-	117
Financial income from revaluation and disposal of financial assets and liabilities measured at fair value through profit or loss	48	30
Other financial income	9	13
Financial income	90	169
Interest expenses on loans and financial liabilities	-109	-88
Financial expenses from revaluation and disposal of financial assets and liabilities measured at fair value through profit or loss	-62	-138
Financial expenses related to pensions	-60	-64
Other financial expenses	-45	-48
Financial expenses	-276	-338
Net financial income and expenses	-186	-169

	Result from shares in Group companies		Result from shares in associated companies/joint ventures	
Parent Company MSEK	2016	2015	2016	2015
Dividends	1,131	470	-	-
Group contributions received	276	166	-	-
Capital gain on sale of shares	75	89	-	-
Write-downs	-1,058	-839	-	-
Other	6	47	11	-
Total	430	-67	11	-

	Result from other securities and receivables held as fixed assets		Other interest income and similar profit/loss items	
Parent Company MSEK	2016	2015	2016	2015
Interest income, Group companies	-	-	75	171
Other interest income	-	-	35	5
Capital gain on sale of shares	-	97	-	-
Dividend	1	2	-	-
Translation differences	-14	5	-	-
Net change in value from revaluation of financial assets/liabilities	17	-27	-	-
Other	-20	-24	-	-
Total	-16	53	110	176

	Interest expenses and similar profit/loss items	
Parent Company MSEK	2016	2015
Interest expenses, Group companies	-11	-10
Other interest expenses	-207	-84
Total	-218	-94

NOTE 14 APPROPRIATIONS

	Parent Company	
MSEK	2016	2015
Buildings and land	-2	10
Plant and machinery as well as equipment, tools and installations	-49	-28
Total difference between tax depreciation and depreciation according to plan	-51	-18
Tax allocation reserve	-90	-142
Total	-141	-160

NOTE 15 TAXES**ACCOUNTING PRINCIPLES**

Income taxes are recognised in profit or loss and consist of current tax and deferred tax. When the underlying transaction is recognised in other comprehensive income, such as the revaluation of the net pension obligations, the related tax effect is also recognised in other comprehensive income.

Current tax is the tax paid or received for the current year, applying the tax rates that have been set as of the closing day to taxable income and adjusting for current tax attributable to previous periods.

Deferred tax is calculated according to the balance sheet method based on temporary differences that constitute the difference between the carrying amount of assets and liabilities and their value for tax purposes. Deductible temporary differences are not taken into account in the initial reporting of assets and liabilities in a transaction other than a business combination and which, at the time of the transaction, do not affect either the recognised or taxable result. Moreover, temporary differences are not taken into account if they are attributable to shares in subsidiaries, associated companies, and joint ventures that are not expected to be reversed within the foreseeable future. The valuation of deferred tax is based on how the carrying amounts of assets or liabilities are expected to be realised or settled. Deferred tax is calculated by applying the tax rates and tax rules that have been set as of the closing day.

Deferred tax assets from deductible temporary differences and tax loss carry forwards are only recognised to the extent it is likely that they will be utilised. The value of deferred tax assets is reduced when it is no longer considered likely that they can be utilised. Deferred tax assets are set off against deferred tax liabilities when the receivable and liability refer to the same tax authority.

Tax recognised through profit or loss

Net tax is comprised of current tax and deferred tax. Current tax is calculated based on applicable tax laws in the countries in which parent company and subsidiaries are active and generate taxable income.

MSEK	Group	
	2016	2015
Current tax expense (-)/tax income (+)		
Taxes for the year	-144	-195
Adjustment for taxes related to previous years	3	-13
Total	-141	-208
Deferred tax expense (-)/tax income (+)		
Deferred tax related to temporary differences	-252	-64
Deferred tax related to value of tax loss carry forwards capitalised during the year	21	19
Deferred tax expense due to utilisation of previously capitalised tax value in tax loss carry forwards	-59	-67
Deferred tax related to previous years	-5	-9
Total	-295	-121
Total recognised tax in the Group	-436	-329

The Group's overall deferred tax amounted to MSEK -295 (-121) and current tax expense for the year amounted to MSEK -141 (-208), producing a total recognised tax of MSEK -436 (-329) in the consolidated income statement. The table "Change in deferred tax in temporary differences and tax loss carry forwards" for the Group, on page 109, specifies how deferred tax affects income.

MSEK	Parent Company	
	2016	2015
Current tax expense (-)/tax income (+)		
Taxes for the year	-70	-97
Adjustment for taxes related to previous years	-	-17
Total	-70	-114
Deferred tax expense (-)/tax income (+)		
Deferred tax related to temporary differences	-3	-39
Total	-3	-39
Total recognised tax in the Parent Company	-73	-153

Reconciliation of effective tax

MSEK	Group			
	2016 (%)	2016	2015 (%)	2015
Income before taxes		1,611		1,731
Tax according to current tax rate for the Parent Company	-22.0	-354	-22.0	-381
Effect of other tax rates for foreign operations	-0.4	-7	0.3	5
Non-deductible expenses	-3.8	-61	-2.9	-50
Tax-exempt income	3.5	57	6.9	120
Revaluation of deferred tax assets	-3.7	-60	-	-
Tax on utilisation of previously non-capitalised tax loss carry forwards	-0.4	-6	-	-
Tax related to previous years	-0.1	-2	-1.3	-22
Other	-0.1	-3	-	-1
Reported effective tax	-27.0	-436	-19.0	-329

Capital gains/losses from sale of Group companies, associated companies and other shares have affected tax-exempt income by MSEK 51 (378).

MSEK	Parent Company			
	2016 (%)	2016	2015 (%)	2015
Income before taxes		170		116
Tax according to current tax rate for the Parent Company	-22.0	-37	-22.0	-26
Tax allocated to foreign operations	-5.0	-9	-15.5	-18
Non-deductible expenses	-184.1	-313	-232.8	-270
Tax-exempt income	168.2	286	138.4	161
Reported effective tax	-42.9	-73	-131.9	-153

Note 15, cont.

Change in deferred tax in temporary differences and tax loss carry forwards

Group, MSEK	Intangible fixed assets	Tangible fixed assets	Inventories	Provisions for pensions	Other provisions	Tax allocation reserves	Contingency reserve ¹⁾	Tax loss carry forwards	Other	Total	Tax set-off	Deferred tax assets/liabilities, net
Opening balance 1 Jan 2015	-285	-380	219	759	340	-358	-299	402	210	608		608
Recognised in profit or loss	-19	-83	35	42	-35	-32	-	-48	19	-121		-121
Recognised in other comprehensive income	-	-	-	-183	-	-	-	-	11	-172		-172
Acquisition/divestment of operations	-	-	-	-	-	-	-	-5	-	-5		-5
Translation differences	-5	-3	3	-1	2	-	-	5	6	7		7
Closing balance 31 Dec 2015	-309	-466	257	617	307	-390	-299	354	246	317		317
Of which, deferred tax assets	4	8	258	617	309	-	-	354	414	1,964	-1,613	351
Of which, deferred tax liabilities	-313	-474	-1	-	-2	-390	-299	-	-168	-1,647	1,613	-34
Opening balance 1 Jan 2016	-309	-466	257	617	307	-390	-299	354	246	317		317
Recognised in profit or loss	-87	-6	-30	13	-116	-19	-	-38	-12	-295		-295
Recognised in other comprehensive income	-	-	-	137	-	-	-	-	39	176		176
Acquisition/divestment of operations	-8	2	-	-	-	-	-	1		-5		-5
Translation differences	-5	-4	10	1	3	-	-	20	4	29		29
Closing balance 31 Dec 2016	-409	-474	237	768	194	-409	-299	337	277	222		222
Of which, deferred tax assets	2	7	237	768	195	-	-	337	430	1,976	-1,724	252
Of which, deferred tax liabilities	-411	-481	-	-	-1	-409	-299	-	-153	-1,754	1,724	-30

¹⁾ Attributable to Lansen Försäkrings AB.

The Group's total deferred tax income/expense in the 2016 income statement amounted to MSEK -295 (-121). The Group's total deferred tax income/expense in the statement of comprehensive income amounted to MSEK 176 (-172). The closing balance on 31 December 2016, MSEK 222 (317), consisted of deferred tax assets of MSEK 252 (351) and tax liabilities of MSEK -30 (-34).

The net change in the year's tax loss carry forwards, excluding acquisition/divestment of operations and translation differences, amounted to MSEK -38 (-48), which is the amount of deferred tax on capitalised tax value in tax loss carry forwards, MSEK 21 (19), and deferred tax expense due to utilisation of previously capitalised tax value in tax loss carry forwards, MSEK -59 (-67).

Other numbers in the "Recognised in profit or loss" row in the table above amounted to MSEK -257 (-73), which is the amount of deferred tax related to temporary differences and deferred tax attributable to previous years.

Note 15, cont.

Tax items recognised directly against other comprehensive income

MSEK	Group	
	2016	2015
Provisions for pensions	137	-183
Cash flow hedges	39	11
Total	176	-172

Expiration of recognised and unrecognised tax loss carry forwards in the Group

MSEK Expiration	Recognised tax loss carry forwards	Unrecognised tax loss carry forwards
Unlimited expiration	664	62
2022	28	-
2023	14	-
2031	286	-
2032	5	-
2034	148	-
Total tax loss carry forwards	1,145	62
Recognised deferred tax asset	337	-

At the close of 2016, the Saab Group's unrecognised tax loss carry forwards amounted to MSEK 62 (38). Tax loss carry forwards attributable to the US operations can be utilised through 2034, but expire in part as of 2031.

Parent Company MSEK	Deferred tax assets 31-12-2016	Deferred tax liabilities 31-12-2016	Net
Tangible fixed assets	-	-206	-206
Inventories	95	-	95
Accounts receivable	2	-	2
Provisions for pensions	98	-	98
Other provisions	53	-	53
Long-term liabilities	2	-	2
Accrued expenses and deferred income	44	-	44
Tax assets/liabilities, total	294	-206	88
Set-off	-206	206	-
Tax assets/liabilities, net	88	-	88

Parent Company MSEK	Deferred tax assets 31-12-2015	Deferred tax liabilities 31-12-2015	Net
Tangible fixed assets	-	-214	-214
Inventories	92	-	92
Accounts receivable	2	-	2
Provisions for pensions	93	-	93
Other provisions	86	-	86
Long-term liabilities	1	-	1
Accrued expenses and deferred income	31	-	31
Tax assets/liabilities, total	305	-214	91
Set-off	-214	214	-
Tax assets/liabilities, net	91	-	91

The change in deferred tax assets and liabilities in the Parent Company, Saab AB, has been recognised in profit or loss.

Estimated utilisation dates of recognised deferred tax assets

MSEK	Group	Parent Company
Deferred tax assets expected to be recovered within one year	165	55
Deferred tax assets expected to be recovered after one year	1,811	239

Estimated utilisation dates of recognised deferred tax liabilities

MSEK	Group	Parent Company
Deferred tax liabilities due for payment within one year	146	30
Deferred tax liabilities due for payment after one year	1,608	176

NOTE 16 EARNINGS PER SHARE

	2016	2015
Net income for the year attributable to Parent Company's shareholders (MSEK)	1,133	1,362
Weighted average number of common shares outstanding:		
before dilution (thousands)	106,164	105,715
after dilution (thousands)	106,907	106,450
Earnings per share, before dilution (SEK)	10.67	12.88
Earnings per share, after dilution (SEK)	10.60	12.79

The weighted average number of shares outstanding before dilution refers to the total number of shares in issue less the average number of repurchased treasury shares. The weighted average number of shares outstanding after dilution is based on the effects of all potential shares (Share Matching Plan and Performance Share Plan) that give rise to a dilution effect.

NOTE 17 INTANGIBLE FIXED ASSETS**ACCOUNTING PRINCIPLES****Goodwill**

Goodwill is distributed among cash-generating units and tested annually for impairment in the fourth quarter. Goodwill arising through the acquisition of associated companies and joint ventures is included in the carrying amount of the shares in the associated company and joint venture.

In acquisitions where the cost is less than, on the one hand, the net of the cost of the Group company's shares, the value of non-controlling interests in the acquired company and the fair value of the previously owned interest and, on the other, the carrying amount of the acquired assets and assumed liabilities in the acquisition analysis, the difference is recognised directly through profit or loss.

Research and development

Expenditures for research undertaken in an effort to gain new scientific or technological knowledge are expensed when incurred.

Expenditures for development, where the research results or other knowledge is applied to new or improved products or processes, are recognised as an asset in the statement of financial position from the time when the product or process in the future is expected to be technically and commercially usable, the company has sufficient resources to complete development and subsequently use or sell the intangible asset, and the product or process is likely to generate future economic benefits. The carrying amount includes expenditures for material, direct expenditures for salaries and, if applicable, other expenditures that are considered directly attributable to the asset. Other expenditures for development are recognised in profit or loss as an expense when they arise. Development expenditures are recognised in the statement of financial position at cost less accumulated amortisation and any impairment losses. Customer-financed research and development is recognised in cost of goods sold rather than capitalised.

Other intangible fixed assets

Other acquired intangible fixed assets, which include acquired assets such as trademarks and customer relations, are recognised at cost less accumulated amortisation and any impairment losses.

Amortisation

Amortisation is recognised in profit or loss over the intangible fixed assets' estimated periods of use, provided such periods can be determined. Intangible fixed assets, excluding goodwill and other intangible fixed assets with indeterminate periods of use, are amortised from the day they are available for use. Estimated periods of use and amortisation methods are as follows:

- Patents, trademarks, customer relations and other technical rights: 5–10 years on a straight line basis.
- Capitalised development costs: Self-financed capitalised development costs are amortised on a straight line basis or based on estimated production volume, but over a maximum period of 5 years. Production volume is set using future sales projections according to a business plan based on identified business opportunities. Acquired development costs are amortised on a straight line basis over a maximum of 10 years.
- Goodwill: In the Parent Company, goodwill is amortised over a maximum 20 years. Goodwill is not amortised in the Group.

Periods of use are tested annually and unfinished development work is tested for impairment at least once a year regardless of any indications of diminished value.

Impairment of goodwill and other intangible assets

The carrying amount of intangible fixed assets is tested on each closing day for any indication of impairment. If an indication exists, the asset's recoverable amount is calculated.

For goodwill and other intangible fixed assets with an indeterminate period of use and intangible fixed assets not yet ready for use, recoverable values are calculated annually in the fourth quarter.

The recoverable amount of an asset is the higher of its fair value less selling expenses and value in use. Value in use is measured by discounting future cash flows using a discounting factor that takes into account the risk-free rate of interest plus supplemental interest corresponding to the risk associated with the specific asset.

If essentially independent cash flows cannot be isolated for individual assets, the assets are grouped at the lowest levels where essentially independent cash flows can be identified (cash-generating units). An impairment loss is recognised when the carrying amount of an asset or cash-generating unit exceeds its recoverable value. Impairment losses are charged against the income statement.

Impairment losses attributable to a cash-generating unit (pool of units) are mainly allocated to goodwill, after which they are divided proportionately among other assets in the unit (the pool of units).

Impairment of goodwill is not reversed. Impairment losses from other assets are reversed if a change has occurred in the assumptions that served as the basis for determining recoverable value. Impairment is reversed only to the extent the carrying amount of the assets following the reversal does not exceed the carrying amount that the asset would have had if the impairment had not been recognised, taking into account the depreciation or amortisation that would have been recognised.

MSEK	Group		Parent Company	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Goodwill	5,196	5,045	373	413
Capitalised development costs	1,652	1,157	56	256
Other intangible assets	246	274	116	134
Total	7,094	6,476	545	803

Goodwill

MSEK	Group		Parent Company	
	2016	2015	2016	2015
Acquisition value				
Opening balance, 1 January	5,742	5,712	784	784
Business combinations	35	-	-	-
Translation differences	116	30	-	-
Closing balance, 31 December	5,893	5,742	784	784
Amortisation and write-downs				
Opening balance, 1 January	-697	-697	-371	-331
Amortisation for the year	-	-	-40	-40
Closing balance, 31 December	-697	-697	-411	-371
Carrying amount, 31 December	5,196	5,045	373	413

Acquisitions through business combinations 2016 relates to Phaeros Group BVBA, Nordic Defence Industries A/S, and Watchcom Security Group AS.

Note 17, cont.

Capitalised development costs

MSEK	Group		Parent Company	
	2016	2015	2016	2015
Acquisition value				
Opening balance, 1 January	6,366	5,862	2,010	2,010
Business combinations	16	-	-	-
Internally developed assets	784	524	-	-
Translation differences	36	-20	-	-
Closing balance, 31 December	7,202	6,366	2,010	2,010
Amortisation and write-downs				
Opening balance, 1 January	-5,209	-4,910	-1,754	-1,549
Amortisation for the year	-311	-323	-200	-205
Translation differences	-30	24	-	-
Closing balance, 31 December	-5,550	-5,209	-1,954	-1,754
Carrying amount, 31 December	1,652	1,157	56	256

Acquisitions through business combinations 2016 relates to Phaeros Group BVBA and Nordic Defence Industries A/S.

Other intangible assets

MSEK	Group		Parent Company	
	2016	2015	2016	2015
Acquisition value				
Opening balance, 1 January	1,915	1,847	1,364	1,323
Business combinations	14	5	-	-
Investments	98	70	78	49
Disposals and reclassifications	-77	-9	-34	-7
Translation differences	25	2	-	-1
Closing balance, 31 December	1,975	1,915	1,408	1,364
Amortisation and write-downs				
Opening balance, 1 January	-1,641	-1,463	-1,230	-1,120
Amortisation for the year	-142	-185	-96	-116
Disposals and reclassifications	70	5	34	5
Translation differences	-16	2	-	1
Closing balance, 31 December	-1,729	-1,641	-1,292	-1,230
Carrying amount, 31 December	246	274	116	134

Acquisitions through business combinations 2016 relates to Phaeros Group BVBA and Watchcom Security Group AS.

Amortisation is included in the following lines in the income statement

MSEK	Group		Parent Company	
	2016	2015	2016	2015
Cost of goods sold	141	184	136	156
Marketing expenses	1	1	-	-
Research and development costs	311	323	200	205

Development costs

The significant items in total capitalisation are development costs for radar and sensors, electronic warfare systems, Air Traffic Management (ATM), and airborne surveillance systems.

Development costs are capitalised only in the consolidated accounts. In legal units, all costs for development work are expensed. Capitalised development costs in the Parent Company relate to acquired development costs.

Other intangible fixed assets

Significant items in the carrying amount are attributable to the acquisitions of Ericsson Microwave Systems, Sensis, MEDAV and ThyssenKrupp Marine Systems AB and relate to expenses incurred for customer relations, trademarks, patents and values in the order backlog. Of the carrying amount, MSEK 246, MSEK 96 is attributable to acquired values and MSEK 150 to licenses for operating systems etc.

