

# **YEAR-END REPORT**

## **JANUARY – DECEMBER 2013**

President and CEO Håkan Buskhe  
13 February, 2014



# A HISTORIC YEAR FOR SAAB

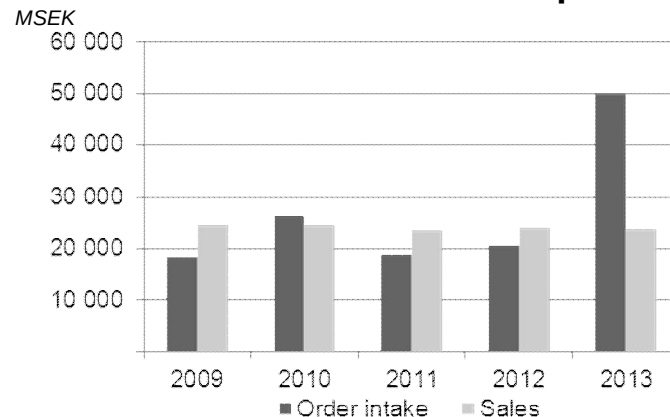
- Record high order intake; despite challenging market situation
- Successful year for Gripen
  - Gripen E development started
  - Parliament in Switzerland approved of Gripen procurement; referendum to be held on 18 May 2014
  - Production order for 60 Gripen E to Sweden
  - Brazil selected Gripen
- Joint Development Agreement with Boeing on T-X family of training systems
- Several important orders for Electronic Defence Systems
  - Erieye AEW&C mission System in Brazil
  - Upgrade of Sweden's ground based air defence
  - Integration of radar systems on Royal Thai Navy frigate
- Supplier of flap support for the A350-1000 aircraft



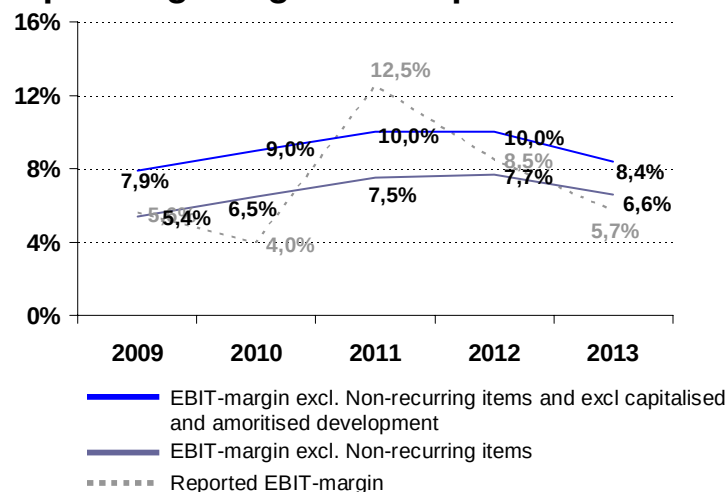
# RECORD HIGH ORDER INTAKE; EFFICIENCY IMPROVEMENTS DONE

- Order intake increased 141 per cent; Order backlog at record high level
- Sales development flat; organic sales development -2 per cent
- Adjusted for non-recurring items, operating margin of 6.6 per cent
- Lower operating cash flow of MSEK -1,480 (-396) as a result of differences in milestone payments, investments and acquisitions as well as a payment related to DACCIS
- Proposed dividend of SEK 4.50 (4.50) per share

