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Prepared Remarks

Johan Andersson
Head of Investor Relations | Saab

Good morning, everyone, and welcome to the Presentation of SAAB's Report for the Third Quarter 2026. My name is Johan Andersson, and I will be the moderator here today, and also responsible for investor relations. With me here in Stockholm, I have our CEO, Micael Johansson, and our CFO, Anna Wijkander. Micael and Anna will present the report, and thereafter, we will start a Q&A session. Remember, you can both ask your questions over the telephone conference, and you can also post your question via the web interface, and I will read them out here in the studio.

Johan Andersson
Head of Investor Relations | Saab

With that, warm welcome, and over to you, Micael.

Micael Johansson
CEO | Saab

Thank you, Johan. Most welcome also from my side. Thank you for joining this morning. Maybe not the best weather in Stockholm today, but still weather. Starting with the highlights of the quarter, of course, we still see a huge demand in the market, and investments are ongoing in many countries. Of course, it's a bit different in different parts of Europe to start with in terms of our region. I still think they're moving ahead quite quickly in the right direction. I mean, the Baltic States, the Nordics countries, and also Poland and Germany. We've had a very strong first nine months, and we have been growing more than 27% organically, and also grown our EBIT substantially with 39%. It's a strong year. Also this quarter, of course, which we'll come back to in more detail.

Micael Johansson
CEO | Saab

We continue to invest heavily in production capacity, and I will detail that a bit later in the presentation. We are on a rolling investment level of above SEK 8 billion a year, only in capacity investments, and that's absolutely necessary looking at our backlog now, which is now SEK 364 billion. We will show how that is stretched over time, but it's also quite a lot in the next two years. The rest is in a good way balanced over the next few years. We have a good cash flow, and we are strengthening our balance sheet as we speak. Of course, the cash flow is completely dependent on good payments from our customers, and we have had a couple of big ones this quarter supporting that. We are confident about our cash conversion.

Micael Johansson
CEO | Saab

Then, of course, we have done a couple of changes in my group management, supporting growth and innovation. I think we are moving into a bit of a new phase where, of course, we have to make sure that our existing products and capacity increases are coming into play. Also we are investing heavily in R&D to make sure that we are relevant in the future. That's a bit of a phase change, I think, and that made it a good timing to move a couple of new BA heads into my organization. I have a new business area head for Aeronautics, Marcus Wandt, who used to be my strategy responsible in corporate management. Also in the Dynamics business area, I moved Anders Carp, my Deputy CEO, into that BA position. But he will still remain as the Deputy CEO.

Micael Johansson
CEO | Saab

Looking at a few really strong things that happened during the quarter in terms of order bookings and contracting. This is a fantastic picture, of course, looking at a few big ones. A major milestone was, of course, being in Kyiv in early July, to sign the contract for the Gripen E. That is something that is just the start of a journey together with Ukraine on fighter aircraft. Having them now building up an air force with the Gripen, that will suit them fantastically in terms of how dispersed you can be, how agile you can be, and how much combat mass you will get from that. Everything will start with a donation of 16 C/D versions to Ukraine, as soon as possible. Then we will start our deliveries of the Gripen Es to Ukraine in 2029.

Micael Johansson
CEO | Saab

We also have contracted another country for GlobalEye during the summer, which we're not talking about exactly which country. That is really, really good as well, of course. The interest, as you know, for GlobalEye is substantial in the market. We are strong on the Naval side, and we have now combined the combat management area with more the submarine and surface vessels capability in one business area, as we talked about last quarter. Now during the summer, we got another contract for the German frigates to support or supply, I mean, sensors and fire control systems, and a few other things on these vessels, which is really, really good. I hope there will be more vessels coming of the same configuration now in the future.