Impairment tests for goodwill

In connection with business combinations, goodwill is allocated to the cash-generating units, or groups thereof, that are expected to obtain future economic benefits in the form of, for example, synergies from the acquisition. Acquired operations normally have access to knowledge, technology and solutions that will benefit large parts of the Group, and the acquired operations are usually integrated with other operations shortly after acquisition. Consequently, goodwill is allocated to and tested for impairment at the business area level, which also corresponds to the lowest level at which goodwill is monitored in internal governance. For the business area Industrial Products and Services, goodwill refers in its entirety to the business unit and independent consulting company Combitech, so impairment testing is done directly at business unit level.

Goodwill in the Parent Company relates to goodwill arising from the purchase of the net assets of Saab Microwave Systems.

Goodwill is distributed by business area as follows:

MSEK	31-12-2016	31-12-2015
Dynamics	644	648
Surveillance	3,674	3,539
Support and Services	336	336
Industrial Products and Services	324	304
Saab Kockums	218	218
Total goodwill	5,196	5,045

Impairment testing for cash-generating units is based on the calculation of value in use. This value is based on discounted cash flow forecasts according to the units' business plans. Saab's assessment is that this does not cause any impairment.

VARIABLES USED TO CALCULATE VALUE IN USE**Volume/growth**

Growth in the cash-generating units' business plans is based on Saab's expectations with regard to development in each market area and previous experience. It is also based on estimates of cash flows that are distributed over what are often long projects and are dependent on the timing and size of advances and milestone payments. The first five years are based on the five-year business plan formulated by Group Management and approved by the Board. For cash flows after five years, the annual growth rate has been assumed to be 0 (0) per cent.

Operating margin

The operating margin is based on the units' operating income after depreciation and amortisation. Each unit's operating margin is calculated against the backdrop of historical results and Saab's expectations with regard to the future development of markets where the units are active. All business areas have a substantial order backlog of projects that stretch over a number of years. The risks and opportunities affecting the operating margin are managed through continuous cost forecasts for all significant projects. The operating margin is based on current projections of final costs.

Capitalised development costs

In the five-year business plans, consideration is given to additional investments in development considered necessary for certain units to reach the growth targets in their respective markets.

Discount rate

Discount rates are based on the weighted average cost of capital (WACC). The WACC rate that is used is based on a risk-free rate of interest in ten years adjusted for, among other things, market risks. The discount rate is in line with the external requirements placed on Saab and similar companies in the market.

Note 17, cont.

All units have sales of defence materiel, unique systems, products and support solutions in the international market as their primary activity, and their business risk in this respect is considered equivalent.

Recent years' order bookings have increased the share of projects across business areas and changed the composition of the order backlog for certain units, which complicates a differentiation of discount rates between business areas. As a result, Saab has decided to apply a uniform discount rate in the impairment tests. The discount rate (WACC) used in 2016 was 10 per cent (10) pre-tax.

Sensitivity analysis

Group Management believes that reasonable possible changes in the above variables would not have such a large impact that any individually would reduce the recoverable amount to less than the carrying amount.

NOTE 18 TANGIBLE FIXED ASSETS

ACCOUNTING PRINCIPLES

Tangible fixed assets are recognised as an asset in the statement of financial position if it is likely that the future economic benefits will accrue to the Group and the cost of the asset can be reliably estimated.

Tangible fixed assets are recognised at cost after deducting accumulated depreciation and any write-down. Cost includes the purchase price and costs directly attributable to putting the asset into place and condition to be utilised in accordance with the purpose of the purchase. Examples of directly attributable expenditures included in cost are delivery and handling, installation, title and consulting services.

The cost of fixed assets produced by Saab includes expenditures for material, expenditures for employee benefits and, where applicable, other production costs considered directly attributable to the fixed asset. The cost of tangible fixed assets includes estimated costs for disassembly and removal of the assets as well as restoration of the location or area where these assets are found.

The carrying amount of a tangible fixed asset is excluded from the statement of financial position when the asset is sold or disposed of or when no future economic benefits are expected from its use. The gain or loss that arises on the sale or disposal is comprised of the difference between the sales price and the asset's carrying amount less direct selling expenses. Such gains and losses are recognised as other operating income/expenses.

Incremental expenditures

Incremental expenditures are added to cost only if it is likely that the future economic benefits tied to the incremental expenditures will accrue to the Group and the expenditures can be reliably estimated. All other incremental expenditures are recognised as costs in the period they arise.

The determining factor whether an incremental expenditure is added to cost is whether it relates to the replacement of identifiable components, or parts thereof. If so, the cost is capitalised. Even in cases where a new component is created, the expenditure is added to cost. Any undepreciated carrying amount of replaced components, or parts of components, is disposed of and expensed in connection with the replacement. Repairs are expensed as incurred.

Depreciation

Depreciation is booked on a straight-line basis based on the asset's cost less estimated residual value at the end of the period of use, over the asset's estimated period of use. Land is not depreciated. Component depreciation is applied, which means that fixed assets consisting of various components or where significant parts have different periods of use are depreciated as separate assets based on their periods of use.

Estimated periods of use:

- Operating properties/buildings: 20–90 years.
- Plant and machinery: 5–10 years.
- Equipment, tools, installations and computers: 3–10 years.
- Aircraft: 17–25 years.

Each asset's residual value and period of use are estimated annually.

Impairment of tangible assets

The carrying amount of fixed assets, with the exception of assets stated at fair value, is tested on each closing day for any indication of impairment. If an indication exists, the asset's recoverable amount is calculated.

The recoverable amount of an asset is the higher of its fair value less selling expenses and value in use. Value in use is measured by discounting future cash flows using a discounting factor that takes into account the risk-free rate of interest plus supplemental interest corresponding to the risk associated with the specific asset. If essentially independent cash flows cannot be isolated for individual assets, the assets are grouped at the lowest levels where essentially independent cash flows can be identified (cash-generating units). An impairment loss is recognised when the carrying amount of an asset or cash-generating unit exceeds its recoverable value. Impairment losses are charged against the income statement.

Impairment losses are reversed if a change has occurred in the assumptions that served as the basis for determining recoverable value. Impairment is reversed only to the extent the carrying amount of the assets following the reversal does not exceed the carrying amount that the asset would have had if the impairment had not been recognised, taking into account the depreciation or amortisation that would have been recognised.

MSEK	Group		Parent Company	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Operating properties/buildings and land ¹⁾	2,044	2,026	1,467	1,453
Plant and machinery	1,470	1,359	695	599
Equipment, tools and installations	674	546	396	342
Construction in progress	623	541	475	488
Total	4,811	4,472	3,033	2,882

¹⁾ In the Group, the reported amount refers to operating properties. In the Parent Company, the reported amount refers to buildings and land.

Operating properties/buildings and land¹⁾

MSEK	Group		Parent Company	
	2016	2015	2016	2015
Acquisition value				
Opening balance, 1 January	4,898	4,858	2,123	2,087
Investments	112	48	74	39
Reclassifications	-	39	18	40
Divestments	-136	-36	-110	-43
Divestments to companies within the Group	-	-	-17	-
Translation differences	44	-11	-	-
Closing balance, 31 December	4,918	4,898	2,088	2,123
Depreciation and write-downs				
Opening balance, 1 January	-2,872	-2,792	-1,567	-1,521
Depreciation for the year	-92	-95	-58	-60
Divestments	100	19	95	14
Divestments to companies within the Group	-	-	12	-
Translation differences	-10	-4	-	-
Closing balance, 31 December	-2,874	-2,872	-1,518	-1,567
Revaluations				
Opening balance, 1 January	-	-	897	897
Closing balance, 31 December	-	-	897	897
Carrying amount, 31 December	2,044	2,026	1,467	1,453

¹⁾ In the Group, the reported amount refers to operating properties. In the Parent Company, the reported amount refers to buildings and land.

Note 18, cont.

Operating properties include a property leased by Saab Sensis in the US through a financial lease. The financial lease extends through 2025. The carrying amount is MSEK 93. The property is depreciated on a straight-line basis over its period of use through 2025.

Total future minimum lease fees amount to MSEK 119, of which MSEK 13 is due within one year, MSEK 52 after one year but within five years, and MSEK 54 after five years. The present value of future minimum lease fees is MSEK 103.

Plant and machinery

MSEK	Group		Parent Company	
	2016	2015	2016	2015
Acquisition value				
Opening balance, 1 January	4,637	3,936	2,573	2,416
Acquisitions from companies within the Group	-	-	-	14
Investments	326	734	244	199
Reclassifications	-3	22	-24	-5
Divestments	-212	-71	-107	-51
Translation differences	87	16	-	-
Closing balance, 31 December	4,835	4,637	2,686	2,573
Depreciation and write-downs				
Opening balance, 1 January	-3,278	-3,133	-1,974	-1,902
Depreciation for the year	-223	-197	-121	-113
Acquisitions from companies within the Group	-	-	-	-8
Reclassifications	-4	4	-	-
Divestments	209	64	104	49
Translation differences	-69	-16	-	-
Closing balance, 31 December	-3,365	-3,278	-1,991	-1,974
Carrying amount, 31 December	1,470	1,359	695	599

Plant and machinery includes an aircraft which is leased through a finance lease. The finance lease extends through 2020. The carrying amount is MSEK 425. The aircraft is depreciated on a straight-line basis over its period of use. Total future minimum lease payments amount to MSEK 462, of which MSEK 35 is due within one year and MSEK 427 is due later than one year but within five years. The present value of the future minimum lease fees amounts to MSEK 445.

Equipment, tools and installations

MSEK	Group		Parent Company	
	2016	2015	2016	2015
Acquisition value				
Opening balance, 1 January	2,112	2,079	1,283	1,247
Business combinations	2	-	-	-
Investments	292	216	167	138
Reclassifications	6	36	2	28
Divestments	-280	-205	-139	-130
Translation differences	26	-14	-	-
Closing balance, 31 December	2,158	2,112	1,313	1,283
Depreciation and write-downs				
Opening balance, 1 January	-1,566	-1,620	-941	-964
Depreciation for the year	-178	-159	-116	-107
Reclassifications	2	2	2	-
Divestments	272	203	138	130
Translation differences	-14	8	-	-
Closing balance, 31 December	-1,484	-1,566	-917	-941
Carrying amount, 31 December	674	546	396	342

Acquisitions through business combinations 2016 relates to Phaeros Group BVBA, Nordic Defence Industries A/S, and Watchcom Security Group AS.

Construction in progress

MSEK	Group		Parent Company	
	2016	2015	2016	2015
Acquisition value				
Opening balance, 1 January	541	374	488	314
Investments	77	275	-13	235
Reclassifications	-	-103	-	-61
Translation differences	5	-5	-	-
Carrying amount, 31 December	623	541	475	488

Investments in construction in progress refer in 2016 to a net of new investments and reclassifications to other asset classes.

Collateral

On 31 December 2016 property with a carrying amount of MSEK 0 (0) was pledged as collateral for bank loans.

NOTE 19 BIOLOGICAL ASSETS**ACCOUNTING PRINCIPLES**

Biological assets in the form of forests are carried at fair value after deduction of estimated selling expenses. Fair value is based on the valuation of an independent appraiser.

MSEK	Group	
	2016	2015
Living forest		
Carrying amount, 1 January	290	289
Change in fair value	10	10
Less fair value logging	-9	-9
Carrying amount, 31 December	291	290
Of which fixed assets	291	290

On 31 December 2016, biological assets consisted of approximately 371,000 m³ of spruce, 622,000 m³ of pine and 90,000 m³ of hardwood. Forest growth is estimated at 40,000 m³ timber per year. During the year, approximately 26,524 m³ of timber was felled, which had a fair value in the Group, after deduction of selling expenses, of MSEK 9 on the felling date.

The valuation of forests has been done with the help of independent appraisers. The forestry property has been valued according to the market comparison method. In the valuation according to the market comparison method, the environmental impact from a firing range within the property has not been taken into account. An adjustment for the environmental impact has therefore been made by reducing fair value by an amount corresponding to the market value of the size of the firing range (4,457 hectares) less the value of the timber.

NOTE 20 INVESTMENT PROPERTIES**ACCOUNTING PRINCIPLES GROUP**

Investment properties are properties held to earn rental income, for capital appreciation or a combination of both. Investment properties are carried in the statement of financial position at fair value. Fair value has been determined by calculating net rental income, which then serves as the basis of a valuation of fair value.

Information on fair value of investment properties in the Group

MSEK	Group	
	2016	2015
Carrying amount, 1 January	34	33
Revaluation	-1	1
Carrying amount, 31 December	33	34

Investment properties comprise a number of rental properties leased to outside tenants. Leases on offices and production space are normally signed for an initial period of 2–6 years. Prior to expiration, renegotiations are held with the tenant on the rent level and other terms of the agreement, provided the lease has not been terminated.

Fair values have been determined by analysing rental income and expenses for each property, thereby producing a net rental income figure. Net rental income has then served as the basis for a valuation of fair value with a yield of 8 per cent. The yield requirements correspond to the risk in net rental income. Fair value is not based on the valuation of an independent appraiser.

MSEK	Group	
	2016	2015
Effect on net income/net rental income		
Rental income	4	4
Direct costs for investment properties that generated rental income during the year	-2	-2
Effect on net income/net rental income	2	2

NOTE 21 SHARES IN ASSOCIATED COMPANIES AND JOINT VENTURES

ACCOUNTING PRINCIPLES

Associated companies are companies over which the Group has a significant, but not decisive, influence over operating and financial controls, usually through a shareholding of between 20 and 50 per cent of the votes. Joint ventures are companies in which the Group, through a cooperative agreement with one or more parties, shares a decisive influence over operating and financial controls. As of the date that significant influence in an associated company and shared decisive influence in a joint venture arises, the shares in the associated company or joint venture are recognised according to the equity method in the consolidated accounts. The equity method is applied until the date when significant or shared decisive influence ceases.

The equity method means that the carrying amount of the shares in associated companies and joint ventures corresponds to the Group's share of the associated companies' and joint ventures' equity based on an application of the Group's accounting principles as well as Group goodwill and any remaining Group surplus or deficit values. "Share in income of associated companies and joint ventures" in the income statement comprises the Group's share of the net income after tax and the non-controlling interests in associated companies and joint ventures adjusted for any amortisation/depreciation, write-downs or dissolution of acquired surplus and deficit values determined in the same way as for business combinations. Dividends received from associated companies and joint ventures reduce the carrying amount of the investment.

If the Group's share of the accumulated deficit in an associated company or joint venture exceeds the carrying amount of the shares in the Group, the value of the shares is reduced to zero. Losses are also offset against long-term uncollateralised financial balances that in their economic significance represent part of the owner-company's net investment in the associated company or joint venture. Subsequent losses are not recognised as a liability in the consolidated accounts as long as the Group has not issued any guarantees to cover losses arising in the associated company or joint venture.

When significant influence over the associated company or shared decisive influence over the joint venture ceases but the Group retains an interest in the company, the remaining shares are initially recognised at fair value. The gain or loss that arises is recognised in profit or loss.

Associated companies and joint ventures MSEK	Group	
	2016	2015
Carrying amount, 1 January	602	397
Acquisition of associated companies and joint ventures	97	195
Sale of associated companies	-	-6
Share in associated companies' and joint ventures' income ¹⁾	-38	40
New share issues/infusion of capital	102	15
Translation differences and internal gains	41	-14
Dividends	-16	-25
Carrying amount, 31 December	788	602

¹⁾ Share in associated companies' and joint ventures' net income and non-controlling interests.

The Group's associated companies and joint ventures are held for operating purposes, i.e., they are related to operations of the business areas or in the venture portfolio and are therefore recognised in operating income.

In 2016, Saab acquired Akaer Participações S.A., an associated company.

Aggregate net income for Saab's associated companies amounts to MSEK -65 (95) and other comprehensive income to MSEK 65 (-8), producing net comprehensive income of MSEK 0 (86). For Saab's joint ventures, net income amounts to MSEK -16 (17) and other comprehensive income to MSEK 31 (-15), producing net comprehensive income of MSEK 15 (2). Saab's share of income in associated companies and joint ventures amounts to MSEK -38 (40). Shares in associated companies and joint ventures as of 31 December 2016 include goodwill of MSEK 131 (101).

The Group's share of sales, income, assets, liabilities, equity, and the carrying amount of shares in associated companies and joint ventures is as follows.

Note 21, cont.

2016, MSEK	Country	Sales	Income	Assets	Liabilities	Equity	Ownership interest, % ¹⁾	Share in income of associated companies and joint ventures	Carrying amount, shares in associated companies and joint ventures
Associated companies									
Akaer Participações S.A.	Brazil	-	-	561	162	399	25.0	-	100
AVIA SATCOM Co., Ltd	Thailand	187	-	427	48	379	36.6	-	139
FFV Services Private Limited	India	55	19	109	18	91	49.0	9	44
S.N. Technologies SA	Switzerland	77	18	41	-6	47	50.0	9	23
Taurus Systems GmbH	Germany	510	-3	2,070	2,046	24	33.0	-1	8
UMS Skeldar AG	Switzerland	13	-80	352	45	307	47.0	-37	144
Wah Nobel (Pvt) Ltd	Pakistan	131	50	268	54	214	27.2	14	58
Other associated companies, mainly in the ventures portfolio		407	-69	623	379	244		-24	73
Total associated companies		1,380	-65	4,451	2,746	1,705		-30	589
Joint ventures									
Fortis Marine Solutions Pte Ltd	Singapore	1	-2	74	26	48	49.0	-1	25
Gripen International KB	Sweden	-	22	430	350	80	50.0	11	40
Järfälla-Veddesta Holding AB	Sweden	-	-	715	715	-	35.0	-	-
Saab Grintek Technologies Ltd	South Africa	357	-	181	108	73	70.0	-	51
Vricon Inc.	USA	51	-36	273	107	166	50.0	-18	83
Total joint ventures		409	-16	1,673	1,306	367		-8	199
Total		1,789	-81	6,124	4,052	2,072		-38	788

2015, MSEK	Country	Sales	Income	Assets	Liabilities	Equity	Ownership interest, % ¹⁾	Share in income of associated companies and joint ventures	Carrying amount, shares in associated companies and joint ventures
Associated companies									
AVIA SATCOM Co., Ltd	Thailand	201	-	401	55	346	36.6	-	127
FFV Services Private Limited	India	49	18	93	21	72	49.0	9	35
S.N. Technologies SA	Switzerland	41	4	37	9	28	50.0	2	14
Taurus Systems GmbH	Germany	541	58	1,733	1,664	69	33.0	19	23
UMS Skeldar AG	Switzerland	-	-	377	9	368	47.0	-	173
Wah Nobel (Pvt) Ltd	Pakistan	109	28	219	47	172	27.2	8	47
Other associated companies, mainly in the ventures portfolio		374	-13	583	327	256		-5	79
Total associated companies		1,315	95	3,443	2,132	1,311		33	498
Joint ventures									
Fortis Marine Solutions Pte Ltd	Singapore	268	40	122	74	48	49.0	19	24
Gripen International KB	Sweden	-	-	469	411	58	50.0	-	29
Järfälla-Veddesta Holding AB	Sweden	-	-	729	729	-	35.0	-	-
Saab Grintek Technologies Ltd	South Africa	370	-	146	87	59	70.0	-	41
Vricon Inc.	USA	4	-23	125	105	20	50.0	-12	10
Total joint ventures		642	17	1,591	1,406	185		7	104
Total		1,957	112	5,034	3,538	1,496		40	602

¹⁾ The ownership interest of each holding represents both ownership and voting rights.