Order intake & Sales development

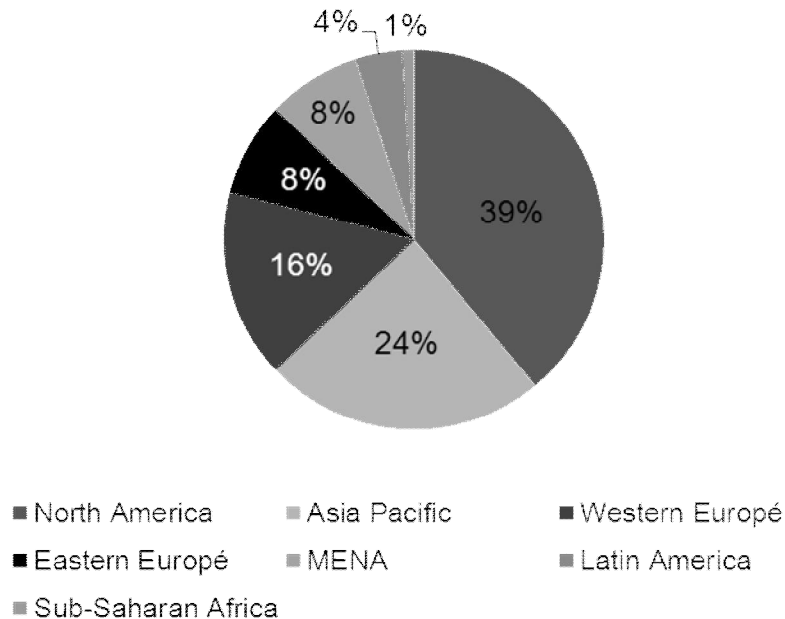


Operating margin development



# RECOVERY OF DEFENCE MARKET STILL SOME YEARS OFF

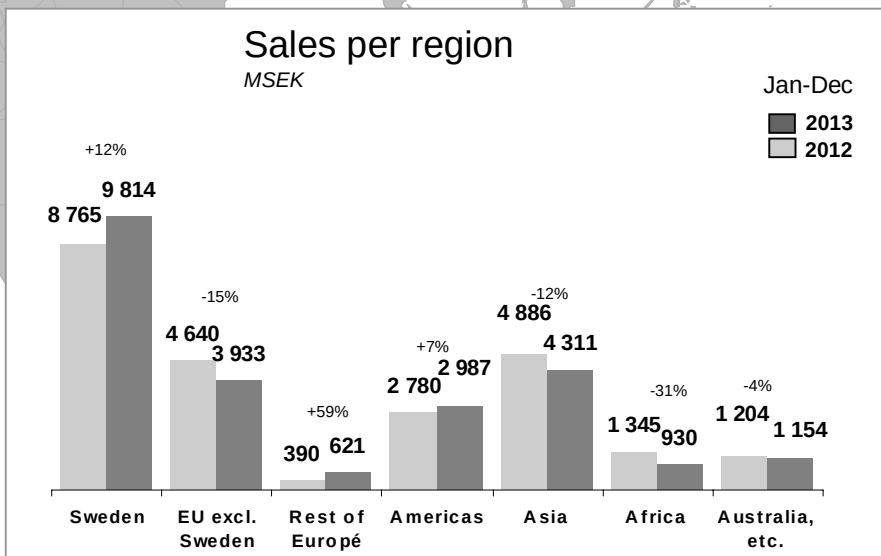
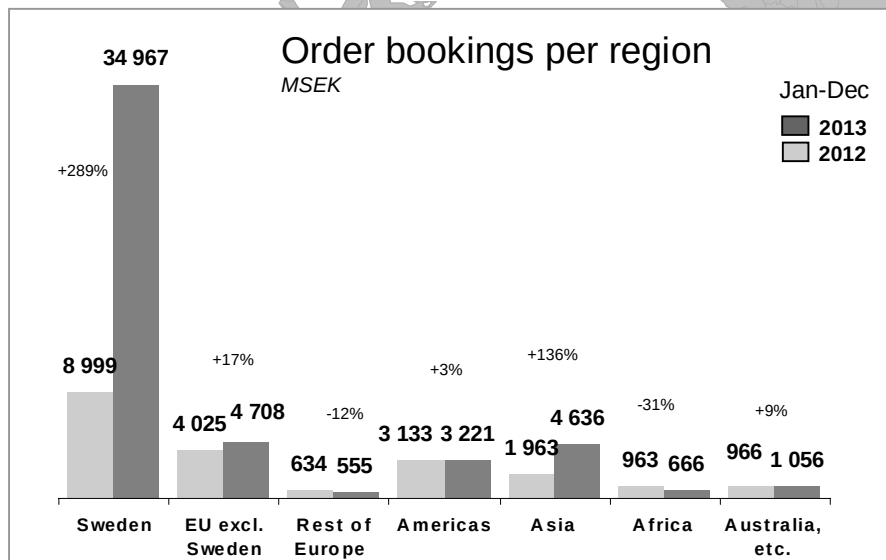
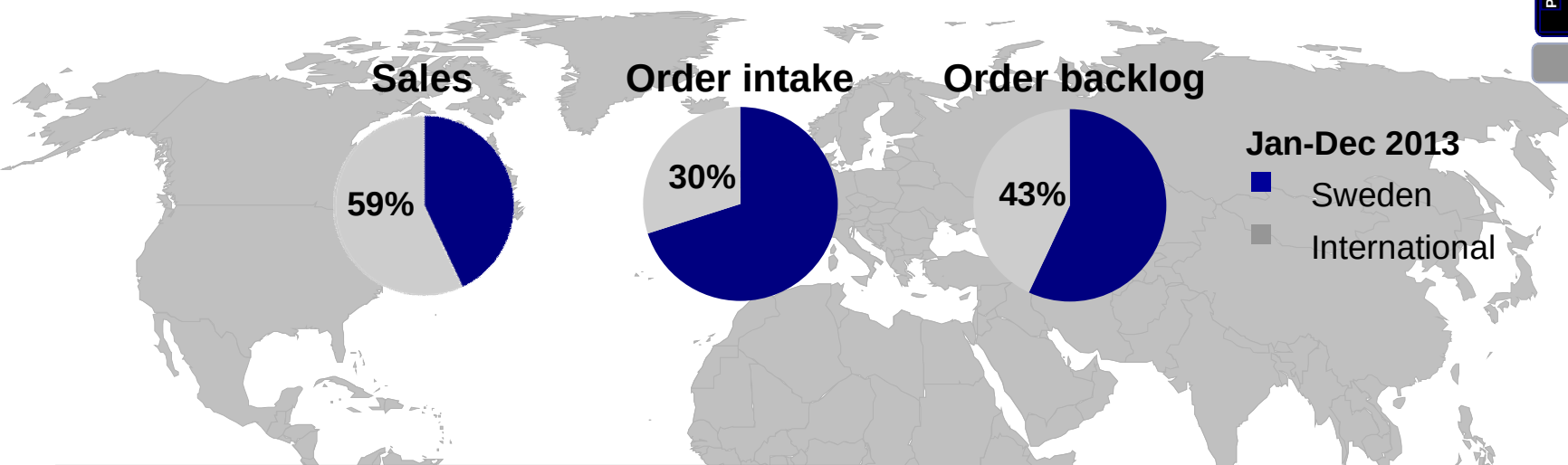
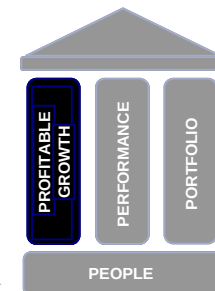
Global defence expenditure by region, 2013



Source: IHS Jane's Defence Budgets

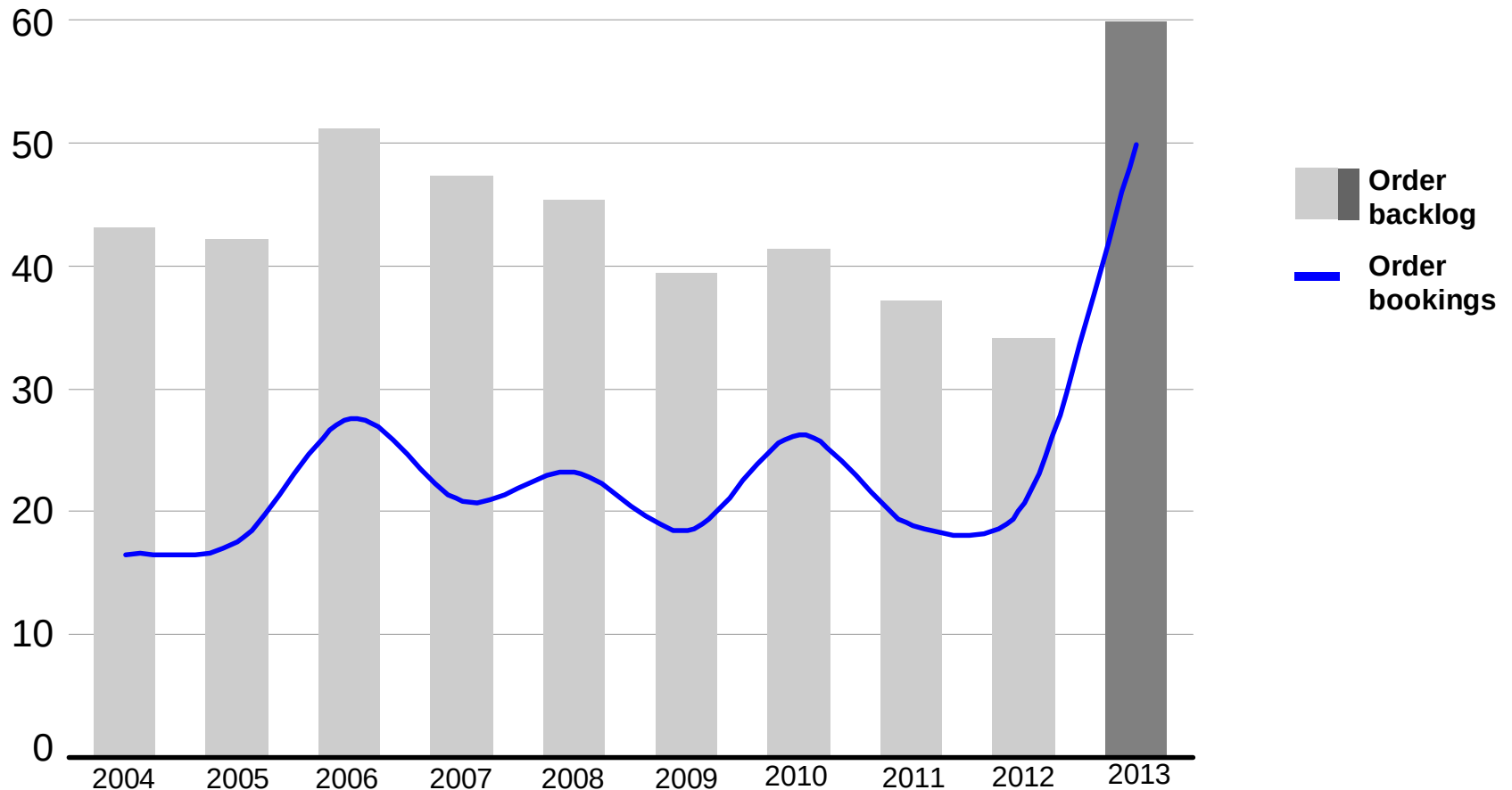
- According to Jane's, 2014 is expected to see global defence budgets increase for first time since 2009
- Further cuts expected in the United States and Europe; offset by growth in other parts of the world – in particular Middle East and Asia Pacific
- The U.S. Defence budget is still impacted by sequestration
- Defence budgets in the five largest Western European markets (the UK, France, Germany, Italy and Spain) decreased by 1.6% in 2013 and are projected to contract a further 2.4% in 2014