Micael Johansson
CEO | Saab

We also continue our future journey when it comes to what sort of complements the Gripen E aircraft and what will be after the Gripen E. But then we're talking decades ahead. That will definitely be something sophisticated, unmanned, and that is supported by the Swedish end users and the Swedish Defence Material Organization. We got the contract on that as well. Of course, on the product side, one important contract was from Finland, the air defense system, RBS 70, during this quarter as well. Those are a few of the important things that highlights, you could say, in the marketplace. Our figures then, really good order intake. Huge increase from the comparative period last year, SEK 65 billion, almost SEK 66 billion. We are now at SEK 152 billion, nine months in order intake. As I said, the huge order backlog supporting our growth going forward.

Micael Johansson
CEO | Saab

Strong organic growth, about 30%, SEK 20+ billion in revenue. Also increasing our EBIT even more than the top line, reaching almost SEK 2 billion in EBIT. As I said, a very good cash flow, but of course that's connected to big customer payment, which it should be, because when we move into the large platform contracts, the business model must be that we get early milestone payments, and sometimes you can call it advance payments, but that's part of our business model to actually manage these contracts. Good cash flow means that we are, during the period up until now, at 77% cash conversion, which is excellent, above the 60% guiding. A few highlights from the four business areas to start with. As we talked about, the Gripen Ukraine contract was, of course, a major thing happening. Now Aeronautics is having a backlog of over SEK 100 billion.

Micael Johansson
CEO | Saab

Adding the new contract on the future systems from Sweden is very important to us. We have more than 600 people working the future of what is complementing Gripen E and also beyond the Gripen E contract already, just to create a sense that this is a really substantial project. We have had good execution and a couple of very important milestones to us is to fly the first two-seater version of the Gripen during the quarter. We also saw the first Gripen E from the Brazilian factory flying during the quarter. Very important to ramp up capability also in the Brazilian hub that we have, of course. Then we have now started to show how we see the future when it comes to the unmanned sophisticated capability, which we call and have named the fantastic name A3.

Micael Johansson
CEO | Saab

It might be called something else in the future, but that is an uncrewed aircraft which will complement the Gripen E, of course. Aeronautics is still affected by under-absorption and ramp-up cost when it comes to the T-7, as we have said before. Anyway, they are improving the profitability despite these facts. Dynamics, very good demand in the market across the portfolio, and the growth was 10%, and the EBIT was roughly 15%. I get questions on why is it not higher than that. This is a mixed business. We have batch deliveries, and every quarter is looking a bit different. I still say nine months is 24% growth and almost 18% EBIT. This is not something that is a trend looking at this quarter.

Micael Johansson
CEO | Saab

We have a huge backlog of over SEK 90 billion, so I see a solid year for Dynamics and a strong quarter going forward. We talked about the large order from Finland when it comes to air defense systems, and we also have collaboration projects like the IRIS-T SL missile, which we also got a rather large contract on that. We have still product contracts coming from U.S., both on the AT4 system, anti-tank weapon system, and also Carl-Gustaf. Very important product coming all the time. Still high book to bill too. We have, of course, a continuous implementation of the capacity investments we are doing in Dynamics. Lots of construction projects to build new capability, and I will come back to that. Surveillance, extremely strong quarter. Very well-positioned portfolio on the sensor side with, of course, the GlobalEye, which is really attractive in the market.

Micael Johansson
CEO | Saab

As you know, we have NATO selecting GlobalEye. We are negotiating a contract with them, roughly 10 aircraft. Canada has also selected in May the GlobalEye. We have signed now during the quarter term sheet, scoping the contract parameters. We are entering into a real contract phase now for Canada for six aircraft. The idea is to set up a hub in Canada to build these aircraft in Canada. SAAB is still taking the responsibility for the delivery to the customers, of course. But also during the quarter, we had Netherlands selecting GlobalEye, so they want to add one system to be operated from Sweden together with the Swedish Air Force, and that is a government-to-government agreement. But we, of course, will deliver the aircraft on a contract with the Swedish FMV. So that is going to happen hopefully now shortly and during the year.