NOTE 22 PARENT COMPANY'S SHARES IN ASSOCIATED COMPANIES AND JOINT VENTURES

MSEK	Parent Company	
	2016	2015
Accumulated acquisition value		
Opening balance, 1 January	199	135
Acquisitions	199	64
Closing balance, 31 December	398	199
Carrying amount, 31 December	398	199

Specification of Parent Company's (co-owner's) directly owned holdings of shares in associated companies and joint ventures

2016 MSEK	% of votes and capital	Carrying amount
Associated companies		
Akaer Participações S.A., Brazil	25.0	97
Kedtech Holding AB, 556945-3748, Stockholm	23.0	23
Industrikompetens i Östergötland AB, 556060-5478, Linköping	33.0	2
AVIA SATCOM Co Ltd, Thailand	36.6	78
Aerostructures Assemblies India Pvt Ltd	50.0/26.0	4
UMS Skeldar AG, CHE-113.226.140, Switzerland	47.0	56
Combient AB, 556985-1560, Järfälla	25.7	15
Joint ventures		
Vricon Inc., USA	50.0	83
Gripen International KB, 969679-8231, Linköping	50.0	40
Industrigruppen JAS AB, 556147-5921, Stockholm	80.0	-
Järfälla-Veddesta Holdings AB, 559025-4024, Linköping	35.0	-
Total		398

2015 MSEK	% of votes and capital	Carrying amount
Associated companies		
Kedtech Holding AB, 556945-3748, Stockholm	23.0	23
Industrikompetens i Östergötland AB, 556060-5478, Linköping	33.0	2
AVIA SATCOM Co Ltd, Thailand	36.6	78
Aerostructures Assemblies India Pvt Ltd	50.0/26.0	3
UMS Skeldar AG, CHE-113.226.140, Switzerland	47.0	56
Combient AB, 556985-1560, Järfälla	27.5	8
Joint ventures		
Vricon Inc., USA	50.0	-
Gripen International KB, 969679-8231, Linköping	50.0	29
Industrigruppen JAS AB, 556147-5921, Stockholm	80.0	-
Järfälla-Veddesta Holdings AB, 559025-4024, Linköping	35.0	-
Total		199

NOTE 23 RECEIVABLES FROM GROUP COMPANIES

Parent Company MSEK	Long-term receivables from Group companies		Long-term receivables from associated companies and joint ventures	
	2016	2015	2016	2015
Accumulated acquisition value				
Opening balance, 1 January	19	865	288	-
Settled receivables	-19	-1,004	-	-
Additional receivables	49	73	16	288
Translation differences	1	85	7	-
Closing balance, 31 December	50	19	311	288

NOTE 24 FINANCIAL INVESTMENTS

MSEK	Group	
	31-12-2016	31-12-2015
Financial investments held as fixed assets		
Financial assets measured at fair value through profit or loss:		
Shares and participations	25	49
Investments held to maturity:		
Interest-bearing securities	140	141
Total	165	190
Short-term investments held as current assets		
Financial assets measured at fair value through profit or loss:		
Interest-bearing securities	4,542	2,995
Total	4,542	2,995

The fair value of interest-bearing securities held to maturity amounted to MSEK 140 (142). Investments in interest-bearing securities consist of fixed rate bonds, FRN (Floating Rate Notes, bonds with floating interest rate) and Certificate of Deposit.

NOTE 25 OTHER LONG-TERM SECURITIES HOLDINGS

MSEK	Parent Company	
	2016	2015
Accumulated acquisition value		
Opening balance, 1 January	62	287
Acquisitions	-	22
Divestments	-1	-247
Reclassification	-21	-
Closing balance, 31 December	40	62
Accumulated write-downs		
Opening balance, 1 January	-17	-150
Divestments	-	133
Closing balance, 31 December	-17	-17
Carrying amount, 31 December	23	45

Divestment in 2016 relates to repayment of earlier invested capital in Biogeneration Ventures B.V. Reclassification in 2016 relates to Akaer Engenharia S.A. to associated company. Acquisitions in 2015 relate to Akaer Engenharia S.A. and investments in Biogeneration Ventures B.V. Divestments in 2015 relate to Pipavav Defence and Offshore Engineering Co Ltd.

NOTE 26 LONG-TERM RECEIVABLES AND OTHER RECEIVABLES

MSEK	Group	
	31-12-2016	31-12-2015
Long-term receivables held as fixed assets		
Receivables from associated companies, interest-bearing	104	68
Receivables from joint ventures, interest-bearing	284	288
Receivables attributable to pension, interest-bearing	51	49
Other interest-bearing receivables	3	11
Other non interest-bearing receivables	63	28
Total	505	444

MSEK	Group	
	31-12-2016	31-12-2015
Other receivables held as current assets		
Receivables from associated companies, interest-bearing	19	20
Receivables from associated companies, non interest-bearing	33	39
Receivables from joint ventures, interest-bearing	10	10
Receivables from joint ventures, non interest-bearing	10	40
Advance payments to suppliers	37	26
Other interest-bearing receivables	-	18
Other non interest-bearing receivables	490	400
Subtotal	599	553
Receivables from customers		
Assignment revenue	10,538	10,495
Less utilised advance payments	-4,316	-2,946
Subtotal	6,222	7,549
Total	6,821	8,102

Assignment revenue refers to assignment costs incurred and reported gross income less any losses attributable to the work performed. Unutilised advance payments amounted to MSEK 5,161 (1,098).

Costs attributable to assignment revenue amounted to MSEK 8,905 (8,759). Reported gross income amounted to MSEK 1,633 (1,736).

MSEK	Parent Company	
	31-12-2016	31-12-2015
Other long-term receivables		
Interest-bearing receivables	3	11
Non interest-bearing receivables	4	4
Total	7	15

MSEK	Parent Company	
	31-12-2016	31-12-2015
Other receivables held as current assets		
Non interest-bearing receivables	427	396
Subtotal	427	396
Receivables from customers		
Assignment revenue	8,711	9,047
Less utilised advance payments	-3,981	-2,847
Subtotal	4,730	6,200
Total	5,157	6,596

Assignment revenue refers to assignment costs incurred and reported gross income less any losses attributable to the work performed. Unutilised advance payments amounted to MSEK 3,930 (400).

Costs attributable to assignment revenue amounted to MSEK 7,382 (7,561). Reported gross income amounted to MSEK 1,329 (1,486).

MSEK	Parent Company	
	2016	2015
Long-term receivables		
Accumulated acquisition value		
Opening balance, 1 January	15	25
Additional receivables	3	13
Settled receivables	-11	-23
Closing balance, 31 December	7	15

NOTE 27 INVENTORIES

ACCOUNTING PRINCIPLES

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in continuing operations after deducting estimated expenses for completion and expenses incurred in selling.

Cost is calculated by applying the first-in first-out method (FIFO) or the weighted average method and includes expenses to acquire inventory assets and bring them to their present location and condition. For finished and semifinished goods, cost consists of direct manufacturing expenses and a reasonable share of indirect manufacturing expenses as well as expenses to customise products for individual customers. Calculations take into account normal capacity utilisation.

MSEK	Group	
	31-12-2016	31-12-2015
Raw materials and consumables	2,436	2,005
Work in progress	3,174	2,136
Finished goods and goods for resale	1,050	1,102
Total	6,660	5,243

Saab and the Swedish Ministry of Enterprise, Energy and Communications have reached an agreement with the National Debt Office to co-finance Saab's participation in the Airbus A380 project. The co-financing is in the form of a royalty loan maximised at MSEK 350. Repayment will take the form of a royalty on each delivery to Airbus. Through 2016, the National Debt Office has paid out MSEK 263 (263). The debt as of 31 December 2016 amounted to MSEK 137 (148), which reduced inventory in the financial statements.

The Group's cost of goods sold includes inventory write-downs of MSEK 44 (101). The reversal of previous write-downs amounted to MSEK 59 (52).

MSEK	Parent Company	
	31-12-2016	31-12-2015
Raw materials and consumables	1,689	1,350
Work in progress	2,449	1,497
Finished goods and goods for resale	777	776
Advance payments to suppliers	65	45
Total	4,980	3,668

Cost of goods sold for the Parent Company includes inventory write-downs of MSEK 38 (99) after the reversal of previous write-downs of MSEK 51 (49).

NOTE 28 ACCOUNTS RECEIVABLE**ACCOUNTING PRINCIPLES**

Accounts receivable are recognised initially at fair value and subsequently at amortised cost at the amount expected to be received based on an individual valuation. Accounts receivable have a short expected maturity, due to which they are normally recognised at their nominal amount without discounting. Write-downs on accounts receivable are recognised in operating expenses. Saab has trade receivable sales programme with an independent party. When a receivable is sold, the entire credit risk is transferred to the counterparty, because of which the proceeds received are recognised as liquid assets.

The Group's outstanding accounts receivable amounted to MSEK 5,402 (2,913) as of 31 December 2016. Saab has an established programme to sell trade receivables to strengthen its financial position and increase financial flexibility. As of 31 December 2016, no receivables had been sold, compared to MSEK 1,299 as of 31 December 2015. This had a negative impact on cash flow of MSEK 1,299 during 2016 compared to a positive effect of MSEK 228 for 2015. Saab's aim is to utilise this programme in situations where greater financial flexibility is needed.

Defence-related sales accounted for 83 per cent (82) of total sales, where the counterparties in most accounts receivable are nations with high creditworthiness. The Group's receivables are mainly within the EU, which accounted for 47 per cent (49) of the total. Where counterparties' creditworthiness is deemed unsatisfactory, bank or insurance guarantees or guarantees from EKN are secured.

Write-downs of accounts receivable amounted to MSEK 14 (12) as of 31 December 2016, corresponding to 0.3 per cent (0.4) of total accounts receivable.

Accounts receivable in the Parent Company amounted to MSEK 3,184 (1,252). During the year, receivables were written down by MSEK 5 (1). Reversals of previous write-downs amounted to MSEK 4 (1).

Write-downs of accounts receivable

MSEK	Group	
	2016	2015
Write-downs, 1 January	-12	-15
Write-downs for calculated losses	-7	-36
Reversal of previous write-downs	4	21
Actual credit losses	2	17
Translation differences	-1	1
Write-downs, 31 December	-14	-12

Age analysis of the Group's overdue receivables

MSEK	Group	
	31-12-2016	31-12-2015
<30 days	312	283
30 to 90 days	298	153
91 to 180 days	116	74
>181 days	415	340
Accounts receivable overdue	1,141	850
Accounts receivable not overdue	4,261	2,063
Total accounts receivable	5,402	2,913

NOTE 29 PREPAID EXPENSES AND ACCRUED INCOME

MSEK	Group		Parent Company	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Prepaid expenses	481	411	353	353
Capitalised changes in value related to forward contract rollovers	-	-	505	400
Accrued service income	163	227	1	-
Other accrued income	391	324	250	47
Total	1,035	962	1,109	800

Prepaid expenses primarily relate to pension premiums, rents, licenses and insurance.

NOTE 30 LIQUID ASSETS**ACCOUNTING PRINCIPLES**

Liquid assets consist of cash and cash equivalents, immediately accessible balances with banks and similar institutions, and short-term liquid investments with a maturity from acquisition date of less than three months, which are exposed to no more than an insignificant risk of fluctuation in value.

MSEK	Group	
	31-12-2016	31-12-2015
Cash and bank balances	1,102	850
Bank deposits	300	-
Total according to statement of financial position	1,402	850
Total according to statement of cash flows	1,402	850

Bank deposits relate to short-term investments, with a maturity of less than three months. The Group's unutilised account overdraft facility amounted to MSEK 50 (97) at year-end. With regard to the Group's other loan facilities, refer to notes 33 and 38.

NOTE 31 SHAREHOLDERS' EQUITY

The shares in the Parent Company are divided into two series, A and B. Both classes of shares carry equal rights, with the exception that each Series A share is entitled to ten votes and each Series B share one vote. The shares have a quota value of SEK 16.

Outstanding shares at 31 December 2016	Number of shares	Number of shares, %	Number of votes, %
Series A shares	1,907,123	1.8	15.4
Series B shares	104,498,400	98.2	84.6
Total	106,405,523	100.0	100.0

Outstanding shares at 31 December 2015	Number of shares	Number of shares, %	Number of votes, %
Series A shares	1,907,123	1.8	15.5
Series B shares	104,049,942	98.2	84.5
Total	105,957,065	100.0	100.0

Change in number of outstanding shares 2016	Series A	Series B	Total
Number of outstanding shares at 1 January	1,907,123	104,049,942	105,957,065
Early share matching		21,921	21,921
Ordinary share matching		426,537	426,537
Number of outstanding shares at 31 December	1,907,123	104,498,400	106,405,523

In 2016, no Series B shares were repurchased on the market to secure Saab's Share Matching Plans and Performance Share Plans. During the year, 448,458 shares were matched in Saab's Share Matching Plan. Transferred shares correspond to 0.4 per cent of the share capital. A total of 2,744,821 shares are held in treasury. Shares held in treasury have no voting rights.

The dividend to shareholders amounted to MSEK 530 (501), or SEK 5.00 (4.75) per share.

Proposed disposition of earnings 2016

The Board of Directors and the President propose that the unappropriated earnings in the Parent Company at disposal of the Annual General Meeting, amounting to:

SEK	
Retained earnings	4,579,137,019
Net income for the year	97,421,556
Summa	4,676,558,575
be disposed as follows:	
To the shareholders, a dividend of SEK 5.00 per share	558,628,996
Funds to be carried forward	4,117,929,579
Summa	4,676,558,575

Note 31, cont.

Management of the Group's capital

The Group's capital under management consists of equity. The Group's capital management goal is to facilitate continued operating growth and to remain prepared to capitalise on business opportunities. Saab's equity/asset goal is at least 30 per cent.

Net result of cash flow hedges

The net result of cash flow hedges comprises the effective share of the cumulative net change in fair value of a cash flow hedging instrument attributable to hedge transactions that have not yet taken place.

Translation reserve

The translation reserve comprises exchange rate differences that arise from the translation of financial reports from operations that have prepared their reports in a currency other than the currency of the Group's financial reports. The Parent Company and the Group present their financial reports in SEK. The translation reserve at year-end amounts to 525 (153). Of the translation reserve MSEK 0 (0) has been reclassified to gains.

Revaluation reserve

The revaluation reserve comprises the difference between the fair value and carrying amount of operating properties reclassified as investment properties. Of the revaluation reserve, MSEK 0 (0) has been transferred to retained earnings upon the sale of investment properties.

Reserve for available-for-sale financial assets

The reserve comprises changes in the value of available-for-sale financial assets recognised directly against other comprehensive income. When the assets are sold, the cumulative changes in value are reversed to profit or loss. During 2015 a reversal of MSEK 27 was conducted. At year-end 2016 Saab has no assets categorised as available-for-sale financial assets. For more information, see note 38.

PARENT COMPANY**Restricted reserves**

Restricted reserves may not be reduced through profit distributions.

Revaluation reserve

When a tangible or financial fixed asset is revaluated, the revaluation amount is allocated to a revaluation reserve.

Statutory reserve

Provisions to the statutory reserve have previously amounted to at least 10 per cent of net income for the year, until the statutory reserve corresponded to at least 20 per cent of the Parent Company's capital stock. As of 2006 provisions are voluntary and the Parent Company makes no provisions to the statutory reserve.

Unrestricted equity**Retained earnings**

Retained earnings consist of previous year's unrestricted equity after profit distribution and Group contributions paid. Retained earnings together with net income for the year comprise unrestricted equity, i.e., the amount available for distribution to the shareholders.

NOTE 32 INTEREST-BEARING LIABILITIES

MSEK	Group	
	31-12-2016	31-12-2015
Long-term liabilities		
Liabilities to credit institutions	5,107	4,360
Other interest-bearing liabilities	517	512
Total	5,624	4,872
Current liabilities		
Liabilities to credit institutions	-	402
Liabilities to associated companies and joint ventures	239	251
Other interest-bearing liabilities	53	200
Total	292	853
Total interest-bearing liabilities	5,916	5,725

Terms and repayment schedules

Collateral for bank loans amounts to MSEK 0 (0). Of the long-term liabilities, MSEK 5,467 (3,798) falls due between one and five years of the closing day and MSEK 157 (1,073) later than five years of the closing day.

Liabilities to credit institutions consist of Medium Term Notes (MTN) and Schuldschein loans. For more information on financial risk management, see note 38.

The fair value of MTNs and Schuldschein loans exceeds book value by MSEK 136 (24). Saab otherwise considers that there is no significant difference between book and fair value.

NOTE 33 LIABILITIES TO CREDIT INSTITUTIONS

MSEK	Parent company	
	31-12-2016	31-12-2015
Current liabilities		
Overdraft facilities: Available credit/limit	36	100
Short-term portion of bank loans: Unutilised portion	-36	-97
Utilised credit amount	-	3
Credit facilities: Commercial paper	5,000	5,000
Unutilised portion of commercial paper	-5,000	-4,601
Utilised credit amount	-	399
Total	-	402
Long-term liabilities		
Credit facilities: Available credit/limit (revolving credit facility)	6,000	6,000
Unutilised portion of revolving credit facility	-6,000	-6,000
Utilised credit amount	-	-
Credit facility: Medium Term Notes (MTN)	4,150	4,150
Credit facility: Schuldschein (SSD)	957	210
Total	5,107	4,360
Total liabilities to credit institutions	5,107	4,762

In 2009, Saab established a Medium Term Note (MTN) programme with a limit of MSEK 3,000 or an equivalent value in EUR. The limit was extended during 2015 to MSEK 6,000. The MTN programme provides access to financing for up to approximately 5 years, which is an element in diversifying loan maturities. During 2016, MTN loans of MSEK 0 (2,150) were issued.