# SALES DEVELOPMENT



# BACKLOG DEVELOPMENT SUPPORTS LONG-TERM GROWTH TARGET

SEK billion



# GRIPEN UPDATE



## Switzerland:

- Yes to procurement of Gripen E in the Parliament
- Public referendum 18 May 2014



## Sweden:

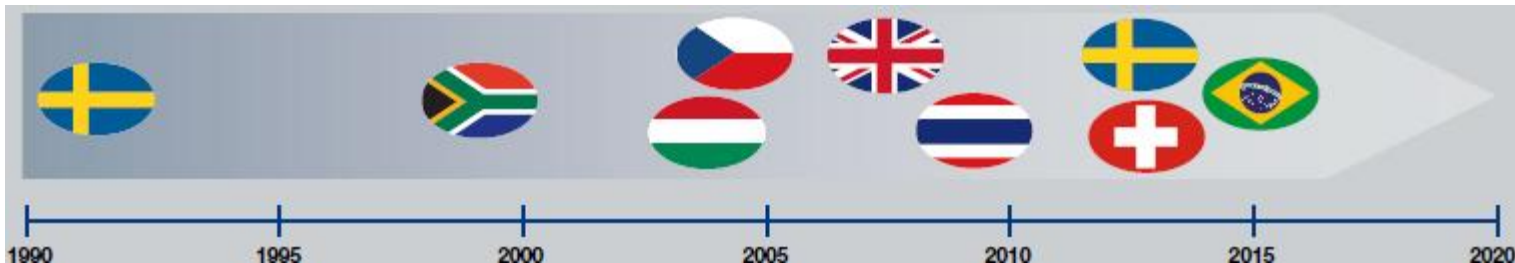
- Development of Gripen E progressing according to plan and budget
- Order for 60 Gripen E received in December 2013



## Brazil:

- Selected Gripen NG in December 2013 as future fighter jet
- Negotiations between Saab and the Brazilian Air Force ongoing aiming at a procurement of 36 Gripen NG; no order received yet

## Continued high interest in Gripen globally



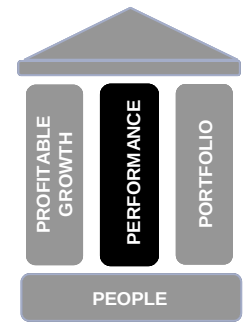
In 1983 Saab signed the first contract regarding Gripen with Sweden. South Africa ordered Gripen in 1999. Hungary signed a contract for leasing of Gripen in 2003. The Czech Republic signed a contract to lease Gripen in 2004. The British Empire Test Pilot School signed a contract for Gripen in 2005. Thailand ordered Gripen in 2008 and 2010. Sweden signed a contract for development of Gripen E as well as ordered 60 aircraft in 2013. In 2013 the parliament in Switzerland supported a potential procurement of 22 aircraft. Brazil announced in 2013 that they had selected Gripen.

# GRIPEN BRAZIL: OFFER

- ▶ Gripen NG and sub-systems for Gripen NG
- ▶ An extensive technology transfer package
- ▶ A financing package
- ▶ Long-term bilateral collaboration between the Brazilian and Swedish Governments



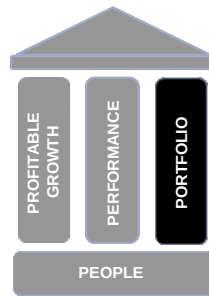
# PERFORMANCE - KEY FOR GROWTH



## Focus in 2013:

- Market area organisation – increased efficiency in sales process
- Efficiency measures taken to mitigate market development; effect of MSEK 500 in increased efficiency to become visible in 2014
- Project execution in focus to drive stable and increasing margin as well as cash flow
- Cash flow management
- A strong balance sheet is a prerequisite for growth
- Continued investments in Research and Development to strengthen our market position in prioritised areas

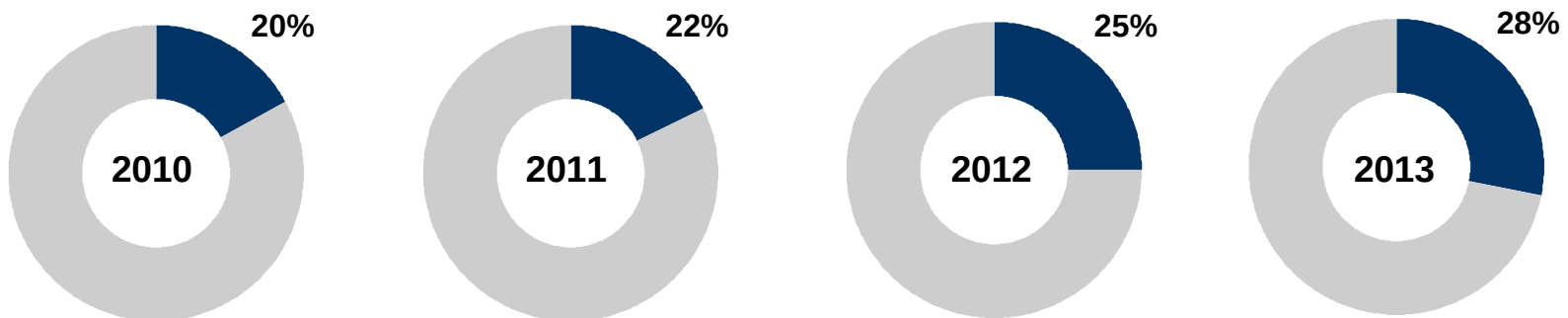
# INCREASING R&D EFFORTS IN 2013 STRENGTHEN COMPETITIVENESS



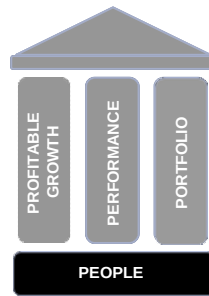
- Secured important development projects in 2013;  
*Example:* development of Gripen E
- Launch customer essential for complex products; at the same time the demand for proven products and solutions are increasing
- We further enhanced our portfolio management process
- We launched module based development processes for several product areas
- Closer cooperation with local customers through market area organisation increases market success for new development projects