Micael Johansson
CEO | Saab

There is a big push and execution, a positive thing happening within Surveillance, and the sensor business is really going in a good direction, including, of course, on top of that, we have the airborne early warning business. That drives the substantial growth of 65%. Also on nine months, they have a fantastic growth. We had a big splash last week when we rolled out the first Swedish GlobalEye. That was not in the third quarter then, but in the fourth quarter, and that is now coming into the air shortly. Sweden will get this capability early 2027 in operation. Naval, as I mentioned, the important contract for the German Navy when it comes to the frigates with momentum to get more on that side.

Micael Johansson
CEO | Saab

We have a substantial Naval business now in Germany, both for the frigates that are called 123, very special name, which is almost a very substantial contract refurbishing the whole ships and also adding our equipment. Now this contract that I mentioned, which is supporting the sensors and the combat management systems and fire control system to the German frigates named F128. We have, of course, started a submarine project together with Poland and already started our expansion on the Landskrona site, not only in Karlskrona. We have capacity expansion also on the Naval side to manage both the Swedish and the Polish contract, and this is going according to plan. A very important milestone for the future is that we have now demonstrated a fully autonomous underwater vehicle that will be an ISR sensing capability underwater, complementing and acting together with the manned submarines.

Micael Johansson
CEO | Saab

That is, of course, a demonstrator, but that also in the underwater domain we will see autonomous systems in the future. This investment that we have done on R&D and then supported by FMV is very important to us. Good growth, over 40%, and a huge backlog, of course, dominated by the Polish submarine contract. Also, Combitech has had a very good quarter growing again and good sort of momentum in the defense and telecom segments, of course, and had also a couple of specific contracts when it comes to weather systems and military radio system integrations. Combitech is a very skillful workforce that are involved in the AI developments for Saab, working using the Sferical data center that was inaugurated a week ago roughly, which Saab is a part of together with other industries.

Micael Johansson
CEO | Saab

We have compute capability to train our models, and Combitech is quite involved in that together with our common tech organization. We have had growth and also a good profitability level of almost 11% during the quarter. On the sustainability side, yes, our business is growing substantially, and so during the quarter, we actually had an increased emission, mainly due to lots of flight tests, both for GlobalEye and the Gripen side of things. But all in all, over time, looking at the science-based target objectives, we are on a good path meeting our objectives on that. We now have reduced our emissions 34% since we started this in 2020, and we have been recognized by Time magazine and Statista as the world's most sustainable aerospace and defense company. This is exactly what we have said.

Micael Johansson
CEO | Saab

We want to be a market leader in the sustainability area as a defense company. That's really nice to see. Then we have also published a climate transition plan showing how we will reach our science-based targets and eventually net zero emissions. Things are moving in a very nice way in this area as well. A few comments lastly on this capacity expansion, which is not only the product side of things. We talk a lot about all the constructions that we're doing in the western part of Sweden, but on the Aeronautics side, we're moving from roughly 15 aircrafts per year to between 25 and 30 aircraft per year. So lots of initiatives to grow capacity on that side.

Micael Johansson
CEO | Saab

Also, of course, making sure that when we now start flying the autonomous systems, which are the future capabilities, they must also be industrialized and manufactured. T-7 production is still ramping up. I mean, the levels we have to reach there is very high. It's somewhere between 50-80, depending on contracts going forward from the U.S. Air Force and others. We're investing doing that as well. Dynamics, you know, it's all about missile production and capacity and ground combat expansion. We will soon inaugurate now shortly, the U.S. facility in Grayling, Michigan, and a bit later, the India facility outside Delhi to support our growth here. That is moving in a good way.

Micael Johansson
CEO | Saab

Surveillance, I said that we have to go from two aircraft per year to six aircraft per year looking at the market interest and also on the contracts that we are now getting into the business. A huge capacity ramp-up for year of radars. We're talking hundreds of radars every year now, which has not been the case for a defense company earlier. That's good that we have production capacity both in Gothenburg but also in the U.K. Of course, I said that we're moving on to another site to do things also on the submarine side because we have to, in parallel now, work with the Polish contract and the Swedish contract.