In December 2015, Saab signed Schuldschein loan agreements amounting to MEUR 100, of which MEUR 23 was settled in 2015 and the remaining MEUR 77 was settled in 2016.

NOTE 34 POST-EMPLOYMENT BENEFITS

The Saab Group's post-employment benefits refers to pensions. These pensions comprise both defined-contribution and defined-benefit plans. A defined-contribution plan is a pension plan according to which the Group pays fixed fees to a separate legal entity that assumes the obligations to employees. Other pension plans are defined-benefit and refer to pension obligations that are retained by the Group, secured through its own pension funds or through insurance.

ACCOUNTING PRINCIPLES GROUP

Defined-contribution plans

Obligations for fees to defined-contribution plans are expensed through the income statement.

Defined-benefit plans

Saab has around ten different types of defined-benefit plans. Defined-benefit plans mainly relate to the Swedish operations, where the ITP2 plan accounts for 91 per cent (91) of the total obligation.

The Group's net obligation for defined-benefit plans is calculated separately for each plan by estimating the future compensation that employees have earned through employment in present and previous periods. This compensation is discounted to present value. Most of the liability is met through provisions to a pension fund. The net obligation on the closing day is estimated as the net of the fair value of the fund assets and the present value of the pension liability.

The discount rate to estimate the obligation at present value is based on the interest rate on the closing day for a first-class mortgage bond with a maturity corresponding to the pension obligation. The calculation is made by qualified actuaries using the Projected Unit Credit Method.

When the compensation terms in a plan are improved, the portion of the increased compensation attributable to the employees' service in previous periods is expensed through the income statement.

If the obligation calculated on the closing day deviates from the estimated obligation, actuarial gains or losses arise and are recognised directly in other comprehensive income. The same interest rate is used to calculate financial income on assets under management as to discount pension liabilities.

If pension obligations are lower than assets under management, this amount is recognised as an asset.

When there is a difference between how the pension cost is determined for a legal entity and for the Group, a liability or receivable is recognised for the special employer's contribution based on this difference.

The following tables provide information on defined-benefit pension plans.

Sweden

The predominant plan in Sweden is the ITP plan under collective agreements between the Confederation of Swedish Enterprise and the Negotiation Cartel for Salaried Employees in the Private Business Sector (PTK). The ITP2 plan, which is based on an employee's final salary, covers individuals born 1978 and before and is a defined-benefit plan, while the ITP1 plan is a defined-contribution plan and covers individuals born 1979 and after.

Saab's defined-benefit pension plans in Sweden are secured either through transfers to the Group's own pension fund, as liabilities in the balance sheet or are funded through insurance mainly with Alecta. The Saab Pension Fund, which secures part of the ITP2 plan, had assets of MSEK 5,579 (5,316) as of 31 December 2016, compared to an obligation of MSEK 7,826 (7,019), calculated according to IAS 19, which means that the solvency margin amounted to 71 per cent (76).

The following applies to the portion of the defined-benefit pension obligation for retirement and family pensions secured through insurance with Alecta. According to a pronouncement by the Swedish Financial Reporting Board, this is a defined-benefit plan for multiple employers. Alecta is unable to provide the information that would allow Saab to report these obligations as a defined-benefit plan, owing to which they are reported as a defined-contribution plan. All newly earned pensions are secured through the pension fund solution. As a result, no additional premiums are paid to Alecta.

The collective funding ratio is calculated as the market value of Alecta's assets as a percentage of the insurance obligations calculated according to Alecta's actuarial methods and assumptions, which differ from IAS 19. The collective funding ratio is normally permitted to range between 125 and 155 per cent. At year-end 2016, Alecta's surplus in the form of the collective funding ratio was 149 per cent (153).

USA

The US has a defined-benefit plan for certain employees and a supplementary plan for individuals in executive positions. The plans are company-specific according to an agreement in 1986 between the employees and the company and include retirement and survivor's pensions. The pension is not vested during the first five years of employment, and the retirement age is 65. Payments corresponding to accrued pensions are made yearly to an external trustee to cover the obligation. Payments during 2016 amounted to MSEK 1 since share funded exceeds the obligations.

Switzerland

Switzerland has a defined-benefit plan that includes all employees and where minimum benefits are prescribed by law. The company is affiliated with a collective foundation for the purpose of insuring its employees' retirement and survivor's pension, and payments are made annually. Provisions for pensions are made by both employer and employees. The employee may elect to receive the full pension as a lump sum at retirement.

Other countries

The pension plans in other countries are of insignificant amounts and are therefore reported together with Sweden below.

Disclosures regarding defined-benefit plans

31-12-2016

MSEK	Group			
	Sweden	USA	Switzerland	Total
Wholly or partially funded obligations				
Present value of defined-benefit obligations	8,110	313	185	8,608
Fair value of assets under management	-5,635	-364	-185	-6,184
Present value of net obligation	2,475	-51	-	2,424
Share funded	69%	116%	100%	72%
Average duration of pension obligation	18	13	16	
The net amount and the special employer's contribution is reported in the following items in the statement of financial position				
Provisions for pensions	2,475	-	-	2,475
Provisions for pensions related to special employer's contribution	594	-	-	594
Long-term receivables	-	51	-	51

31-12-2015

MSEK	Group			
	Sweden	USA	Switzerland	Total
Wholly or partially funded obligations				
Present value of defined-benefit obligations	7,297	288	157	7,742
Fair value of assets under management	-5,368	-337	-144	-5,849
Present value of net obligation	1,929	-49	13	1,893
Share funded	74%	117%	92%	76%
Average duration of pension obligation	18	12	16	
The net amount and the special employer's contribution is reported in the following items in the statement of financial position				
Provisions for pensions	1,929	-	13	1,942
Provisions for pensions related to special employer's contribution	431	-	-	431
Long-term receivables	-	49	-	49

Note 34, cont.

Cost reported in the income statement

2016	Group			
MSEK	Sweden	USA	Switzerland	Total
Current service costs	230	14	7	251
Past service costs	-	-	-10	-10
Net interest expense	63	-3	-	60
Cost of defined-benefit plans in the income statement	293	11	-3	301
Cost of defined-contribution plans				679
Special employer's contribution				246
Total cost of post-employment benefits				1,226

2015	Group			
MSEK	Sweden	USA	Switzerland	Total
Current service costs	230	16	10	256
Past service costs	-	-	-3	-3
Net interest expense	66	-3	-	63
Cost of defined-benefit plans in the income statement	296	13	7	316
Cost of defined-contribution plans				653
Special employer's contribution				250
Total cost of post-employment benefits				1,219

Items included in the statement of cash flow

2016	Group			
MSEK	Sweden	USA	Switzerland	Total
Deposits to pension fund and other funding	-4	-1	-5	-10
Payments	-256	-20	8	-268
Withdrawals	-	20	-8	12
Total impact on cash flow	-260	-1	-5	-266

2015	Group			
MSEK	Sweden	USA	Switzerland	Total
Deposits to pension fund and other funding	-6	-14	-8	-28
Payments	-248	-40	-3	-291
Withdrawals	-	40	3	43
Total impact on cash flow	-254	-14	-8	-276

Estimated payments during 2017 amount to approximately MSEK 288.

Actuarial gains and losses are reported in other comprehensive income.

Actuarial losses related to pensions amounted to MSEK 497 in 2016 primarily due to the following. The return on assets under management was higher than expected due to experience adjustments, which produced an actuarial gain of MSEK 114. The actuarial loss on pension obligations amounted to MSEK 611 due to 50 basis points lower discount rate and experience adjustments. No change has been made in the inflation assumptions. Changes in demographic assumptions have not had a significant effect.

The actuarial loss related to special employer's contribution amounted to MSEK 126 in 2016.

Changes in net obligation for defined-benefit plans reported in the statement of financial position

MSEK	Group	
	2016	2015
Net obligation for defined-benefit plans, 1 January	1,893	2,528
Compensation paid	-268	-291
Deposits to pension fund and other funding	-10	-28
Cost reported in the income statement	301	316
Income (-) /cost (+) reported in comprehensive income	497	-672
Settlement/translation differences	-1	-3
Withdrawals from pension funds	12	43
Net obligation for defined-benefit plans, 31 December	2,424	1,893

Change in pension obligation

MSEK	Group	
	2016	2015
Fair value, 1 January	7,742	8,153
Benefits vested during the year	251	256
Benefits vested previous years	-10	-3
Interest expense	250	207
Pension disbursements	-268	-291
Settlement	-4	-16
Actuarial gain (-)/loss (+)	611	-593
Translation differences	36	29
Fair value, 31 December	8,608	7,742

Change in assets under management

MSEK	Group	
	2016	2015
Fair value, 1 January	5,849	5,625
Financial income	190	146
Withdrawals	-12	-43
Settlement	-4	-18
Contributions	10	28
Actuarial gain	114	79
Translation differences	37	32
Fair value, 31 December	6,184	5,849

Interest expense on the pension obligation less financial income on assets under management is classified as financial expense. Other pension costs are divided by function in the income statement in relation to how payroll expenses are charged to the various functions.

Sensitivity analysis (excluding special employer's contribution)

MSEK	Group	
	Change	Change in obligation
Discount rate	0.25%	-368
	-0.25%	399
Inflation	0.25%	389
	-0.25%	-365
Salaries	0.25%	81
	-0.25%	-76
Life span	+1 year	315

Note 34, cont.

Return on assets under management

MSEK	Group	
	2016	2015
Actual return on assets under management	304	225
Financial income on assets under management	-190	-146
Actuarial result from assets under management during the year	114	79

Governance

The pension fund is governed by the Pension Board, which resumes 4–5 times per year and has the following responsibilities:

- Appoint the members of the Investment Committee
- Appoint the Fund Manager
- Annually establish the Investment Policy
- Decide on strategic (long-term) and tactical (short-term) asset allocation and allow deviations in accordance with the terms of the SAA and TAA mandate
- Annually approve the benchmark indices to track the fund's performance
- Annually approve the stop loss limit

Investment strategy and risk management

The pension fund manages the allocation and investment of assets with an aim to increase the consolidation level over time. Certain risks are accepted in order to achieve the desired return. The investment horizon is long-term and the allocation ensures that the investment portfolio is well diversified.

The Fund's investments are subject to a number of restrictions and limitations, the purpose of which is to limit investment losses. Group Treasury continuously monitors the Fund's management and reports its findings to the Chairman of the Board and the Investment Committee.

Assets under management divided by asset class

Per cent	Group			
	2016	of which listed on an active market	2015	of which listed on an active market
Interest-bearing assets	36	100	40	100
Share-related assets	38	100	37	100
Hedge funds	12	-	13	-
Property	13	-	9	-
Liquid assets	1	-	1	-
Total assets	100	74	100	77

Assumptions for defined-benefit obligations

Per cent	Group				
	2016	2015	2014	2013	2012
Significant actuarial assumptions as of closing day (expressed as weighted averages)¹⁾					
Discount rate, 31 December	2.75	3.25	2.50	4.00	3.00
Future salary increase	2.75	2.75	2.50	3.00	3.00
Future increase in pensions	1.75	1.75	1.50	2.00	2.00
Employee turnover	3.00	3.00	3.00	3.00	3.00

¹⁾ Refers to Sweden since essentially all defined-benefit plans are in Sweden

The following assumptions serve as the basis of the valuation of Saab's pension liability:

Discount rate: The valuation is based on covered Swedish mortgage bonds (AAA). The same discount rate has been used for all future payments. The rate is based on the duration of all cash flows.

Long-term salary increase assumption: The long-term salary increase assumption corresponds to a real salary increase of 1 per cent plus an inflation assumption of 1.75 per cent, rendering a future salary increase of 2.75 per cent.

Long-term inflation assumption: The long-term inflation assumption is based on market pricing of inflation on maturities corresponding to the pension liability's duration. For 2016, the assumption is 1.75 per cent.

Mortality: Mortality is the same assumption recommended by the Financial Supervisory Authority (FFFS 2007:31).

Employee turnover: The employee turnover is assumed to be 3 per cent per year.

ACCOUNTING PRINCIPLES PARENT COMPANY

The parent company's accounting principles differ from IAS 19 in the following ways:

- The calculation does not take into account future salary increases
- The discount rate is determined by PRI
- Changes in the discount rate and other actuarial assumptions are recognised directly in the income statement and balance sheet
- Surplus in the pension plan cannot be recognised as an asset while the deficit should either be expensed or recovered through contributions to the pension fund

Parent Company's pension obligations

Funds allocated for pensions according to the balance sheet correspond to the net present value of existing pension obligations less funds that are secured by Saab's pension fund.

MSEK	31-12-2016	31-12-2015
Pension obligations ITP 2	4,167	4,076
Less funds secured in pension fund	-4,167	-4,076
Total ITP 2 and the book reserve method	-	-
Other pensions	86	74
Other provisions for pensions	67	63
Total	153	137
Of which credit guarantees in PRI Pensionsgaranti	57	52

MSEK	2016	2015
Amount related to pension obligations ITP 2 expected to be settled within 12 months	179	172

NOTE 35 PROVISIONS**ACCOUNTING PRINCIPLES**

A provision is recognised in the statement of financial position when the Group has a legal or informal obligation owing to an event that has occurred and it is likely that an outflow of economic resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where it is important when in time payment will be made, provisions are estimated by discounting projected cash flow at a pre-tax interest rate that reflects current market estimates of the time value of money and, where appropriate, the risks associated with the liability.

Restructuring

A provision for restructuring is recognised when a detailed, formal restructuring plan has been established and the restructuring has either begun or been publicly announced. No provision is made for future operating losses.

A provision is recognised in connection with termination of personnel only if the company is obligated to terminate an employment before the customary time, e.g., when compensation is paid in connection with a voluntary termination offer. In cases where the company terminates personnel, a detailed plan is drafted containing at the minimum the workplaces, positions and approximate number of individuals affected as well as compensation for each personnel category or position and a schedule for the plan's implementation.

Note 35, cont.

Onerous contracts

A provision for an onerous contract is recognised when anticipated benefits are less than the unavoidable costs to fulfil the obligations as set out in the contract.

Guarantees

A provision for guarantees is normally recognised when the underlying products or services are sold if a reliable calculation of the provision can be made. The provision is based on historical data on guarantees for the products or similar products and an overall appraisal of possible outcomes in relation to the likelihood associated with these outcomes. Provision for guarantees is included in other provisions below.

Soil remediation

In accordance with the Group's publicly announced environmental policy and applicable legal requirements, periodic estimates are made of Saab's obligations to restore contaminated soil. Anticipated future payments are discounted to present value and recognised as an operating expense and a provision. Provision for environmental commitments is included in other provisions below.

Provisions for incremental costs for industrial cooperations

Some of Saab's contracts with customers contain requirements on technology and knowledge transfers as well as various forms of industrial cooperation. The related costs are included in the project's expenditures and expensed in relation to the stage of completion. The expenditures are then set against this provision, which can also occur after the delivery of goods and services under the contract. Provision for incremental costs for industrial cooperations is included in other provisions below.

	Group	
MSEK	31-12-2016	31-12-2015
Provisions that are long-term liabilities		
Expenditures for restructuring measures	15	61
Onerous contracts	86	192
Other	710	844
Total	811	1,097
Provisions that are current liabilities		
Expenditures for restructuring measures	39	106
Onerous contracts	84	90
Other	276	252
Total	399	448

	Parent Company	
MSEK	31-12-2016	31-12-2015
Expenditures for restructuring measures	42	119
Onerous contracts	78	91
Other	534	408
Total	654	618

Expenditures for restructuring measures

	Group	Parent Company
MSEK		
Opening balance, 1 January 2016	167	119
Provisions allocated during the year	18	14
Amount utilised during the year	-98	-73
Reversal of unutilised amount	-15	-
Reclassification	-18	-18
Closing balance, 31 December 2016	54	42

Onerous contracts

MSEK	Group	Parent Company
Opening balance, 1 January 2016	282	91
Provisions allocated during the year	49	56
Amount utilised during the year	-127	-78
Reversal of unutilised amount	-13	-2
Reclassification	-24	10
Translation differences and other	3	-
Closing balance, 31 December 2016	170	77

Other provisions

MSEK	Group	Parent Company
Opening balance, 1 January 2016	1,096	408
Provisions allocated during the year	442	312
Amount utilised during the year	-327	-139
Reversal of unutilised amount	-61	-46
Reclassification	-182	-
Translation differences and other	18	-
Closing balance, 31 December 2016	986	535

Total provisions

MSEK	Group	Parent Company
Opening balance, 1 January 2016	1,545	618
Provisions allocated during the year	509	382
Amount utilised during the year	-552	-290
Reversal of unutilised amount	-89	-48
Reclassification	-224	-8
Translation differences and other	21	-
Closing balance, 31 December 2016	1,210	654

Restructuring

Structural costs primarily relate to the costs to adapt resources and changeover costs. The expenditure is expected to fall in 2017–2018.

Onerous contracts

Provisions for onerous contracts on the closing day relate to command and control projects, Helicopter 14 and certain other military projects. The provisions are utilised in pace with the project's completion.

Other provisions

Other provisions primarily relate to provisions for guarantees, incremental costs for industrial cooperations and remaining costs in projects as well as for environmental commitments.

No provision has been made for liability risks associated with the production of civil aircraft or the production of sub-components for civil aircraft.

NOTE 36 OTHER LIABILITIES

MSEK	Group	
	31-12-2016	31-12-2015
Other long-term liabilities		
Liabilities to previous owners and minority owners	112	68
Liabilities related to employees	52	44
Other	38	24
Total	202	136
Of which liabilities due for payment more than five years after closing day	174	112
Other current liabilities		
Value-added tax	191	275
Employee withholding taxes	262	216
Liabilities to associated companies and joint ventures	18	3
Other	224	231
Total	695	725

MSEK	Parent Company	
	31-12-2016	31-12-2015
Value-added tax	55	66
Employee withholding taxes	167	143
Other	290	402
Total	512	611
Of which liabilities due for payment more than five years after closing day	21	14

Saab considers that there is no significant difference between book and fair value.

NOTE 37 ACCRUED EXPENSES AND DEFERRED INCOME

MSEK	Group		Parent Company	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Accrued expenses				
Vacation pay liability	1,074	980	722	700
Accrued project costs	979	715	597	532
Social security expenses	769	696	631	568
Expected invoices	309	433	228	193
Personnel liabilities	234	232	162	159
Claims reserve	92	57	1	10
Royalties and commissions	46	51	33	31
Other	258	332	33	137
Total accrued expenses	3,761	3,496	2,407	2,330
Deferred income				
Liabilities to customers	2,723	3,035	1,501	1,382
Capitalised changes in value related to forward contract rollovers	-	-	198	218
Other	227	18	107	-21
Total deferred income	2,950	3,053	1,806	1,579
Total	6,711	6,549	4,213	3,909

Saab considers that there is no significant difference between book and fair value.