**A modern, high-technology product portfolio strengthens Saab's competitiveness**

***R&D as a percentage of sales***



# PERFORMANCE CULTURE ESSENTIAL

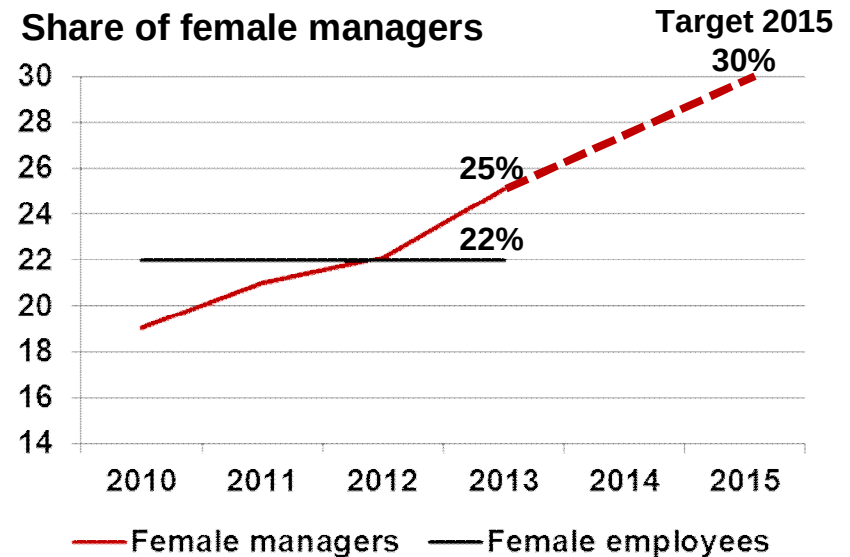


## Top priorities:

- Performance management process
- Leadership development with focus on performance and behaviors
- Secure recruiting needs and develop employees

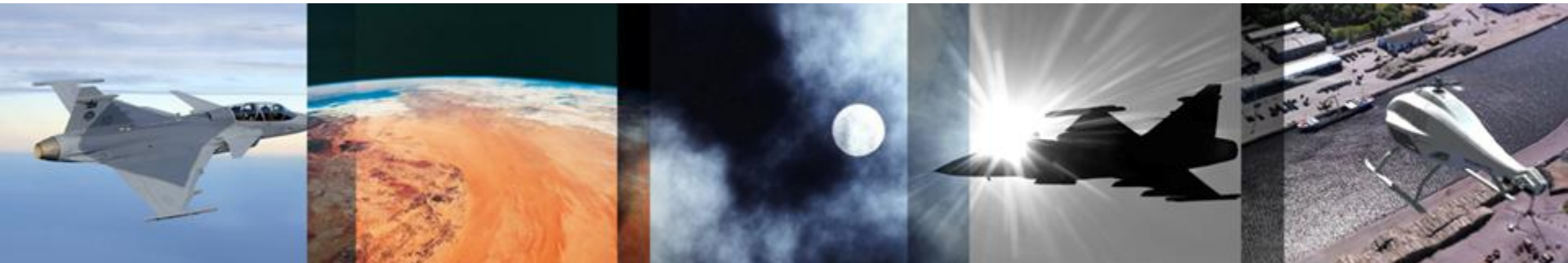
## Results in 2013:

- Share of female managers – 25%, up from 22% in 2012
- Significantly more popular in external employer rankings among engineering students



# OUTLOOK STATEMENT 2014

- ▶ In 2014, we estimate sales to be in line with 2013.
- ▶ The operating margin, excluding material net capital gains and other non-recurring items, is estimated to be slightly higher in 2014 compared to 2013.





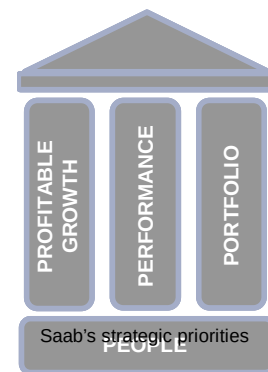
# **YEAR-END REPORT**

## **JANUARY – DECEMBER 2013**

### **Financials more in detail**

Magnus Örnberg, CFO  
13 February, 2014

# SUMMARY 2013



## GROWTH

- Challenging market conditions
- Record high order bookings in 2013

## PROFITABILITY

- Lower gross margin impacted by a different project and product mix compared to 2012
- Efficiency measures implemented in 2013 ahead of plan
- Investments in future product launches continued; mainly in Electronic Defence Systems
- Majority of costs for additional efficiency measures taken in fourth quarter 2013
- Reclassification and write-down of investment in Pipavav impacted net income with MSEK -133

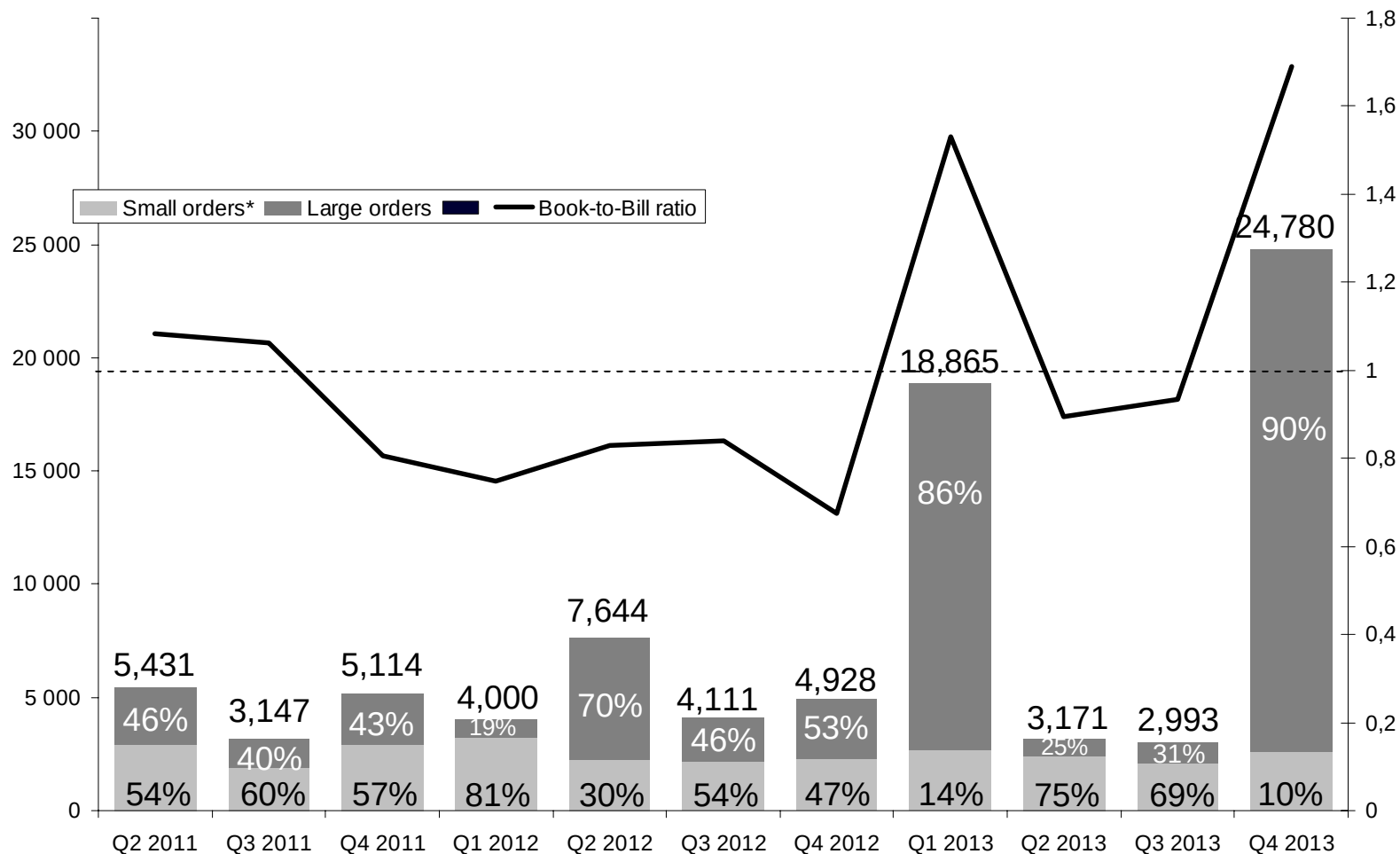
## FINANCIAL POSITION

- Strong operating cashflow in fourth quarter
- Full year operating cash flow impacted by timing differences in milestone payments, investments, acquisitions and a payment related to DACCIS
- Net liquidity decreased due to negative operating cash flow, investments and dividend paid