Micael Johansson
CEO | Saab

There are also other type of businesses within the Naval side as the combat boats, so we're building a completely new facility in the northern part of Sweden to support expansion on that side. All in all, as I said, on a rolling 12, above SEK 8 billion in only capacity investments. This is important, but we have also grown our R&D investments 47% during the first nine months compared to the same period last year. It's both things you have to do simultaneously, of course, to be relevant in the market going forward. I think with that, yes, it's correct.

Micael Johansson
CEO | Saab

That was my last slide, and I will hand over to Anna then, who will dive a little bit deeper into the numbers.

Anna Wijkander
CFO | Saab

Okay. Thank you, Micael, and good morning, everyone, from my side as well. As you have heard, this was another quarter with high business activity. We closed several large platform contracts, and we continue to increase our deliveries to our customers. That is also reflected in our financial performance this quarter, with strong order intake, strong sales growth, EBIT growth, as well as a record high operational cash flow. We will soon dig into the details in the financials, but I will start with looking at some trends and taking a more long-term perspective to see where we are in terms of the period where we have guided for in our mid-term targets. Let me start with sales. We now have reached sales of SEK 93 billion on a rolling 12-month basis, and we have a compounded average growth rate during this period of 24%.

Anna Wijkander
CFO | Saab

The adjusted EBIT margin reached SEK 9.6 billion, and that corresponds to an even higher CAGR of 33% for this period. We are growing the EBIT more than we grow the sales, as we have said that we are going to do. Our operational cash flow for the last 12 months, rolling 12 months, correspond to SEK 14.1 billion, a substantial increase this last year. This is despite that we have increased our investments to SEK 8.1 billion. The cumulative cash conversion is now 77% for this period. A significant increase in our cash flow this quarter was related to large customer advance payments, which we now are going to use in our operations to make sure that we deliver on our customer contracts. With that, all together, we continue to deliver profitable growth while also maintaining a strong cash flow profile.

Anna Wijkander
CFO | Saab

Turning to the third quarter earnings and the development. Gross income increased by 32%, and the gross margin improved to 23.4%, compared to 22.9% last year, the same quarter. The improvement was mainly driven by sales growth, and also the business mix, reflecting a higher share of Surveillance this quarter. The group EBIT reached SEK 1.95 billion. That is an increase of 42% year-on-year. The EBIT margin increased to 9.5%, compared to 8.7% in Q3 2025. The main drivers here are also sales growth, but I also want to mention that we are leveraging on our sales and administrative expenses, and they contributed by 1.7 percentage points in the quarter.

Anna Wijkander
CFO | Saab

However, as we have said, we continue to increase our R&D investments in future capabilities, which is according to our strategy to continue to be relevant in the future, and that this increase is also going to be continued in the future. Turning then to the business areas, and let's start with Surveillance and Dynamics. Surveillance more than doubled its operating income this quarter from SEK 446 billion-SEK 939 billion, and the EBIT margin improved to 13.7%, up from 10.8% Q3 2025. This improvement was driven by the surface sensor business and the GlobalEye in particular, with higher volumes and good project execution. Looking ahead into Q4, I think I want to mention two things that you should remember: that last year in Q4, we had the capital gain from a divestment of the TransponderTech business of SEK 336 million.

Anna Wijkander
CFO | Saab

We also had impact in Q4 last year at Surveillance from the pre-start of the GlobalEye contract to France. This means that we are entering into a more challenging comparison period for Surveillance. Dynamics reported, as we heard, a bit lower margin this quarter, 14.3%, and last year we were at 19.3%. The lower result, this is reflected by the mix and also somewhat higher R&D expenses. This is very visible in the graph that the margins within Dynamics is varying a lot depending on mix and deliveries and something that we are used to seeing. All in all, we have a strong momentum in Dynamics, and as Micael said, this momentum supports a solid end to the year for Dynamics as well. Moving to Aeronautics and business area Naval. Both these business areas increased their EBIT compared to last year.