NOTE 38 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

Saab's financial assets and liabilities and contractual obligations give rise to financial risks. These risks are managed to a large extent with various financial instruments.

Group Treasury is responsible for managing the financial risks. The Board of Directors of Saab has established a Group Treasury Policy, which provides an overall description of the management of the financial risks and Treasury operations. The goal is to identify and actively manage the financial risks in order to reduce any negative impact on the Group's results, competitive strength and financial flexibility.

The financial risks are defined as follows:

- Foreign currency risk
- Liquidity risk
- Refinancing risk
- Interest rate risk
- Commodity price risk
- Credit and counterparty risk
- Pension obligations

Group Treasury has a risk mandate expressed as VaR (Value at Risk) of MSEK 50 (50). The mandate is divided between management of the financial risks related to fixed price tenders, electricity trading and trading. Risks are managed through various portfolios and reported daily according to defined risk measures.

Management of the Group's funding and investment of liquid assets, customer financing, guarantees and insurance is centralised in Group Treasury. In certain cases, insurance is managed by the Group's insurance company, Lansen Försäkrings AB.

ACCOUNTING PRINCIPLES**Recognition and valuation of financial assets and liabilities**

A financial asset or liability is recognised in the statement of financial position when the company becomes party to the instrument's contractual terms.

Accounts receivable are recognised in the statement of financial position when an invoice has been sent.

A financial asset is removed from the statement of financial position when the rights in the contract are realised, expire or the company loses control over the asset. The same applies to part of a financial asset. A financial liability is removed from the statement of financial position when the obligation in the agreement has been discharged or otherwise extinguished. The same applies to part of a financial liability.

On each reporting date, Saab evaluates whether there are objective indications that a financial asset or pool of financial assets, which are not recognised at fair value through profit or loss, are in need of write-down. Financial assets and liabilities are offset and recognised as a net amount in the statement of financial position when there is a legal right to a set-off and when the intent is to settle the items with a net amount or to realise the asset and settle the liability at the same time.

Financial instruments are initially recognised at cost, corresponding to the instrument's fair value plus transaction expenses. The same applies to all financial instruments with the exception of those in the category financial assets and liabilities at fair value through profit or loss, where cost excluding transaction expenses equals fair value. The instruments are subsequently recognised at fair value or amortised cost, depending on how they have been classified as follows. The fair value of listed financial assets and liabilities is determined using market prices. Saab also applies various valuation methods to determine the fair value of financial assets and liabilities traded on an inactive market or that are unlisted holdings. These valuation methods are based on the valuation of similar instruments, discounted cash flows or accepted valuation models such as Garman-Kohlhagens. Amortised cost is determined based on the effective interest rate calculated on the acquisition date.

Classification of financial assets and liabilities

The Group's financial assets and liabilities are classified according to the following categories, which determine how each item is valued.

Financial assets and liabilities at fair value through profit or loss:

Assets and liabilities in this category are measured at fair value with changes in value recognised in profit or loss. This category consists of two subgroups: (i) financial assets and liabilities held for trading, and (ii) other financial assets and liabilities

Note 38, cont.

that the company initially chose to measure at fair value through profit or loss. A financial asset is classified as held for trading if it is acquired for the purpose of selling in the near term. Derivatives are always measured at fair value through profit or loss, except when hedge accounting is applied, in which case the portion that refers to effective hedging is recognised in other comprehensive income.

Held-to-maturity investments:

Financial assets in this category refer to non-derivative assets with predetermined or determinable payments and scheduled maturities that the company intends and has the ability to hold to maturity. They are measured at amortised cost.

Loans receivable and accounts receivable:

Loans receivable and accounts receivable are non-derivative financial assets with fixed payments that are not listed on an active market. Receivables arise when the company provides money, goods or services directly to the debtor without the intent to trade its claim. The category also includes acquired receivables. Assets in this category are recognised after acquisition at amortised cost, according to the effective rate method.

Accounts receivable are recognised at the amount expected to be received based on an individual valuation. Accounts receivable have a short maturity, due to which they are recognised at their nominal amount without discounting. Impairment losses on accounts receivable are recognised in operating expenses. Saab has a trade receivable sales programme with an independent party. When a receivable is sold, the entire credit risk is transferred to the counterparty, because of which the proceeds received are recognised as liquid assets. Other receivables are receivables that arise when the company provides money without the intent to trade its claim.

Available-for-sale financial assets:

Available-for-sale financial assets are those assets that are available for sale or are not classified in any of the other categories of financial assets. These assets are measured at fair value. Changes in value are recognised directly in other comprehensive income. When the assets are sold, the cumulative value changes are reversed to profit or loss. Unrealised decreases in value are recognised in other comprehensive income unless the decrease in value is material or has lasted for an extended period, in which case the value is impaired through profit or loss. If the write-down refers to equity instruments such as shares, the write-down is not reversed through profit or loss.

Other financial liabilities:

Liabilities classified as other financial liabilities are initially recognised at fair value, which equals the amount received after deducting transaction expenses. After acquisition, the liabilities are measured at amortised cost, according to the effective rate method. Trade accounts payable are classified in the category other financial liabilities. Trade accounts payable have a short expected maturity and are measured without discounting to their nominal amount.

Hedge accounting

To meet the requirements for hedge accounting there must be an economic relationship between the hedging instrument and the hedged item and the hedging relationship must be effective until the hedge matures.

To cover the Group's risks associated with changes in exchange rates and exposure to interest rates, derivatives, consisting of forward exchange contracts, options and swaps, are utilised. They are recognised initially and in subsequent revaluations at fair value, that is, at each reporting date.

Changes in the fair value of derivatives that do not meet the requirements for hedge accounting are recognised directly in profit or loss. If the underlying hedged items relate to operations-related receivables or liabilities, the effect on earnings is recognised in operating income, while the corresponding effect on earnings related to financial receivables and liabilities is recognised in financial net.

The Group applies hedge accounting to cash flow hedges as follows.

Cash flow hedges

Forward exchange contracts (hedge instruments) entered into mainly to hedge future receipts and disbursements against currency risks and classified as cash flow hedges (primarily related to contracted sales volumes) are recognised in the statement of financial position at fair value. Changes in value are recognised in other comprehensive income and separately recognised in the hedge reserve in equity until the hedged cash flow meets the operating income, at which point the cumulative changes in value of the hedging instrument are transferred to profit or loss to meet the effects on earnings of the hedged transaction.

When the hedged future cash flow refers to a transaction that will be capitalised in the statement of financial position, the hedge reserve is dissolved when the hedged item is recognised in the statement of financial position. If the hedged item is a non-financial asset or liability, the reversal is included in the original cost of the asset or liability. If the hedged item is a financial asset or liability, the hedge reserve is dissolved gradually through profit or loss at the same rate that the hedged item affects earnings.

When a hedging instrument expires, is sold, terminated or exercised, or the company otherwise revokes the designation as a hedging relationship before the hedged transaction occurs and the projected transaction is still expected to occur, the recognised cumulative gain or loss remains in the hedge reserve in equity and is recognised in the same way as above when the transaction occurs.

If the hedged transaction is no longer expected to occur, the hedging instrument's cumulative gains and losses are immediately recognised in profit or loss in accordance with principles described above for derivatives.

FINANCIAL INSTRUMENTS

Financial instruments within the Group mainly consist of liquid assets, accounts receivable, shares, loans receivable, bonds receivable, derivatives with positive market values, certain accrued income and other receivables. The liability side includes trade accounts payable, loans payable, derivatives with negative market values, certain accrued expenses and other liabilities.

The following table shows a subdivided statement of financial position categorised and classified according to IAS 39.

Classification and categorisation of financial assets and liabilities¹⁾

	Carrying amount	
	31-12-2016	31-12-2015
Financial assets		
Financial investments at fair value through profit or loss	25	49
Investments held to maturity ²⁾	140	141
Long-term receivables	505	444
Derivatives identified as hedges	1,225	972
Derivatives at fair value through profit or loss for trading	65	86
Accounts receivable and other receivables	12,740	11,540
Short-term investments at fair value	4,542	2,995
Liquid assets	1,402	850
Total financial assets	20,644	17,077
Financial liabilities		
Interest-bearing liabilities ³⁾	5,916	5,725
Derivatives identified as hedges	1,862	1,561
Derivatives at fair value through profit or loss for trading	93	53
Other liabilities	6,284	5,486
Total financial liabilities	14,155	12,825

¹⁾ Derivates with positive values are recognised as assets and derivatives with negative values are recognised as liabilities. Derivatives with a legal right of offset amount to MSEK 1,121.

²⁾ Fair value (Level 1) 2016: MSEK 140; 2015: MSEK 142.

³⁾ Fair value (Level 2) 2016: MSEK 6,052; 2015: MSEK 5,749.

Valuation of financial instruments at fair value are divided into the following three valuation levels:

Level 1

According to listed (unadjusted) prices on an active market on the closing date:

- Bonds and interest-bearing securities
- Electricity derivatives
- Interest rate forwards

Level 2

According to accepted valuation models based on observable market data:

- *Forward exchange contracts:* Future payment flows in each currency are discounted by current market rates to the valuation day and valued in SEK at period-end exchange rates.
- *Options:* The Garman-Kohlhagens option-pricing model is used in the market valuation of all options.

Note 38, cont.

- *Interest rate swaps and cross currency basis swaps:* Future variable interest rates are calculated with the help of current forward rates. These implicit interest payments are discounted to the valuation date using current market rates. The market value of interest rate swaps is obtained by contrasting the discounted variable interest payments with the discounted present value of fixed interest payments.

Level 3

According to accepted principles, e.g. for venture capital firms:

- *Unlisted shares and participations*

As of 31 December 2016, the Group had the following financial assets and liabilities at fair value:

Assets at fair value

MSEK	2016	Level 1	Level 2	Level 3
Bonds and interest-bearing securities	4,542	4,542	-	-
Forward exchange contracts	1,230	-	1,230	-
Currency options	13	-	13	-
Cross currency basis swaps	29	-	29	-
Electricity derivatives	18	18	-	-
Shares and participations	25	-	-	25
Total	5,857	4,560	1,272	25

Liabilities at fair value

MSEK	2016	Level 1	Level 2	Level 3
Forward exchange contracts	1,820	-	1,820	-
Currency options	11	-	11	-
Interest rate swaps	113	-	113	-
Electricity derivatives	11	11	-	-
Total	1,955	11	1,944	-

FINANCIAL RISK MANAGEMENT**Foreign currency risk**

Foreign currency risk refers to the risk that fluctuations in exchange rates will negatively affect income or net assets.

Economic exposure

Income is affected when sales and the cost of goods and services sold are in currencies other than the functional currency. Foreign currency risk also arises when fixed-price tenders are issued in foreign currency.

Outstanding fixed-price tenders in foreign currency are usually managed in a special portfolio, the tender portfolio. The following table shows outstanding nominal net hedges for the most predominant currencies as of year-end.

Net hedges (million)	Forward contracts		Options		Total hedge	
	2016	2015	2016	2015	2016	2015
USD	-23	-21	-55	-40	-78	-61
EUR	-18	-4	-	-22	-18	-26
GBP	-5	-4	-15	-	-20	-4
DKK	20	7	-	-	20	7
CZK	-178	-	-	-	-178	-
TWD	-	-231	-	-	-	-231

The tender portfolio's external hedges are measured in relation to the benchmark in order to allocate VaR. The benchmark corresponds to the external hedge that would optimally be done to entirely eliminate the exchange rate risk that a tender gives rise to in relation to the likelihood that a business contract is received. If the two correspond, the tender portfolio will by definition be risk-neutral – i.e. its VaR measure will be zero.

In 2016, about MSEK 34, expressed as VaR, was allocated to the tender portfolio, and at year-end VaR amounted to MSEK 7 (4). Hedge accounting is not applied to the portfolio's hedges, due to which the Group's result is affected by the outcome of the tenders and the exchange rate for the underlying currency pair. The portfolio's effect on the Group's result in 2016 was MSEK -11 (-118).

Translation exposure

Comprehensive income is affected when the results and net assets of foreign subsidiaries are translated to SEK. The value of net assets exposed to transaction exposure amounted to MSEK 5,055 (4,469) at year-end; see the following table.

Net assets translated to SEK

MSEK	31-12-2016	31-12-2015
USD	2,181	2,041
EUR	768	730
AUD	616	531
ZAR	314	175
GBP	310	354
CHF	194	232
Other currencies	672	406
Total	5,055	4,469

The effect on net assets of a change in exchange rates of +/- 10 per cent would be a change in value of MSEK 506.

Foreign currency risk due to translation effects on the net assets of foreign subsidiaries is not hedged.

Transaction exposure

Contracted flows in the order backlog are exposed to transaction exposure. Saab hedges the currency exposure in the order backlog with currency derivatives (mainly forward exchange contracts), which means that changes in exchange rates do not affect the Group's future results with respect to the current order backlog. To reduce the transaction exposure, amounts in foreign currency are netted as well. Hedges are normally arranged for each specific contract. The average forward rate is then used as the contract's rate for revenue recognition.

In 2016, countries outside Sweden accounted for 57 per cent (58) of Saab's sales. Since a large share of production takes place in Sweden with expenses denominated in SEK, Saab has a large net exposure in foreign currencies.

The predominant contract currencies in the order backlog of SEK 107.6 billion (113.8) are SEK, USD, EUR and GBP. Of the total order backlog, 62 per cent (69) is in fixed prices with or without indexing, while the remaining 38 per cent (31) contains variable prices with index and/or currency clauses.

In the event the cash flow is far in the future, an extension strategy can be applied, the currency hedge can be shifted to an earlier date than when the cash flow is expected and hedge accounting for that time period is then applied to changes in the spot price.

Impairment of unprofitable contracts in foreign currency that are not hedged against foreign currency risk is based on the valuation of future cash flows at the spot rate. These contracts mainly refer to anticipated future orders as part of long-term commercial aircraft programmes in USD.

Framework agreements contain both transaction and economic exposure and mainly apply to the various commercial aircraft programmes.

Hedge accounting according to IAS 39 is applied to derivatives intended to hedge the transaction exposure. The market value of existing hedges of the order backlog and framework agreements amounted to MSEK -564 (-495). Currency sensitivity, i.e. the effect of a change in exchange rates of +/- 10 per cent, would affect the market value of derivatives by +/- MSEK 362. The inefficiency in the cash flow hedges that affected net income for the year amounted to MSEK 0 (0).

Note 38, cont.

The following table shows the cash flows for derivatives recognised as cash flow hedges, expressed in millions in local currency.

Million	EUR			GBP			USD		
	Outflow	Inflow	Net	Outflow	Inflow	Net	Outflow	Inflow	Net
2017	-76	192	116	-40	48	8	-382	507	125
2018	-29	76	47	-19	19	-	-267	273	6
2019	-24	34	10	-21	8	-13	-183	200	17
2020	-120	34	-86	-48	3	-45	-247	422	175
2021	-	4	4	-23	1	-22	-332	397	65
2022 and forward	-	4	4	-54	2	-52	-233	214	-19
Total flows 2016	-249	344	95	-205	81	-124	-1,644	2,013	369
Total flows 2015	-285	421	136	-203	95	-108	-1,875	2,555	680

Currency exposure

The Group's total outstanding currency derivatives related to all currency risks are shown in the following table.

The Group's outstanding derivatives

Currency derivatives			Fair value 2016			2015	
Million	Currency	Local currency	Asset SEK	Liability SEK	Net	Local Currency	Net
Maturity up to 1 year	EUR	-131	49	57	-8	-159	-2
	GBP	-30	54	21	33	-17	13
	USD	-620	264	838	-574	-874	-395
	Other		31	54	-23		11
Subtotal			398	970	-572		-373
Maturity 1 to 3 years	EUR	-61	17	38	-21	-128	4
	GBP	14	25	19	6	-11	19
	USD	-97	405	455	-50	-288	-366
	Other		6	5	1		-14
Subtotal			453	517	-64		-357
Maturity 3 to 5 years	EUR	82	1	6	-5	65	-29
	GBP	65	7	54	-47	62	40
	USD	-135	294	198	96	-30	241
	Other		1	1	-		-
Subtotal			303	259	44		252
Maturity over 5 years	EUR	-4	-	1	-1	-5	-1
	GBP	53	1	84	-83	77	-40
	USD	185	88	-	88	122	61
	Other		-	-	-		-
Subtotal			89	85	4		20
Currency derivatives, total¹⁾²⁾			1,243	1,831	-588		-458

¹⁾ Retained premiums on open currency contracts amount to MSEK -12 (-1).

²⁾ Of which derivatives used as cash flow hedge MSEK -554 (-506).

The Parent Company's outstanding derivatives

Currency derivatives			Fair value 2016			2015	
Million	Currency	Local currency	Asset SEK	Liability SEK	Net	Local Currency	Net
	EUR	4	77	105	-28	-51	-22
	GBP	104	78	182	-104	103	26
	USD	-547	1,067	1,488	-421	-888	-240
	Other		47	62	-15	-	4
Currency derivatives, Parent Company total			1,269	1,837	-568		-232

Note 38, cont.

Liquidity risk

Liquidity risk refers to the risk of not being able to meet payment obligations due to insufficient liquidity. The company consistently maintains unutilised credit facilities or liquid assets corresponding in value to MSEK 3,000, adjusted for loans with maturity dates within 12 months and never less than the lower of:

- 10 per cent of sales (total sales)
- 50 per cent of outstanding on-demand guarantees for the three largest commitments.

Liquidity risk is minimised by diversifying financing sources and maturities. For maturity analysis of the Group's financial liabilities, see tables for each class of derivatives in this note as well as information on interest-bearing liabilities in note 32. The Group's other financial liabilities include accounts payable with credit terms normally within 30–90 days as well as other operating liabilities which are classified as current.

Saab has access to the following credit facilities:

Loan facilities MSEK	Facility	Utilised	Available
Revolving credit facility (maturity 2022)	6,000	-	6,000
Overdraft facility (maturity 2017)	50	-	50
Total confirmed credit facilities	6,050	-	6,050
Commercial paper	5,000	-	5,000
Medium Term Notes (MTN)	6,000	4,150	1,850
Total loan programmes	11,000	4,150	6,850
Total loan facilities	17,050	4,150	12,900

Saab has two revolving credit facilities with an equivalent value of MSEK 6,000 divided between eight banks. Both facilities have a term of five years to 2022. Saab also has a commercial paper programme with a limit of MSEK 5,000 (5,000) and a Medium Term Note (MTN) programme with a limit of MSEK 6,000 (6,000). As of 31 December 2016, MSEK 0 (400) in commercial paper and MSEK 4,150 (4,150) in MTN had been issued.