# ORDERS RECEIVED

Order bookings  
MSEK

Book-to-bill ratio  
(12 months rolling)

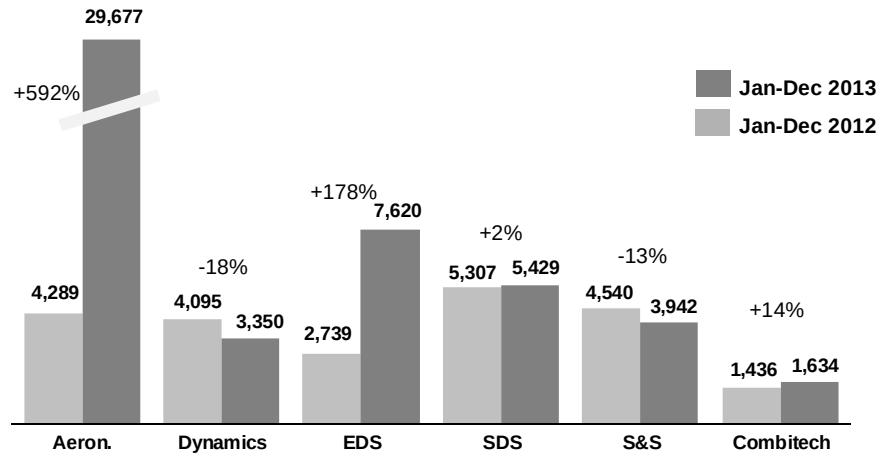


\*Small orders = Orders below MSEK 100

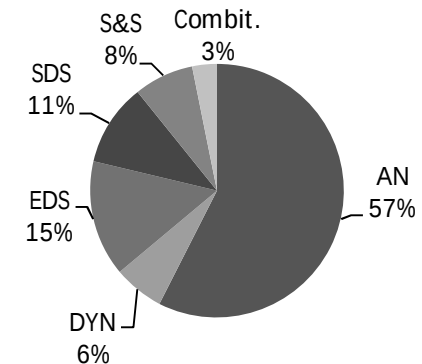
# RECORD ORDER BOOKINGS IN 2013

## Order bookings per business area

MSEK

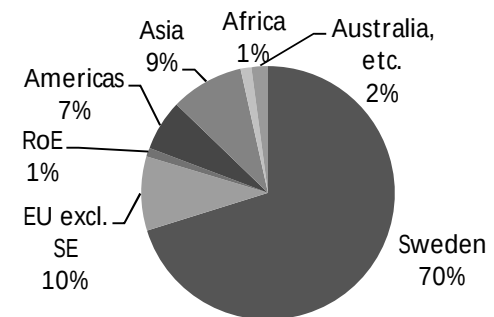


## Order bookings per Business Area



- Aeronautics: Gripen E orders for development and production of 60 aircraft to Sweden received as well as Aerostructures receiving BSEK 2.9 in order intake
- Dynamics: Challenging market situation
- EDS: Erieye orders to Brazil, radar development for frigate
- SDS: Integration of combat control system at frigate, install security system for Australian Department of Defence
- Support and Service: Challenging market situation
- Combitech: Continued growth and good demand

## Order bookings per region



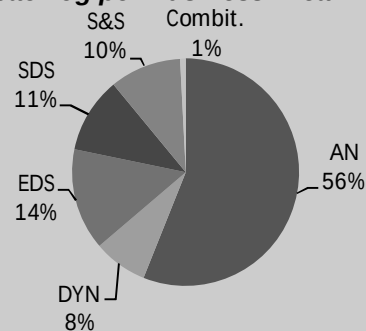
# ORDER BACKLOG

## Order backlog duration (SEK billion):

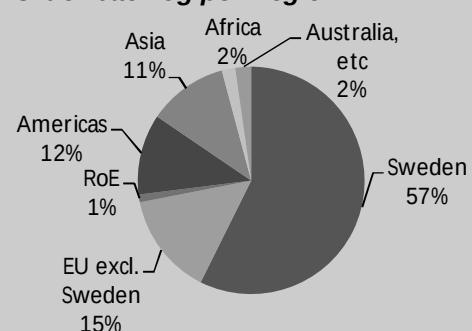
| Dec 2013      |             | Dec 2012      |             | Dec 2011      |             |
|---------------|-------------|---------------|-------------|---------------|-------------|
| 2014:         | 17.4        | 2013:         | 16.1        | 2012:         | 17.7        |
| 2015:         | 10.8        | 2014:         | 7.9         | 2013:         | 8.4         |
| 2016:         | 8.1         | 2015:         | 4.6         | 2014:         | 4.8         |
| 2017:         | 11.1        | 2016:         | 2.7         | 2015:         | 2.7         |
| After 2017:   | 12.5        | After 2016:   | 2.9         | After 2015:   | 3.6         |
| <b>Total:</b> | <b>59.9</b> | <b>Total:</b> | <b>34.2</b> | <b>Total:</b> | <b>37.2</b> |

## Order backlog split, December 2013

Order backlog per Business Area

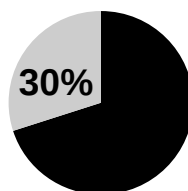


Order backlog per Region

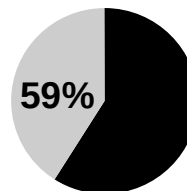


# 2013 IN BRIEF

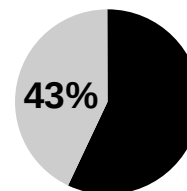
Order bookings



Sales



Order backlog



■ Sweden  
■ International

|                     | Jan-Dec |           |        | Oct-Dec |           |       |
|---------------------|---------|-----------|--------|---------|-----------|-------|
| MSEK                | 2013    | Change, % | 2012   | 2013    | Change, % | 2012  |
| Order bookings      | 49,809  | 141       | 20,683 | 24,780  | 403       | 4,928 |
| Order backlog       | 59,870  | 75        | 34,151 |         |           |       |
| Sales               | 23,750  | -1*       | 24,010 | 7,279   | -         | 7,306 |
| Operating income    | 1,345   | -34       | 2,050  | 534     | -18       | 655   |
| Operating margin, % | 5.7**   |           | 8.5    | 7.3     |           | 9.0   |
| Net Income          | 736     | -52       | 1,560  | 281     | -49       | 550   |
| Net liquidity       | 1,013   | -49       | 1,996  |         |           |       |
| Operating cash flow | -1,480  |           | -396   | 547     |           | 264   |