In addition to these credit facilities, as part of efforts to diversify funding sources, Saab has borrowed MEUR 100 under a Schuldschein documentation. In addition, Saab has an established programme for the sale of trade receivables with a framework of MSEK 1,475, of which MSEK 0 (1,299) was utilised at 31 December 2016. Saab's aim is to utilise this programme in situations where greater financial flexibility is needed.

No financial covenants are attached to any of Saab's credit facilities.

Refinancing risk

Refinancing risk refers to the risk that Saab cannot replace maturing loans with either new loans or its own funds. To minimise this risk, Saab maintains a diversified loan maturity structure; see the table under funding. Capital is tied up in Saab's loan portfolio for an average in the range of 24 – 60 months.

Interest rate risk

Interest rate risk refers to the risk that Saab will be negatively affected by changes in interest rate levels. Interest rate futures and swaps are used to manage interest rate risks and achieve the desired interest rate duration. Lending to subsidiaries in foreign currency is normally financed in SEK and converted to the subsidiary's currency through swaps. Interest rate risk and foreign currency risk is managed with cross currency basis swaps.

Saab is exposed to interest rate risk when the market value of certain items in the statement of financial position is affected by changes in underlying interest rates. The item with the largest exposure is pension obligations due to the liability's long duration.

Changes in market rates affect Saab's net financial items.

Loan portfolio

The loan portfolio consists of loans and interest rate derivatives. The portfolio's average duration falls in the range of 12 – 48 months (0 – 60). As of year-end, the duration was 29 months (42).

The interest rates on long-term floating-rate funding are primarily hedged at fixed rates through interest rate swaps. In its reporting, Saab applies cash flow hedging, which means that changes in the value of interest rate swaps are recognised in other comprehensive income and separately recognised in the hedge reserve in equity. The change in value is recognised in financial income and expenses when transferred to profit or loss. Inefficiency affecting net income for the year amounted to MSEK 0 (0).

Financing (refers to utilised credit facilities)

MSEK (Nom) Maturities	Fixed interest ¹⁾	Tied-up capital
1 year	1,387	-
2 years	1,150	1,350
3 years	1,575	1,575
4 years	425	425
5 years and forward	539	1,726
Total	5,076	5,076

¹⁾ Effects of derivative agreements entered are included in the fixed interest.

Investment portfolio

The investment portfolio consists of investments in interest-bearing securities and interest rate derivatives. The portfolio's average duration falls in the range of 3–24 months (0–24). As of year-end, the duration was 9 months (12).

Investments in interest-bearing securities and bank deposits

MSEK (Nom) Maturities	Fixed interest ¹⁾	Tied-up capital
1 year	3,736	1,622
2 years	80	370
3 years	690	1,780
4 years	470	1,020
5 years and forward	-	184
Total	4,976	4,976

¹⁾ Effects of derivative agreements entered are included in the fixed interest.

Forward exchange contracts

Forward exchange contracts used to hedge commercial currency flows contain an interest component. In certain cases, Saab may decide to shift the hedge to an earlier date than when the cash flow is expected. This primarily refers to very long-term customer contracts, which then generate an interest rate risk. The underlying cash flows that are exposed to extensions through forward exchange contracts amounted to MUSD 276 (331) at year-end.

Interest rate derivatives

The table below shows the Group's outstanding interest rate derivatives.

Interest rate derivatives			Fair value 2016		2015	
Million	Currency	Local currency	Asset SEK	Liability SEK	Net	Local Currency Net
Maturity up to 1 year	SEK		-	-	-	-
Subtotal			-	-	-	-
Maturity 1 to 3 years	SEK	2,225	-	87	-87	750
Subtotal			-	87	-87	-
Maturity 3 to 5 years	SEK	1,125	-	26	-26	1,900
	EUR ²⁾	80	27	-	27	-
Subtotal			27	26	1	-40
Maturity over 5 years	SEK		-	-	-	400
	EUR ²⁾	20	2	-	2	100
Subtotal			2	-	2	1
Interest derivatives, total ¹⁾³⁾			29	113	-84	-82

¹⁾ Market value includes accrued interest of MSEK -5 (-5).

²⁾ Refers to cross currency basis swaps (CCY).

³⁾ Of which derivatives used for cash flow hedges MSEK -111 (-73).

Commodity price risk

Commodity price risk refers to the risk that Saab will be negatively affected by changes in commodities. Purchasing costs for material are managed primarily through contract clauses with customers and suppliers. Purchasing costs for electricity are managed through hedging instruments. Electricity derivatives are managed through a discretionary management mandate. The market value of electricity derivatives as of year-end was MSEK 7 (-16). Hedge accounting is applied to electricity derivatives in the Stockholm price area (SE3). Inefficiency affecting net income for the year amounted to MSEK 0 (0).

Note 38, cont.

The Group's outstanding electricity derivatives

Electricity derivatives		Fair value 2016			2015	
Million	Mega-watt	Asset SEK	Liability SEK	Net	Mega-watt	Net
Maturity up to 1 year	19	14	10	4	19	-11
Subtotal		14	10	5		-11
Maturity 1 to 3 years	11	4	1	3	12	-5
Subtotal		4	1	3		-5
Electricity derivatives, total ¹⁾		18	11	7		-16

¹⁾ Of which derivatives used for cash flow hedges MSEK 7 (-15).**Credit and counterparty risks**

Credit risk is the risk that the counterparty in a transaction will not be able to fulfil the financial obligations of a contract. In the course of its day-to-day operations, Saab is exposed to credit risks as a result of transactions with counterparties in the form of customers, suppliers and financial players. The Group's aggregate credit risks consist of commercial credit risks and financial credit risks.

Commercial credit risks

Commercial credit risks consist of outstanding accounts receivable and advances paid to suppliers. This type of credit risk is identified and managed on a case-by-case basis. Credit risks that arise in customer contracts are managed by utilising available banking or insurance products. In some cases, export credit institutions may be used as well. Commercial credit risks that arise through advances paid to suppliers are managed by maintaining bank-guaranteed collateral. At 31 December 2016, the Group had paid advances to suppliers of MSEK 47 (32).

Accounts receivable represent a commercial credit risk. Where counterparties' creditworthiness is deemed unsatisfactory, bank or insurance guarantees or guarantees from EKN are secured to ensure that payment will be received. Since accounts receivable are generally secured through bank or insurance guarantees or are attributable to states, the commercial credit risk is low. For more information on the Group's accounts receivable, see note 28.

Financial credit risks

Financial credit risk consists of exposures to financial institutions through deposits, securities investments and/or the market value of outstanding derivatives.

The Group's policy for managing financial credit risks is to ensure that all financial counterparties have a long-term credit rating of no lower than A- from Standard and Poor's or A3 from Moody's.

Each financial counterparty is assigned a credit limit based on its long-term credit rating.

Saab has entered into ISDA master agreements with financial counterparties to net the positive and negative market values of outstanding derivatives; see the tables below. During the year, Saab signed a CSA contract with a counterparty that gives Saab a unilateral right to collateral.

Market value of financial assets and liabilities subject to netting arrangements

	Gross amount	Set-off	Net amount in balance sheet	Master netting arrangements	Collateral received/assets pledged	Net amount
2016						
Currency derivatives	1,243	-	1,243	-1,121	-	122
Interest rate derivatives	-	-	-	-	-	-
CCY ¹⁾	29	-	29	-	-	29
Electricity derivatives	18	-	18	-	-	18
Assets	1,290	-	1,290	-1,121	-	169
Currency derivatives	1,831	-	1,831	-1,121	-	710
Interest rate derivatives	113	-	113	-	-	113
CCY ¹⁾	-	-	-	-	-	-
Electricity derivatives	11	-	11	-	-	11
Liabilities	1,955	-	1,955	-1,121	-	834

¹⁾ Cross currency basis swaps.

	Gross amount	Set-off	Net amount in balance sheet	Master netting arrangements	Collateral received/assets pledged	Net amount
2015						
Currency derivatives	1,048	-	1,048	-893	-	155
Interest rate derivatives	5	-	5	-5	-	-
CCY ¹⁾	1	-	1	-	-	1
Electricity derivatives	4	-	4	-	-	4
Assets	1,058	-	1,058	-898	-	160
Currency derivatives	1,506	-	1,506	-893	-	613
Interest rate derivatives	83	-	83	-5	-	78
CCY ¹⁾	5	-	5	-	-	5
Electricity derivatives	20	-	20	-	-	20
Liabilities	1,614	-	1,614	-898	-	716

¹⁾ Cross currency basis swaps.

Credit risk is calculated on established and anticipated risks pursuant to the recommendations of the Bank of International Settlements (BIS I). On 31 December 2016, credit risks amounted to MSEK 4,890 (3,129), of which deposits with banks, mortgage institutions, companies and the Swedish government totalled MSEK 5,126 (3,079).

Hedge reserve

The hedge reserve before tax amounted to MSEK -990 (-696), of which the unrealised value of derivatives was MSEK -658 (-594) and the realised effects arising from rollovers of derivatives was MSEK -332 (-102).

The change in the hedge reserve in 2016 of MSEK -294 consists of a reversal to profit or loss of MSEK 462, change in the value of existing derivatives of MSEK -314, the market value of hedges obtained during the year of MSEK -269, and change that arose due to derivative rollovers of MSEK -173. For information on the amount recognised in other comprehensive income, see consolidated net comprehensive income.

The inefficiency in cash flow hedges that affected net income for the year amounted to MSEK 0 (0).

Trading

Proprietary trading is permitted to a limited extent in fixed income and currency instruments. The main purpose of this trading is to gain access to qualitative market information and maintain a high level of market expertise.

The Board of Directors has issued a risk mandate for trading in fixed income and currency instruments. In 2016, MSEK 15 was allocated to trading, expressed as VaR. If the cumulative result for the year is negative, the mandate is reduced correspondingly. In 2016, trading income was MSEK 7 (21), which is reported as other operating income. The average utilised risk mandate (VaR) during the year was MSEK 1 (2).

Pension obligation

The Saab Pension Fund was established in 2006 to secure the main part of the Group's pension obligation.

The fund has a long-term real yield requirement of 3 per cent per year. The investment policy requires an asset distribution of a maximum of 55 per cent equities/alternative investments (hedge funds), 30-100 per cent interest-bearing instruments, and 15 per cent property. Investments are made in interest-bearing securities from issuers with a credit rating of no lower than BBB according to Standard & Poor's and Baa according to Moody's. Of the fund's capital at year-end, 48 per cent (51) was invested in interest-bearing assets and property and the remaining 52 per cent (49) in equities and alternative investments. The market value of the fund's assets as of 31 December 2016 was MSEK 5,579 (5,316) and the annual return was 5 per cent (4). In 2016, the fund was capitalised by MSEK 0 (0) and MSEK 0 (0) in refunds was paid. The table below shows the solvency margin for the pension fund.

MSEK	31-12-2016	31-12-2015	31-12-2014	31-12-2013
Fair value of assets under management	5,579	5,316	5,091	4,595
Present value of defined-benefit obligations ¹⁾	7,811	7,006	7,416	5,785
Solvency margin	71%	76%	69%	79%
Pension obligation according to PRI	5,369	5,237	5,106	4,736
Solvency margin	104%	102%	100%	97%

¹⁾ Refers to the pension obligation that the assets under management are designed to cover.

NOTE 39 ASSETS PLEDGED AND CONTINGENT LIABILITIES

ACCOUNTING PRINCIPLES

A contingent liability exists if there is a possible commitment stemming from events whose occurrence is dependent on one or more uncertain future events and there is a commitment that is not recognised as a liability or provision because it is unlikely that an outflow of resources will be required or the size of the obligation cannot be estimated with sufficient reliability. Information is provided as long as the likelihood of an outflow of resources is not extremely small.

MSEK	Group		Parent Company	
	31-12-2016	31-12-2015	31-12-2016	31-12-2015
Assets pledged for own liabilities and provisions				
Bonds and other securities	-	15	-	15
Other assets	2	2	-	-
Total	2	17	-	15
Contingent liabilities				
Guarantees to insurance company, PRI Pensionssgaranti	107	105	107	105
Guarantees for Group companies' commitments to customers	-	-	4,123	4,643
Sureties for joint ventures	8	8	-	-
Sureties for associated companies	6	6	-	-
Total	121	119	4,230	4,748

In the ordinary course of business, Saab is occasionally involved in disputes and legal proceedings arising as a result of the company's operations worldwide. These disputes and legal proceedings are not expected, either individually or collectively, to have any significant negative effect on Saab's financial result or position.

The table below shows the total sum of guarantees that do not represent contingent liabilities and a distribution by category and issuer.

MSEK	31-12-2016	Per cent of total	31-12-2015	Per cent of total
Parent Company guarantees	1,467	7	1,432	10
Bank guarantees	18,359	93	12,826	90
Total guarantees	19,826	100	14,258	100
Bank guarantees:				
On demand	18,093	99	12,476	97
Proprietary	266	1	350	3
Total bank guarantees	18,359	100	12,826	100
Type of guarantee:				
Advances	10,577	53	5,175	36
Completion	5,689	29	5,957	42
Tenders, credits and other	3,560	18	3,126	22
Total guarantees	19,826	100	14,258	100

With regard to the Group's so-called fulfilment guarantees for commitments to customers, the likelihood of an outflow of resources is extremely small and, as a result, no value is recognised in the table of contingent liabilities.

NOTE 40 TRANSACTIONS WITH RELATED PARTIES

The Group's financial agreements conform to market principles. Saab has not had any significant transactions with Investor, Board members or members of Group Management. For information on remuneration, see note 10.

Of the Parent Company's sales, 6 (5) per cent referred to sales to Group companies, while 17 (13) per cent of the Parent Company's purchases were from Group companies.

Sales to and purchases from the Group's associated companies and joint ventures amounted to approximately MSEK 212 (249) and MSEK 85 (135), respectively. For information on receivables from and liabilities to associated companies and joint ventures, see notes 26 and 36.

NOTE 41 GROUP COMPANIES

Significant Group company holdings

Group company	Group company's registered office, country	Ownership share, per cent	
		2016	2015
Combitech AB	Växjö, Sweden	100	100
Combitech Oy	Finland	100	100
HITT N.V.	The Netherlands	100	100
Saab Australia Pty Ltd	Australia	100	100
Saab Barracuda AB	Västervik, Sweden	100	100
Saab Barracuda LLC	USA	100	100
Saab Czech s.r.o.	Czech Republic	100	100
Saab Defense and Security USA LLC	USA	100	100
Saab Dynamics AB	Karlskoga, Sweden	100	100
Saab Danmark A/S	Denmark	100	100
Saab Grintek Defence (Pty) Ltd	South Africa	75	75
Saab Kockums AB	Malmö, Sweden	100	100
Saab Medav Technologies GmbH	Germany	100	100
Saab Seaeeye Ltd	UK	100	100
Saab Sensis Corporation	USA	100	100

Total ownership of non-controlling interests amounted to MSEK 145 (61). No non-controlling interests are considered material.

MSEK	Parent Company	
	2016	2015
Accumulated acquisition value		
Opening balance, 1 January	18,413	17,560
New issues/shareholders' contributions	6	924
Acquisitions	87	195
Sales and liquidations	-5	-266
Closing balance, 31 December	18,501	18,413
Accumulated write-downs		
Opening balance, 1 January	-11,596	-10,796
Write-downs for the year	-1,058	-839
Sales and liquidations	1	39
Closing balance, 31 December	-12,653	-11,596
Carrying amount, 31 December	5,848	6,817

Write-down reversals and write-downs for the year are reported in the income statement on the line "Result from shares in Group companies".

Note 41, cont.

Specification of Parent Company's holdings of shares in Group companies**31-12-2016**

Group company/Corp. ID no./Registered office	No. of shares	Share, per cent	Carrying amount, MSEK
Celsius AB, 556194-4652, Linköping, Sweden	5,000	100.0	144
Celsius Invest AB, 556164-6588, Stockholm, Sweden	1,720,000	100.0	158
Combitech AB, 556218-6790, Växjö, Sweden	100,000	100.0	1,064
Curans Consulting NV, Belgium	-	100.0	15
EMC Services Elmiljöteknik AB, 556315-6636, Mölndal, Sweden	2,000	100.0	3
Fastighets AB Linköping Malmen 27, 556354-6349, Linköping, Sweden	20,000	100.0	4
Fastighets AB Stensholm-Huskvarna, 556030-2746, Jönköping, Sweden	150,000	100.0	42
Fastighets AB Tannefors 1:114, 559043-3206, Linköping, Sweden	500	100.0	6
FFV Ordnance AB, 556414-8194, Karlskoga, Sweden	100,000	100.0	10
HITT N.V., The Netherlands	-	100.0	290
Kockums Holdings AB, 556036-4100, Linköping, Sweden	48,000	100.0	5
Lansen Försäkrings AB, 516401-8656, Linköping, Sweden	500,000	100.0	51
Nordic Defence Industries A/S, Denmark	-	100.0	22
Phaeros Group BVBA, Belgium	-	100.0	15
Saab Aircraft Leasing Holdings AB, 556124-3170, Linköping, Sweden	30,000	100.0	4
Saab Airport AB, 556366-8333, Linköping, Sweden	5,000	100.0	3
Saab Asia Pacific Co. Ltd, Thailand	-	100.0	12
Saab Barracuda AB, 556045-7391, Västervik, Sweden	200,000	100.0	93
Saab Canada Inc., Canada	-	100.0	1
Saab Czech s.r.o., Czech Republic	-	100.0	25
Saab Danmark A/S, Denmark	-	100.0	103
Saab Digital Air Traffic Solutions AB, 559060-0747, Linköping, Sweden	295	59.0	35
Saab Dynamics AB, 556264-6074, Karlskoga, Sweden	500,000	100.0	357
Saab France S.A.S, France	-	100.0	-
Saab India Technologies Private Limited, India	-	100.0	-
Saab International AB, 556267-8994, Stockholm, Sweden	50,000	100.0	14
Saab Kenya Ltd, Kenya	-	100.0	-
Saab Kockums AB, 556205-5623, Malmö, Sweden	500,000	100.0	340
Saab Medav Technologies GmbH, Germany	-	100.0	203
Saab Microwave Systems AB, 556028-1627, Mölndal, Sweden	300,000	100.0	49
Saab North America, Inc., USA	-	100.0	2,043
Saab Seaeye Holdings Ltd, UK	-	100.0	194
Saab South Africa (Pty) Ltd, South Africa	-	100.0	443
Saab Support & Services Thailand AB, 559025-4016, Linköping, Sweden	500	100.0	-
Saab Surveillance Systems AB, 556577-4600, Järfälla, Sweden	1,000	100.0	-
Saab Technologies s.r.o., Czech Republic	-	100.0	-
Saab Technologies Norway AS, Norway	-	100.0	3
Saab Technologies UK Limited, UK	-	100.0	-
Saab Training Systems B.V., The Netherlands	-	100.0	6
Saab Training Systems GmbH, Germany	-	100.0	3
Saab Transpondertech AB, 556535-9790, Linköping, Sweden	1,000	100.0	-
Saab Ventures AB, 556757-5211, Linköping, Sweden	1,000	100.0	-
Teknikinformation i Krokom AB, 556317-4043, Östersund, Sweden	1,600	100.0	15
Dormant companies etc.	-	-	73
Carrying amount at year-end			5,848

NOTE 42 UNTAXED RESERVES

MSEK	Parent Company	
	2016	2015
Tax allocation reserve:		
Opening balance, 1 January	1,760	1,618
Provision for the year	90	142
Closing balance, 31 December	1,850	1,760
Accumulated accelerated/under depreciation		
Buildings and land:		
Opening balance, 1 January	-4	6
Accelerated/under depreciation for the year	2	-10
Closing balance, 31 December	-2	-4
Machinery and equipment:		
Opening balance, 1 January	383	355
Accelerated depreciation for the year	49	28
Closing balance, 31 December	432	383
Total untaxed reserves, 31 December	2,280	2,139

NOTE 43 STATEMENT OF CASH FLOWS, SUPPLEMENTAL INFORMATION

The Group's free cash flow, and a reconciliation between free cash flow and cash flow for the year from the statement of cash flows, are stated below.