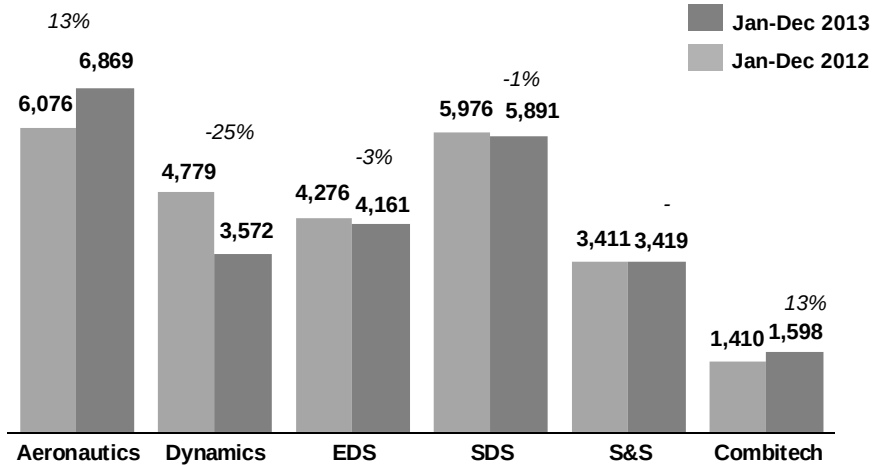
\*Organic growth of -2 per cent

\*\*Adjusted for non-recurring items the Operating margin was 6.6 percent (7.7)

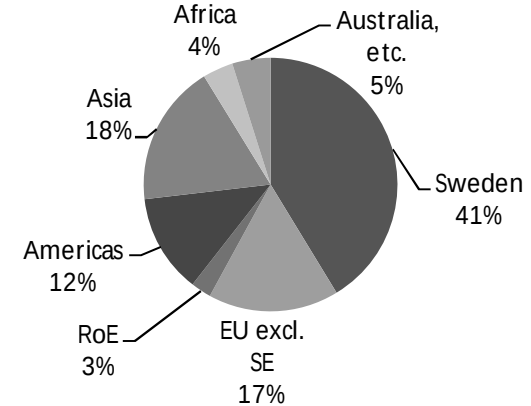
# SALES DEVELOPMENT

## Sales per business area

MSEK



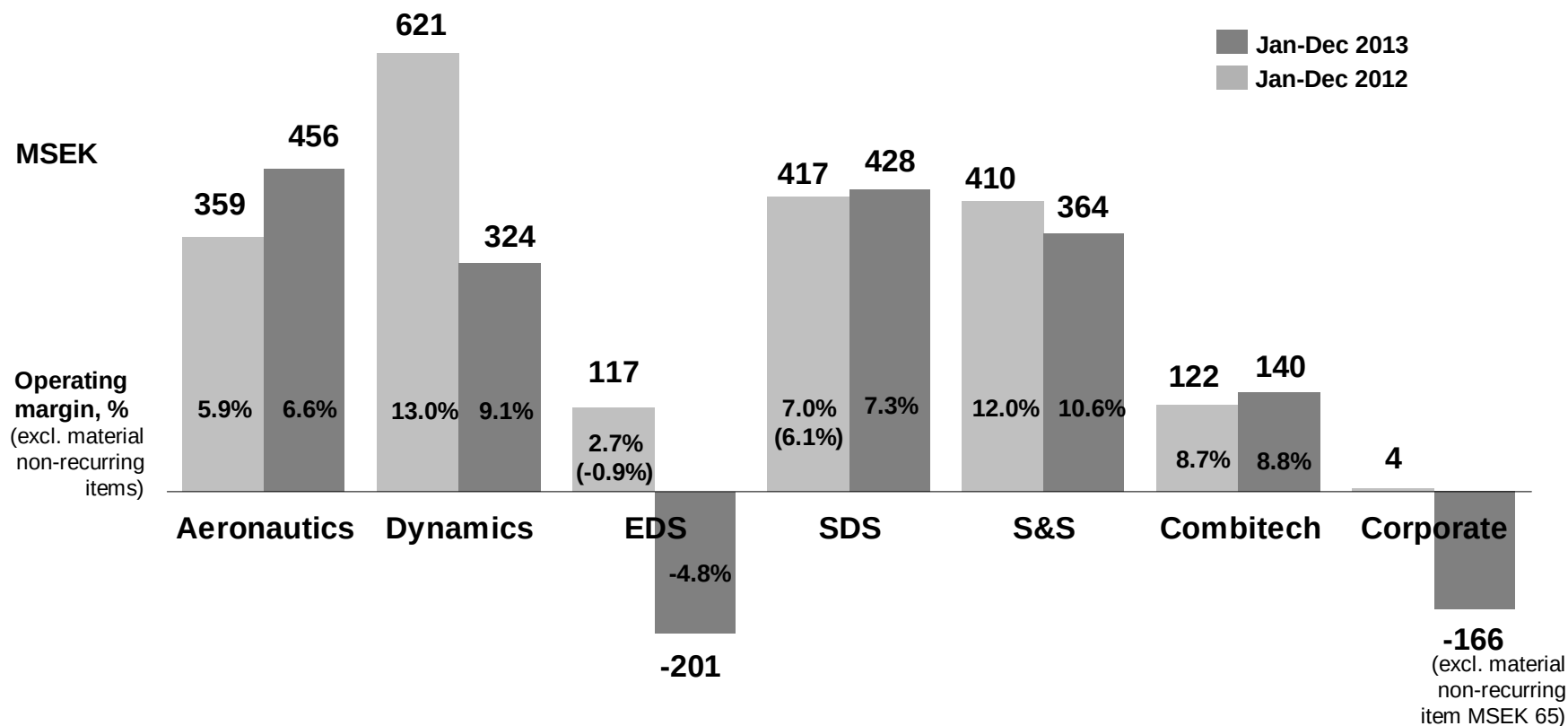
## Sales per region



- Acquisitions impacted sales by 2 per cent and exchange rates had a negative 1 per cent impact
- Aeronautics: Sales increase driven by Gripen E development
- Dynamics: Challenging market situation
- EDS: Low level of order intake in 2011 and 2012 led to slight decrease in sales
- SDS: Challenging market for training systems and traffic management in the U.S.
- Combitech: Sales increase driven by good demand in aircraft industry and public sector