FREE CASH FLOW

MSEK	Group	
	2016	2015
Cash flow from operating activities before changes in working capital, excluding taxes and other financial items	2,927	2,706
Cash flow from changes in working capital:		
Inventories	-1,329	349
Current receivables	-1,129	-3,573
Advance payments from customers	4,025	284
Other current liabilities	177	1,426
Provisions	-323	-306
Change in working capital	1,421	-1,820
Cash flow from operating activities, excluding taxes and other financial items	4,348	886
Investing activities:		
Investments in intangible fixed assets	-882	-594
Investments in tangible fixed assets	-807	-799
Sales and disposals of tangible fixed assets	27	7
Investments in financial fixed assets	-83	-
Cash flow from investing activities¹⁾	-1,745	-1,386
Operational cash flow	2,603	-500
Taxes and other financial items	-194	-528
Sale of and investments in shares etc.	-78	211
Acquisitions of operations	-49	-221
Sale of subsidiaries	77	312
Free cash flow	2,359	-726

¹⁾ Cash flow from investing activities excluding change in short-term investments and other interest-bearing financial assets and excluding sale of and investment in financial assets, investments in operations and sale of subsidiaries. If investments in and sale of financial fixed assets are considered to be of operating nature, the item is included in investing activities.

FREE CASH FLOW VERSUS CASH FLOW FOR THE YEAR IN STATEMENT OF CASH FLOWS

MSEK	2016	2015
Free cash flow	2,359	-726
Investing activities – interest-bearing:		
Short-term investments	-1,525	-1,722
Other financial investments and receivables	17	-353
Financing activities:		
Repayment of loans	-582	-1,865
Raising of loans	732	4,758
Dividend paid to the Parent Company's shareholders	-530	-501
Dividend paid to non-controlling interest	-5	-10
Transactions with non-controlling interest	15	-
Cash flow for the year	481	-419

SUPPLEMENTAL INFORMATION ON STATEMENT OF CASH FLOWS**Liquid assets**

MSEK	Group	
	31-12-2016	31-12-2015
The following components are included in liquid assets:		
Cash and bank balances	1,102	850
Bank deposits	300	-
Total according to the statement of financial position	1,402	850
Total according to statement of cash flows	1,402	850

MSEK	Parent Company	
	31-12-2016	31-12-2015
The following components are included in liquid assets:		
Cash and bank balances	351	211
Bank deposits	300	-
Total according to balance sheet	651	211
Total according to statement of cash flows	651	211

Interest paid and dividends received

MSEK	Group		Parent Company	
	2016	2015	2016	2015
Dividends received	16	25	98	47
Interest received	28	-	115	171
Interest paid	-111	-74	-126	-103
Total	-67	-49	87	115

Note 43, cont.

Adjustments for items not affecting cash flow

MSEK	Group		Parent Company	
	2016	2015	2016	2015
Depreciation and amortisation	946	959	631	641
Capital gains/losses from sales of Group companies, associated companies and other shares	-49	-366	-57	-186
Provisions	190	97	166	-34
Write-downs	-	-	1,058	839
Share of profits in associated companies and joint ventures	38	-40	-	-
Dividends and Group contributions from/to Group companies	-	-	-1,131	-472
Other	101	38	95	-171
Total	1,226	688	762	617

Investments in operations

MSEK	Group	
	2016	2015
Acquired assets and liabilities		
Intangible fixed assets	64	4
Tangible fixed assets	2	613
Deferred tax assets	3	-
Inventories	3	-
Current receivables	18	4
Liquid assets	6	3
Total assets	96	624
Provisions	1	-
Deferred tax liability	8	-
Interest-bearing liabilities	-	408
Current liabilities	24	4
Total liabilities	33	412
Purchase price paid	55	224
Less: Liquid assets in acquired operations	-6	-3
Effect on the Group's liquid assets (positive (-) / negative (+))	49	221

Acquisitions in 2016 relate to Phaeros Group BVBA, Nordic Defence Industries A/S, and Watchsom Security Group AS. Acquisitions in 2015 mainly relate to a property company.

Sale of subsidiaries

MSEK	Group	
	2016	2015
Divested assets and liabilities		
Tangible fixed assets	16	613
Current receivables	-	4
Liquid assets	1	3
Total assets	17	620
Provisions	17	-
Deferred tax liability	3	-
Interest-bearing liabilities	-	408
Current liabilities	2	4
Total liabilities	22	412
Sales price	78	315
Purchase price received	78	319
Less: Liquid assets in divested operations	-1	-3
Effect on the Group's liquid assets	77	316

Divestments in 2016 and 2015 mainly relate to property companies.

NOTE 44 INFORMATION ON PARENT COMPANY

Saab AB (publ) is a limited company registered in Sweden, with its registered office in Linköping. The Parent Company's B shares are registered on the Nasdaq Stockholm. The address of the head office is Saab AB, Box 12062, SE-102 22 Stockholm, Sweden.

The consolidated accounts for 2016 comprise the Parent Company and its Group companies, together referred to as the Group. The Group also includes the holdings in associated companies and joint ventures.

Saab AB also operates a small business in a South Korean branch.

NOTE 45 ENVIRONMENTAL REPORT**Operations subject to licensing in the Parent Company**

Production of aircraft and aircraft components by the Parent Company, Saab AB, in the Tannefors industrial zone in the municipality of Linköping is subject to licensing pursuant to the Swedish Environment Code due to aeronautics operations, surface treatment processes, manufacturing of composite materials, handling of chemical substances, the firing of large calibre weapons and the size of the manufacturing facilities. The environmental impact of these operations primarily arises from emissions of volatile organic compounds (VOCs) and aircraft emissions into the atmosphere and of metals into waterways, the generation of industrial wastes and noise disturbing local surroundings. The manufacturing operations predominantly entail operations subject to licensing. The National Licensing Board for Environmental Protection granted the licence for aircraft manufacture in 1990. The supervisory authorities and the Land and Environment Court imposed additional terms for these operations in 2006 and 2007, respectively, against the backdrop of the EU's IPPC directive. In 2016, Saab has submitted an application for a new permit for the operations in Linköping.

In Järfälla, Saab AB has operations involving the manufacture of advanced command and control systems, among other things, which are also subject to licensing under to the Environment Code. The licensing requirement is due to surface treatment processes and the size of the manufacturing facilities. The environmental impact of these operations primarily arises from metals into waterways. The National Licensing Board for Environmental Protection granted the licence in 1990.

With the exception of a few exceeded recommended values, Saab AB did not exceed any conditions in its permits or violate any injunctions in 2016.

Operations subject to licensing in subsidiaries

The operations carried on by Saab Airport AB are subject to licensing under the Environment Code and are covered by the permit issued by the National Licensing Board for Environmental Protection in 1990 for Saab's collective operations in the Tannefors industrial zone in the municipality of Linköping. This permit also covers the operations of Saab Dynamics AB in the area, despite the fact that they are not subject to licensing and notification requirements under the Environment Code. These operations are included in the application for a new permit mentioned above regarding operations in the Tannefors industrial zone.

Saab Dynamics AB and Saab Bofors Test Center AB run operations in Karlskoga that are subject to licensing under the Environment Code and Saab Barracuda AB runs operations subject to licensing in Gamleby. Saab Bofors Test Center AB runs operations subject to licensing in the municipalities of Degerfors, Lindesberg, and Härjedalen. In addition, Saab Kockums AB runs operations subject to licensing in Karlskrona and on Muskö island, south of Stockholm.

The environmental impact from subsidiaries subject to licensing primarily consists of emissions of VOCs from workshops and emissions from aircraft into the atmosphere, emissions of metals and de-icing solvents into waterways, generation of industrial wastes, storing and transfer of explosive goods, and noise disturbing local surroundings.

With the exception of a few exceeded recommended values, Saab's subsidiaries did not exceed any conditions in its permits or violate any injunctions in 2016.

Operations subject to notification requirements

Saab AB has operations in Arboga, Huskvarna, Jönköping, Ljungbyhed, Malmslätt, Nyköping and Östersund, which are subject to notification requirements pursuant to the Environment Code. Permits in Arboga and Malmslätt still apply. These were granted by the county boards in 1993 and 1994, respectively. The Group also has operations subject to notification requirements in the subsidiary Saab Dynamics AB in Motala. The permit in Motala still applies. The environmental impact of these operations is extremely limited.

NOTE 46 EXCHANGE RATES USED IN FINANCIAL STATEMENTS

			Year-end rate		Average rate	
Land			2016	2015	2016	2015
Australia	AUD	1	6.57	6.09	6.37	6.34
Brazil	BRL	1	2.80	2.16	2.48	2.57
Denmark	DKK	100	128.69	122.42	127.20	125.44
Euro	EUR	1	9.57	9.14	9.47	9.36
India	INR	100	13.40	12.58	12.74	13.17
Canada	CAD	1	6.74	6.03	6.46	6.60
Norway	NOK	100	105.40	95.56	101.99	104.65
Switzerland	CHF	1	8.91	8.43	8.69	8.77
UK	GBP	1	11.18	12.38	11.57	12.90
South Africa	ZAR	100	66.75	54.33	58.55	66.48
Czech Republic	CZK	100	35.40	33.80	35.03	34.30
USA	USD	1	9.10	8.35	8.56	8.44

NOTE 47 DEFINITIONS OF KEY RATIOS

Below are definitions of financial key ratios that are used in the report. For more information and explanations regarding the usage of these key ratios, please see saabgroup.com, investor, financial data, key ratios.

Capital employed Total assets less non-interest-bearing liabilities.

Capital turnover Sales divided by average capital employed.

Earnings per share Net income for the year attributable to the Parent Company's shareholders, divided by the average number of shares before and after full dilution. There is no dilution impact if the result is negative.

EBITDA Operating income before depreciation/amortisation and write-downs.

EBITDA margin Operating income before depreciation/amortisation and write-downs as a percentage of sales.

Effective tax rate Current and deferred taxes as a percentage of income before tax.

Equity/assets ratio Equity in relation to total assets.

Equity per share Equity attributable to the Parent Company's shareholders divided by the number of shares, excluding treasury shares, at the end of the year.

Free cash flow Cash flow from operating activities and from investing activities, excluding acquisitions and divestments of short-term investments and other interest-bearing financial assets.

Free cash flow per share Free cash flow divided by the average number of shares after dilution.

Gross margin Gross income as a percentage of sales.

Interest coverage ratio Operating income plus financial income divided by financial expenses.

Net liquidity/net debt Liquid assets, short-term investments and interest-bearing receivables less interest-bearing liabilities and provisions for pensions excluding provisions for pensions attributable to special employers' contribution.

Operating margin Operating income (EBIT) as a percentage of sales.

Operational cash flow Cash flow from operating activities, excluding taxes and other financial items, and acquisitions and divestments of intangible fixed assets and tangible fixed assets.

Order backlog Total value of orders at the end of the year.

Order bookings Total value of orders received during the year.

Organic sales growth Change in sales in percentage adjusted for effects from exchange rate due to the translation of foreign subsidiaries, and structural changes such as acquisitions and divestments of subsidiaries.

Profit margin Operating income plus financial income as a percentage of sales.

Return on capital employed Operating income plus financial income as a percentage of average capital employed.

Return on equity Net income for the year as a percentage of average equity.



DIVIDEND MOTIVATION

The Board of Directors' statement according to chapter 18, § 4 of the Companies Act with regard to the proposed dividend – Saab AB

Saab is one of the world's leading high-technology companies, because of which its operations are distinguished by complex development assignments on the cutting edge of technology. Over the years, Saab has conducted significant development projects and managed the associated risks with great success. See also risks and uncertainties in the annual report.

The Board of Directors' proposed dividend amounts to SEK 5.25 per share, corresponding to a total dividend of MSEK 559. Unrestricted equity amounts to MSEK 4,677 in Saab AB and profit carried forward in the Group before the dividend is paid amounts to MSEK 11,110.

Net income for the year attributable to the Parent Company's shareholders amounted to MSEK 1,133 for the Group and MSEK 97 for the Parent Company.

After paying the dividend to the shareholders, the Group's equity/assets ratio amounts to 31.3 per cent, compared to the target of 30 per cent. Since the IPO in 1998, the equity/assets ratio has risen from 22 per cent to 32.3 per cent in 2016.

Saab's gross capital expenditure in 2016 amounted to MSEK 807, which is considered a good estimation of annual future investments in tangible fixed assets. Investments are also made in research and develop-

ment, which in 2016 amounted to MSEK 2,065, of which MSEK 784 was capitalised in the balance sheet.

At year-end, Saab had a net debt, which includes liquid assets, short-term investments and interest-bearing receivables less interest-bearing liabilities, including provisions for pensions, amounting to MSEK 1,836. Saab's ability to carry out its commitments is not expected to be affected by the proposed dividend either on a short or a long-term basis.

The proposed dividend is considered justifiable with regard to what is stated in chapter 17, § 3, paragraphs two and three of the Companies Act (2005:551):

1. the demands that the company's nature, scope and risks place on the size of its equity, and
2. the company's consolidation needs, liquidity or financial position in other respects.

The Board of Directors Saab AB

PROPOSED DISPOSITION OF EARNINGS 2016

The Board of Directors and the President propose that the unappropriated earnings in the Parent Company at disposal of the Annual General Meeting, amounting to:

SEK	
Retained earnings	4,579,137,019
Net income for the year	97,421,556
Total	4,676,558,575
be disposed as follows:	
To the shareholders, a dividend of SEK 5.25 per share	558,628,996
Funds to be carried forward	4,117,929,579
Total	4,676,558,575

After the proposed disposition, equity in the Parent Company will be as follows:

SEK	
Capital stock	1,746,405,504
Statutory reserve	542,471,135
Revaluation reserve	681,671,824
Retained earnings	4,117,929,579
Total	7,088,478,042

The company's policy is to issue a dividend of 20–40 per cent of net income over a business cycle. The Board of Directors and the President propose that MSEK 559 (530), or SEK 5.25 per share (5.00) be issued as a dividend. This has been calculated based on the amount of outstanding shares on 31 December 2016, of 106,405,523. Saab's equity/assets ratio is currently 32.3 per cent (36.8) and after the proposed disposition of earnings will be 31.3 per cent (35.8)

The undersigned certify that the consolidated accounts and the annual report have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted for use in the European Union, and generally accepted accounting principles, and give a true and fair view of the financial positions and results of the Group and the Parent Company, and that the management report gives a fair review of the development of the operations, financial positions and results of the Group and the Parent Company and describes substantial risks and uncertainties that the Group companies faces.

Linköping 24 February 2017

Marcus Wallenberg
Chairman

Johan Forssell
Board member

Sten Jakobsson
Deputy Chairman

Sara Mazur
Board member

Bert Nordberg
Board member

Per-Arne Sandström
Board member

Cecilia Stegö Chilò
Board member

Lena Treschow Torell
Board member

Joakim Westh
Board member

Stefan Andersson
Board member

Conny Holm
Board member

Nils Lindskog
Board member

Håkan Buskhe
President and Chief Executive Officer (CEO) and board member

Our audit report was submitted on 3 March 2017
PricewaterhouseCoopers AB

Bo Hjalmarsson
*Authorised Public Accountant
Auditor in charge*

AUDITOR'S REPORT

To the general meeting of the shareholders of Saab AB (publ), corporate identity number 556036-0793.

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of Saab AB (publ) for the year 2016 except for the corporate governance statement on pages 70–79. The annual accounts and consolidated accounts of the company are included on pages 56–139 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corpo-

rate governance statement on pages 70–79. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the income statement and statement of financial position for the group.

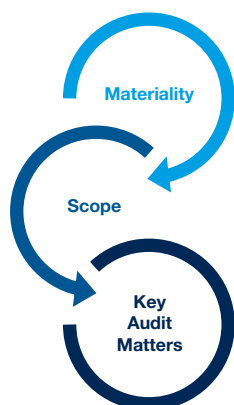
Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

OUR AUDIT APPROACH

Overview



- We have used an overall materiality of MSEK 90 in our audit representing approximately five percent of operating profit.
- In our audit we have focused on the operations in the parent company Saab AB and the subsidiaries Saab Dynamics AB and Saab Kockums AB. In addition units in Australia, South Africa, USA and the Netherlands has been subject to review procedures.
- A significant part of Saab's reported revenue derive from long term contracts where management's estimates and assumptions are critical for recognition of revenue as well as cost of goods sold. In addition to the income items, several balance sheet items are affected by the assumptions and judgments made related to the long term contracts. A significant part of our audit is focused on the review of large projects.

A significant part of Saab's revenue and result is derived from long term customer contracts including substantial development and customization for specific customers, which are associated with technical and commercial risks. Revenue and income is in many projects recognised using percentage of completion, which as such are based on management's estimates and measurement of percentage of com-

pletion, estimated profit margin as well as total costs and risks.