# OPERATING INCOME

## January – December 2013

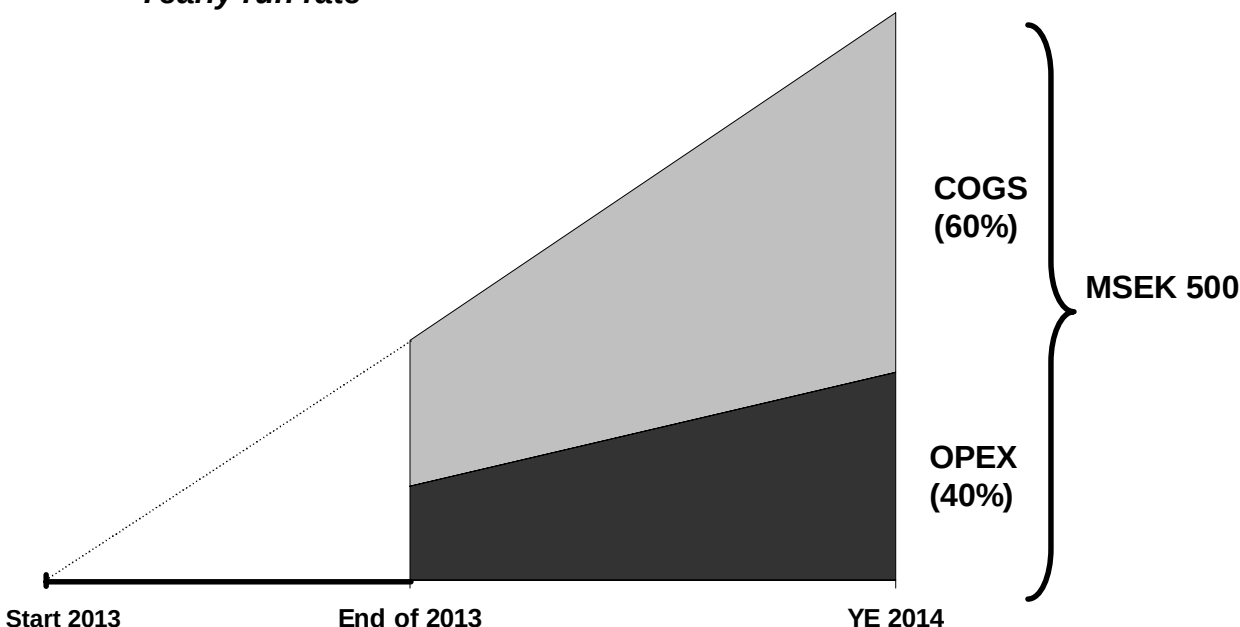


The Group generated an EBIT-margin of 5.7 (8.5) per cent  
Excluding material non-recurring items an EBIT margin of 6.6 (7.7)

# IMPACT FROM ADDITIONAL EFFICIENCY MEASURES AHEAD OF PLAN

## STATUS REPORT

*Yearly run rate*



### ➤ Major impact to come from:

- Personnel reductions by adjusting operations to lower volumes
- More focused R&D processes
- Lowering marketing and sales costs

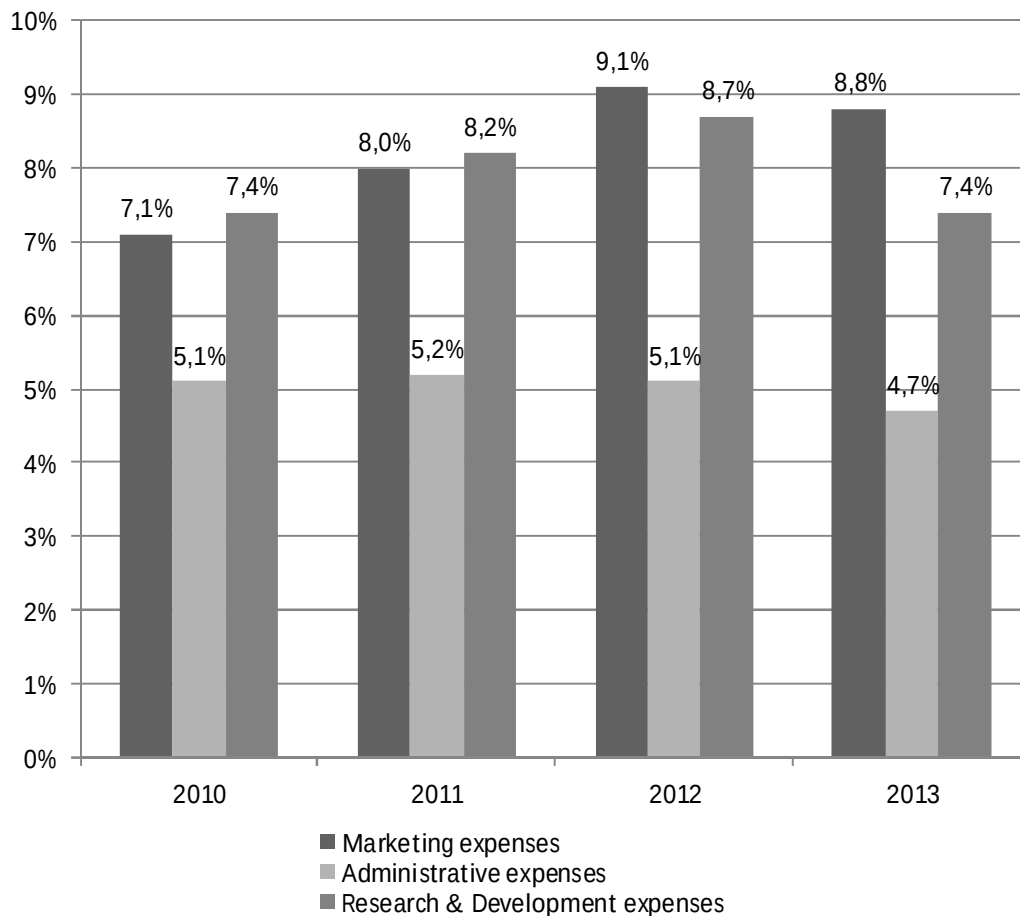
- Implementation of action plan done
- Impact from efficiency measures ahead of plan

### Actions 2013:

- Electronic Defence Systems reduction of headcounts by 150-175 employees
- Dynamics redundancy notice to reduce positions by 70
- Security and Defence Solutions reduced employees by more than 150
- Support and Services announced reduction of 50 employees
- External consultants reduced by more than 200

# COST FOCUS

Percentage of sales



## Marketing expenses:

➤ Despite high activity level, expenses reduced

- Implementation of market area organisation
- Several large major campaigns on-going

## Administrative expenses:

➤ Level of expenses reduced in all business areas and corporate

## Research & Development expenses:

➤ Increased efficiency in R&D processes through module based development, stricter prioritisation and less amortisation

# FINANCIAL NET

| MSEK                              | Jan-Dec<br>2013 | Jan-Dec<br>2012 |
|-----------------------------------|-----------------|-----------------|
| Financial net related to pensions | -74             | -73             |
| Net interest items                | 23              | 124             |
| Project interest                  | -3              | -15             |
| Tender to contract hedges         | -26             | 15              |
| Other financial items             | -286            | -98             |
| <b>TOTAL</b>                      | <b>-366</b>     | <b>-47</b>      |

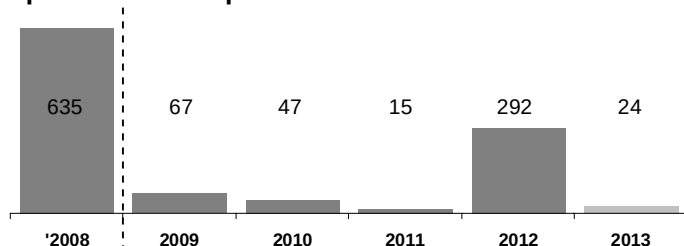
Cash and short-term investments less interest-bearing liabilities  
Dec 2013:  
MSEK 2,057 (3,837)

- Financial net reduced due to non-recurring items, booked in other financial items:
  1. MSEK -83, related to a lost legal dispute\*
  2. MSEK -133 write-down and re-classification of shareholding in Pipavav according to accounting regulations. Value of holding declined as a results of a value decline in the Rupie vs. SEK of 15 per cent and a decreased share price by 46 per cent.

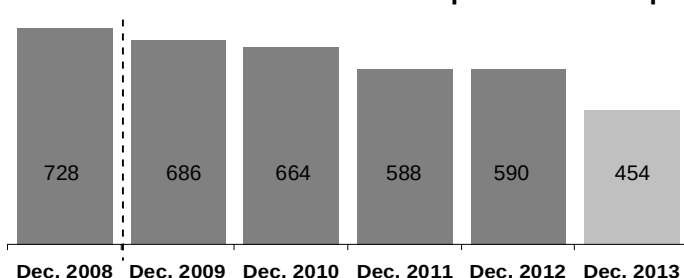
\*On 25 April, Saab announced it had lost a dispute in the Danish Supreme Court related to a command and control system for the Danish Army, DACCIS, developed to create common situational awareness and to monitor and lead forces. Under the verdict Saab was to repay the damages awarded by the Maritime and Commercial Court in 2012, payments received under the DACCIS contract, interest and court cost. MSEK 83 was related to interest costs and booked in Other net financial items.

# AMORTISATION OF CAPITALISED DEVELOPMENT

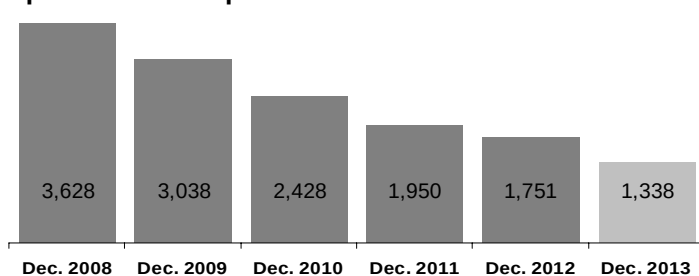
Capitalised development costs



Amortisation and write-downs of capitalised development



Capitalised development costs on the balance sheet



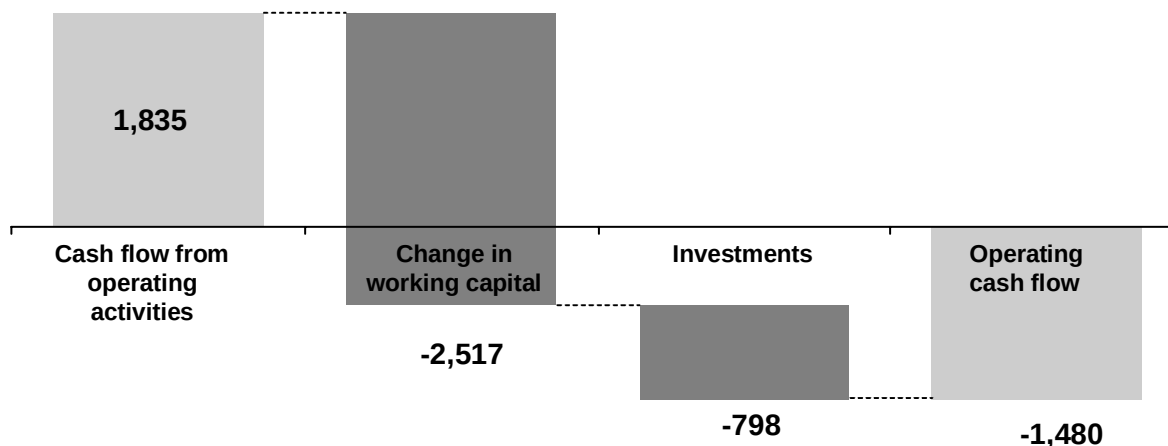
- View on criteria for capitalising development costs changed in 2009
- Since then, development costs are capitalised at a later stage in all projects and all capitalised development costs are amortised over maximum ten years
- Capitalised development costs at a higher level in 2012 due to the development of Gripen E

**Level of amortisation of capitalised development expenses in coming years:**

*Approximately MSEK*

|       |     |
|-------|-----|
| 2014: | 370 |
| 2015: | 350 |
| 2016: | 300 |

# OPERATING CASH FLOW 2013



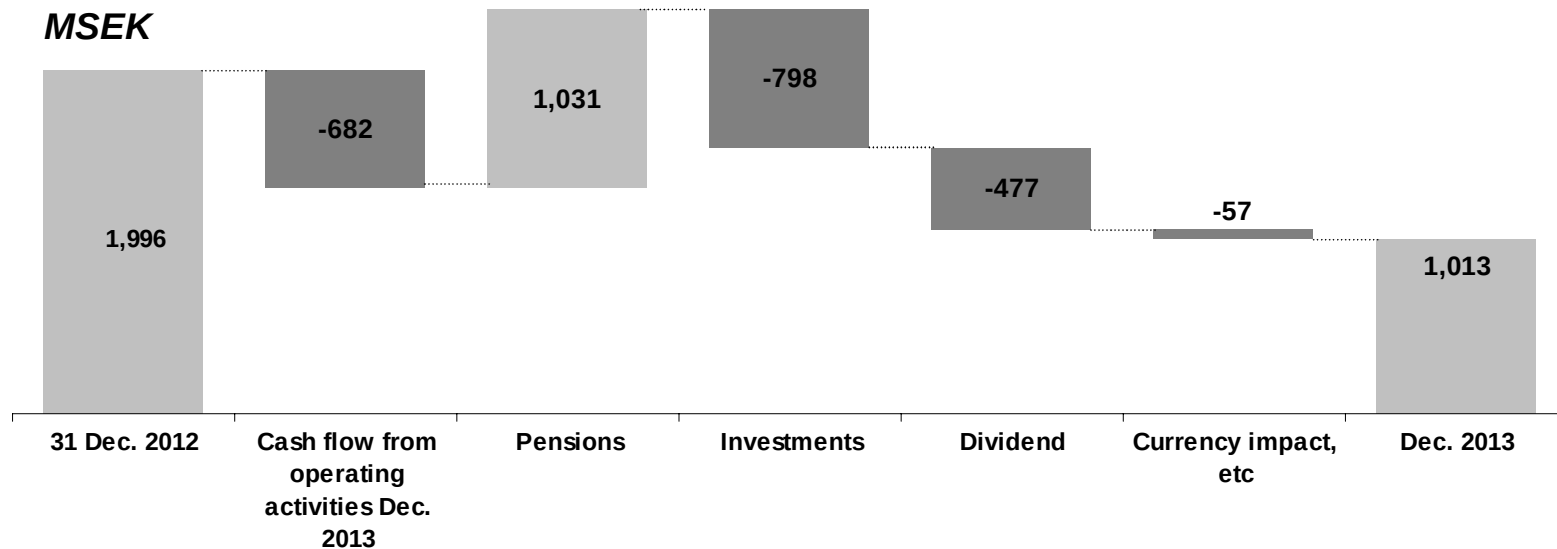
## Impact from change in working capital:

|                                                                                           | MSEK            |
|-------------------------------------------------------------------------------------------|-----------------|
| ➤ Inventories                                                                             | -147 (-199)     |
| ➤ Receivables                                                                             | -1,370 (707)    |
| ➤ Advances                                                                                | 287(-459)       |
| ➤ Other Liabilities                                                                       | -1,010 (-1,701) |
| • Impacted by build up of project activities and timing differences in milestone payments |                 |
| ➤ Provisions                                                                              | -277 (-509)     |

## Investments:

|                                  | MSEK |
|----------------------------------|------|
| Pipavav Defence                  | -247 |
| TIKAB                            | -11  |
| Hydrolek                         | -32  |
| Tangible fixed assets            | -543 |
| Sale of tangible assets          | 127  |
| Investments in intangible assets | -68  |
| Other                            | -24  |

# NET LIQUIDITY



- A strong balance sheet supports investments in marketing, research and development and mergers and acquisitions
- At the end of 2013 the Equity asset ratio was 43.8 per cent (39.0)

# FOCUS GOING FORWARD

- ▶ Order intake and backlog execution are top priorities
- ▶ Solidify Market Area organisation
- ▶ Secure impact from additional efficiency measures
- ▶ Drive operating cash flow improvement
  - Project tendering and execution
- ▶ Performance management





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