This requires a high level of project control and monitoring to be able to, at any given time confirm the assumptions and estimates for project cost and revenue to give a satisfying base for recognizing revenue and income. In many cases the customer contracts have a significant element of integration with

the customer and sub-contractors why the financial outcome is not only dependent on Saab's own activities but other parties as well.

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls and the specific circumstances in larger customer projects.

A significant part of the Saab Group's operation is carried out in the parent company Saab AB. In addition substantial parts of the operation is carried out in the subsidiaries Saab Dynamics AB and Saab Kockums AB in Sweden. These units are included in the audit of the group. Foreign operations of some importance for the financial reporting is carried out in Australia, South Africa, USA and the Netherlands. In these entities our audit is focused on

project oriented parts of the financial reporting.

Beside the audit of the consolidated accounts and the annual report we perform limited reviews of Saab's interim reports for the first, second and third quarter. These quarterly procedures help us to consciously understand changes in conditions, especially for long term contracts, affecting the financial reporting

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the [consolidated] financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall [group] materiality for the [consolidated] financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Group Materiality	MSEK 90
How we determined it	Approximately five percent of operating profit
Rational for the materiality benchmark applied	We chose operating profit as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose five percent which in auditing standards is a generally accepted benchmark.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual

accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. A considerable part of the operations in the Saab Group is carried out in the parent company, Saab AB. The key audit matters described below is applicable for both the group and the parent company.

Key audit matter

Long term customer contracts

Revenue and income is in many projects recognised using percentage of completion, which as such are based on management's estimates and measurement of percentage of completion, estimated profit margin as well as total costs and risks. If a project is expected to be in a loss position, the loss is recognised as soon as it can be determined.

Percentage of completion and the income recognised can be based on cost incurred, milestones reached or units delivered.

The financial reporting risk in the financial reporting is that revenue and income recognised, not correctly reflect Saab's stage of completion in the long term customer contracts and that the risks in the contracts deviate from actual outcome, which can result in revenue being recognised at wrong margin. This in turn might lead to cut off errors in revenue and cost.

Accounting for long term customer contracts also, besides revenue and cost of goods sold, affect balance sheet items such as receivables from customers, inventory and provision for loss contracts.

In the annual report risk related to long term contracts are described on page 67 to 68 and in the notes to the financial statements (note 2 and 5) the accounting principles are described in more detail.

How our audit addressed the Key audit matter

Saab has implemented processes, methods and controls to account for and monitor the long term customer contracts from tender, through execution and completion. These processes include among other project organisation, documentation, financial reviews and reporting as well as guidance on application of the accounting principles. This is further described in the annual report on page 67 and 68.

In our audit we have evaluated the design of these processes, methods and controls and tested that they work as designed. In this testing we have focused on the following:

- Test of monitoring controls on business area, business unit of where applicable on product level.
- Test of transaction controls for accounting for cost incurred related to long term customer contracts for procurement and time reporting to projects.
- Test that project reviews and documentation has been approved according to methods applied within Saab.

We have further selected a sample of long term customer contracts for substantive testing. Our sample is based on quantitative and qualitative factors where we have selected long term contracts that are material from contract value, revenue recognised or risk in residual cost to complete.

For the selected contracts we have in detail obtained an understanding for the project though, among other procedures, review of contract clauses, project plans, analysis of stage of completion and contract forecasts. Each quarter we review the projects together with the project leader, the project controller or similar. In these reviews we perform the following procedures focusing on whether significant risks are reasonably accounted for:

- We inspect management's assessment of the project execution and how this affect the financial reporting. This includes total contract value, level of completion, method for recognising stage of completion, cost incurred and estimated remaining cost.
- We reconcile management's assessment to underlying documentation and compare this with previous quarters.
- We reconcile financial information between reports and systems and recalculate calculations.

In these reviews we use our knowledge about Saab and how similar long term contracts have been treated to discuss and ask questions and challenge management's estimates and judgements. We also assess consistent application of accounting principles between contracts with similar circumstances. In this we also test items reported as work in progress. We test them from both quantitative and qualitative aspects and assess whether they are accounted for under Saab's accounting policies.

This year Gripen E Sweden, Gripen NG Brazil and Air born surveillance United Arab Emirates have been of specific interest in our audit:

For specific contracts we have from time to time observations related to both amounts and judgement that we report to management and the audit committee. The projects complexity and judgments involved mean that the amounts recognized by nature is affected by uncertainty where future outcome can deviate significantly from management's judgments.

OTHER INFORMATION THAN THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–55 and 146–149. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

AUDITOR'S RESPONSIBILITY

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or condi-

tions may cause a company and a group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Saab AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

BASIS FOR OPINIONS

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions

RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

AUDITOR'S RESPONSIBILITY

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

THE AUDITOR'S EXAMINATION OF THE CORPORATE GOVERNANCE STATEMENT

The Board of Directors is responsible for that the corporate governance statement on pages 70–79 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Stockholm 3 March 2017
PricewaterhouseCoopers AB

Bo Hjalmarsson
Authorized public accountant

INFORMATION TO SHAREHOLDERS

ANNUAL GENERAL MEETING 2017

The Annual General Meeting will be held at 3:00 pm (CET) on Wednesday, 5 April 2017 in Annexet, Ericsson Globe, Entré 2, Globentorget 10, Stockholm, Sweden.

NOTIFICATION

Shareholders must notify the company of their intention to participate in the meeting not later than Thursday, 30 March 2017.

- By telephone +46 13 18 20 55
- By mail to: Saabs Årsstämma, Box 7839, SE-103 98 Stockholm, Sweden
- Online: www.saabgroup.com/arsstamma

Please indicate your name, personal ID number (Swedish citizens), address and telephone number. If you are attending by power of proxy, registration certificate or other authorisation, please submit your documentation well in advance of the meeting. The information you provide will be used only for the Annual General Meeting.

Shareholders or their proxies may be accompanied at the Annual General Meeting by a maximum of two people. They may only attend, however, if the shareholder has notified Saab AB as indicated above.

RIGHT TO PARTICIPATE

Only shareholders recorded in the share register maintained by Euroclear Sweden AB on Thursday, 30 March 2017 are entitled to participate in the meeting. Shareholders registered in the names of nominees through the trust department of a bank or a brokerage firm must temporarily re-register their shares in their own names to participate in the meeting. To ensure that this re-registration is recorded in the share register by Thursday, 30 March 2017, they must request re-registration with their nominees several business days in advance.

DIVIDEND

The Board of Directors proposes a dividend of SEK 5.25 per share and 7 April 2017 as the record day for the dividend. With this record day, Euroclear Sweden AB is expected to distribute the dividend on 12 April 2017.

DISTRIBUTION OF THE ANNUAL REPORT

The annual report will be available on Saab's website, www.saabgroup.com, approximately three weeks prior to the Annual General Meeting on 5 April. A printed version of the annual report will be distributed to shareholders who request it. A printed version of the annual report can also be ordered by e-mail to servicecenter@servistik.se.

MULTI-YEAR OVERVIEW

MSEK, unless otherwise indicated	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Order bookings	21,828	81,175	22,602	49,809	20,683	18,907	26,278	18,428	23,212	20,846
Order backlog 31 December	107,606	113,834	60,128	59,870	34,151	37,172	41,459	39,389	45,324	47,316
Sales	28,631	27,186	23,527	23,750	24,010	23,498	24,434	24,647	23,796	23,021
Foreign market sales, %	57	58	55	59	64	63	62	69	68	65
Defence sales, %	83	82	79	81	82	84	83	83	83	81
Operating income (EBIT)	1,797	1,900	1,659	1,345	2,050	2,941	975	1,374	166	2,607
Operating margin, %	6.3	7.0	7.1	5.7	8.5	12.5	4.0	5.6	0.7	11.3
Operating income before depreciation/ amortisation and write-downs (EBITDA)	2,743	2,859	2,523	2,367	3,168	4,088	2,187	2,598	1,515	3,685
EBITDA margin, %	9.6	10.5	10.7	10.0	13.3	17.4	9.0	10.5	6.4	16.0
Financial income	90	169	103	62	153	162	116	50	29	4
Financial expenses	-276	-338	-239	-428	-202	-324	-341	-450	-565	-122
Income after financial items	1,611	1,731	1,523	979	2,003	2,783	776	976	-406	2,449
Net income for the year	1,175	1,402	1,168	742	1,560	2,217	454	699	-242	1,941
Net income attributable to Parent Company's shareholders	1,133	1,362	1,153	741	1,585	2,225	433	686	-248	1,921
Total assets	41,211	35,088	29,556	27,789	28,938	31,799	29,278	30,430	32,890	33,801
-of which advance payments, net	5,161	1,098	856	818	553	1,022	643	442	897	2,558
-of which total equity	13,301	12,912	11,373	12,227	11,280	13,069	11,444	10,682	9,330	11,008
-of which equity attributable to Parent Company's shareholders	13,156	12,851	11,291	12,136	11,168	12,950	11,274	10,542	9,240	10,981
Equity per share, SEK ⁽¹⁾	123.64	121.28	107.02	114.04	105.43	122.94	107.66	99.91	86.49	101.53
Net liquidity/debt excluding interest-bearing receivables and net provisions for pensions	28	-1,880	185	1,953	3,837	4,735	2,382	-1,631	-3,061	-2,802
Net liquidity/debt ⁽²⁾	-1,836	-3,217	-2,113	813	1,996	5,333	3,291	-634	-1,693	-1,627
Cash flow from operating activities	4,154	358	-713	-662	350	2,392	4,487	1,696	954	-1,304
Free cash flow⁽³⁾	2,359	-726	-1,094	-1,460	-396	2,477	4,349	1,447	659	-1,603
Free cash flow per share after dilution, SEK	22.07	-6.82	-10.23	-13.38	-3.63	22.69	39.84	13.26	6.13	-14.69
Average capital employed	21,135	18,454	15,897	15,454	15,131	13,987	13,743	13,775	13,994	13,430
Average equity	13,107	12,143	11,800	11,754	12,175	12,257	11,063	10,006	10,169	10,517
Return on capital employed, %	8.9	11.2	11.1	9.1	14.6	22.2	7.9	10.3	1.4	19.4
Return on equity, %	9.0	11.5	9.9	6.3	12.8	18.1	4.1	7.0	-2.4	18.5
Profit margin, %	6.59	7.61	7.49	5.92	9.18	13.21	4.47	5.78	0.82	11.40
Capital turnover rate, multiple	1.35	1.47	1.48	1.54	1.59	1.68	1.78	1.79	1.70	1.71
Equity/assets ratio, %	32.3	36.8	38.5	44.0	39.0	41.1	39.1	35.1	28.4	32.6
Interest coverage ratio, multiple	6.84	6.12	7.37	3.29	10.91	9.58	3.20	3.16	0.35	21.40
Earnings per share before dilution, SEK ^{(2) (5)}	10.67	12.88	10.86	6.98	15.00	21.19	4.12	6.45	-2.31	17.68
Earnings per share after dilution, SEK ^{(3) (5)}	10.60	12.79	10.78	6.79	14.52	20.38	3.97	6.28	-2.31	17.60
Dividend, SEK	5.25⁽⁴⁾	5.00	4.75	4.50	4.50	4.50	3.50	2.25	1.75	4.50
Gross capital expenditures for tangible fixed assets	807	799	732	543	328	325	262	197	386	395
Research and development costs	7,421	6,841	5,970	6,543	5,946	5,116	5,008	4,820	4,141	4,523
Number of employees at year-end	15,465	14,685	14,716	14,140	13,968	13,068	12,536	13,159	13,294	13,757

⁽¹⁾ Number of shares, excluding treasury shares, as of 31 December 2016: 106,405,523, 2015: 105,957,065, 2014: 105,499,980, 2013: 106,414,144, 2012: 105,930,829, 2011: 105,331,958, 2010: 104,717,729, 2009: 105,511,124, 2008: 106,829,893, 2007: 108,150,344.

⁽²⁾ Average number of shares 2016: 106,164,150, 2015: 105,714,805, 2014: 106,125,666, 2013: 106,125,107, 2012: 105,632,911, 2011: 104,982,315, 2010: 105,217,786, 2009: 106,335,553, 2008: 107,515,049, 2007: 108,668,700.

⁽³⁾ Average number of shares 2016: 106,906,726, 2015: 106,450,263, 2014: 106,916,255; 2009–2013: 109,150,344, 2008: 107,515,049; 2007: 109,150,344.

⁽⁴⁾ 2016 Board of Directors' proposal.

⁽⁵⁾ Net income less non-controlling interest divided by average number of shares.

⁽⁶⁾ For more information and explanations regarding the usage of these key ratios, please see saabgroup.com, investor, financial data, key ratios.

Financials for 2013 are restated according to the changed accounting principles for joint arrangements (IFRS 11).

Financials for 2012 are restated according to the changed accounting principles for pensions (IAS 19).

Financials for 2012 and earlier are not restated to operational and free cash flow.

GLOSSARY

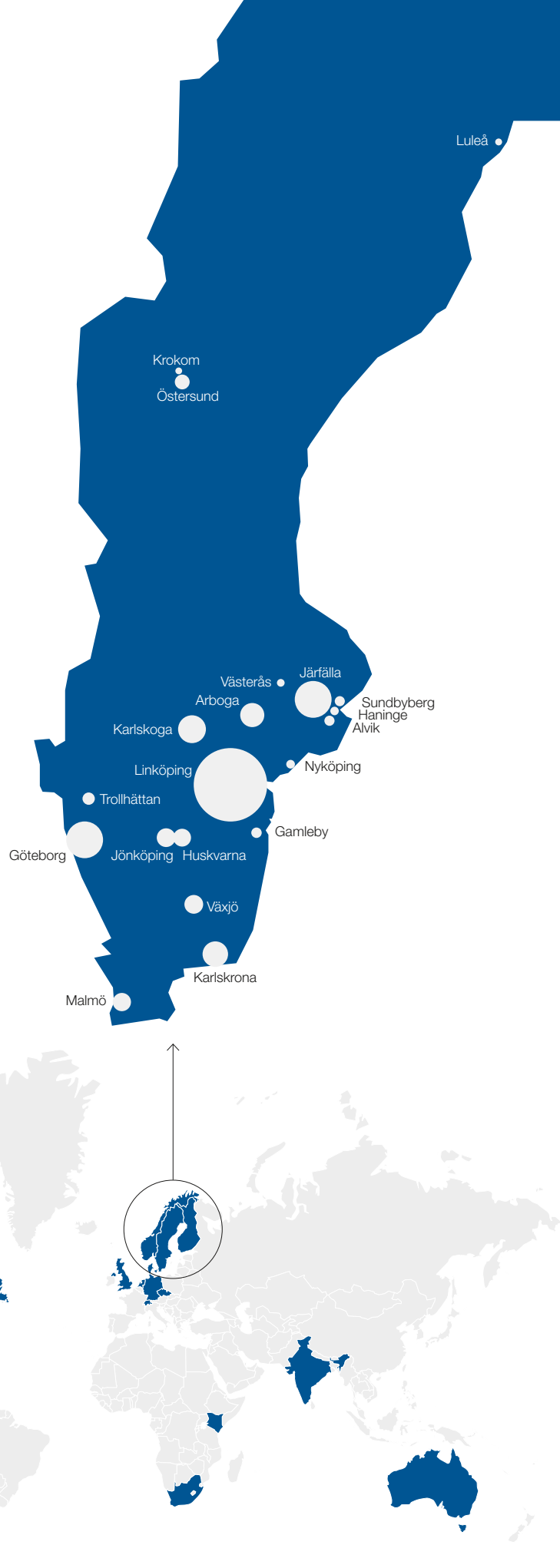
9LV	Combat Management System	GlobalEye	Airborne surveillance system (AEW&C)
A26	Submarine programme for the Swedish Navy	GLSDB	Ground Launched Small Diameter Bomb
AESA	Active Electronically Scanned Array	GRI	Global Reporting Initiative
AEW&C	Airborne Early Warning & Control	Gripen	Fighter system
AR	Augmented Reality	HMD	Helmet Mounted Display
Arthur	Artillery Hunting Radar	ICT	Information and Communications Technology
ASD	AeroSpace and Defence Industries Association of Europe	ISP	Swedish Inspectorate of Strategic Products
AT4	Anti-Tank weapon	ISR	Intelligence, surveillance and reconnaissance
C4I	Command, Control, Communications, Computers and Intelligence	LFV	The Air Navigation Service Provider for Sweden
Carl-Gustaf	Man-portable multi-role weapons system	LTI	Long-Term Incentive Programme
CBRN	Chemical, Biological, Radiological, Nuclear agents	SAL	Saab Aircraft Leasing; Saab's leasing fleet of turboprop aircraft
CDP	Carbon Disclosure Project	SGLP	Saab Graduate Leadership Programme
Erieye	Airborne surveillance system system (AEW&C)	R&D	Research and Development
FMV	Försvarets Materielverk (Swedish Defence and Materiel Administration)	SOTACS	Special Operations Tactical Suit
FTE	Full Time Equivalent	T-X Program	The United States procurement programme for fighter trainers
GDDN	Gripen Design and Development Network	WASP	Wallenberg Autonomous Systems Program
Giraffe AMB	Surveillance radar system		

SAAB IN THE WORLD

Number of employees

Number of employees by city	31 Dec 2016
Linköping, Sweden	5,622
Göteborg, Sweden	1,517
Järfälla, Sweden	1,134
Karlskoga, Sweden	841
Gauteng/Centurion/Pretoria/Johannesburg/Bedfordview, South Africa	614
Karlskrona, Sweden	540
Arboga, Sweden	502
East Syracuse, USA	456
Malmö, Sweden	400
Jönköping, Sweden	320
Växjö, Sweden	316
Huskvarna, Sweden	269
Adelaide, Australia	229
Östersund, Sweden	215
Fareham, UK	141
Trollhättan, Sweden	139
Slavkov, Czech Republic	107
Gamleby, Sweden	96
Apeldoorn, The Netherlands	95
Uttenreuth, Germany	92
Kista, Sweden	90
Stockholm, Sweden	88
Sönderborg, Denmark	78
Nyköping, Sweden	70
Sundbyberg, Sweden	64
Thun, Switzerland	63
Western Cape/Cape Town/Hermanus/Bredasdorp, South Africa	63
Lillington, USA	58
Halden, Norway	53
Rockingham, Australia	51
Luleå, Sweden	45
Norrköping, Sweden	39
Karlstad, Sweden	39
Haninge, Sweden	36
Other	983
Total	15,465

Number of employees by country	31 Dec 2016
Sweden	12,639
South Africa	678
USA	595
Australia	299
UK	194
The Netherlands	138
Germany	128
Czech Republic	125
Norway	106
Denmark	78
Finland	69
Switzerland	63
Canada	58
India	53
Kenya	36
Other	206
Total	15,465



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