Anna Wijkander
CFO | Saab

Aeronautics delivered an EBIT of SEK 331 million compared to SEK 212 million, and the EBIT margin also increased to 6.8% compared to 4.8% last year. This was supported by good, strong product execution, also a favorable mix in this business area, and we have also seen an impact from our export contracts impacting this margin expansion. Continuing, we have the T-7 program, which is impacting our profitability negatively within Aeronautics. We have said that before, that we are in the ramp-up phase, and we are currently now also running on a bit higher negative impact from that program than the previously guided SEK 100 million per quarter.

Anna Wijkander
CFO | Saab

In the business area Naval, the EBIT margin was 6.1% compared to 7.5% the third quarter last year. A bit lower, though, but the underlying project execution remained good, and now with this order backlog that we have, we have a strong foundation for Naval's continued development. The lower margin this quarter is related to somewhat higher R&D expenses, as well as some start-up costs related to our capacity expansion within Naval. Altogether, these both business area increased EBIT while continuing to ramp up output to secure customer deliveries. Let's turn to our cash flow. For the first nine months, we have delivered a strong cash flow.

Anna Wijkander
CFO | Saab

Cash flow from operations, before changes in working capital, amounted to SEK 8.6 billion. The change in working capital this first nine months contributed SEK 5.7 billion, and it was driven by large customer payments, and that is including the advanced payment that we have received for the Polish submarine contract, as well as the advanced payment for the GlobalEye contracts. At the same time, we continue to invest significantly in our capacity expansion, and we have investing activities amounting SEK 6.5 billion during this period. The operational cash flow by then end at SEK 7.7 billion year to date.

Anna Wijkander
CFO | Saab

After financial items and tax, our free cash flow is SEK 5.1 billion. Altogether, a good cash flow, and also further strengthen financial position. Also worth mentioning is the improvement in our return on capital employed, that is now amounting to 16.7%. That is both driven by higher profitability, but also as better capital turnover. The strong cash flow has further strengthened our balance sheet during the quarter, and the net liquidity now amount SEK 8.7 billion, at the end of Q3, compared to SEK 2.5 billion at the end of the second quarter. The cash and liquid investment totaled SEK 26.1 billion.

Anna Wijkander
CFO | Saab

I would like to mention that during the quarter, we did our first euro-denominated bond transaction of EUR 300 million, with a seven-year tenor. This represents an important step for us, in the company's funding strategy to further diversifying our financing platform. In addition, from a financing perspective, we have an unutilized revolving credit of SEK 6 billion as well, and the net debt/EBITDA ratio was negative, minus 0.6x on a rolling 12-month basis. All in all, a solid and strong balance sheet. Let's turn then to our order backlog of SEK 364 billion. It's well-balanced today, across our four business area, with almost a quarter in each business area. Looking at the delivery profile, we have increased the backlog to be delivered in the final quarter with 18% compared to last year.

Anna Wijkander
CFO | Saab

For the next year, we are up 63%, amounting to SEK 102 billion to be converted into sales. We also see growth across all the delivery period, which is reflected by the larger platform orders that we have taken. Altogether, the backlog provides good visibility, both in near-term and long-term growth. Finally, let me turn to our medium-term targets. We remain confident in the targets for the period 2023-2027. They are supported by strong market demand, increasing defense spendings, as well as our large order backlog. We are also seeing benefits from higher delivery volumes and improved scalability across the company. All in all, we continue to invest in production capacity, technology for future capabilities, and that will support our longer-term development.

Anna Wijkander
CFO | Saab

Before we take the questions, I would also like to announce a final date in your calendar. That is that we would like to provide an early notice that we will have a Capital Markets Day on the 12th of May in 2027 in Linköping. Further information and registration details will be provided when we come closer to the event. But save the date for your calendar.

Anna Wijkander
CFO | Saab

With that, I hand over to you for the Q&A, Johan.

Q&A

Johan Andersson
Head of Investor Relations | Saab

Thank you very much, Anna and Micael. Let us start the Q&A session. Let's start with, I got two questions here over the web interface. First one to Micael. You saw a decline in the margins in Dynamics, it's coming from Piotr at Trigon. Do you see this as a trend, or do you see that we can move back here in the final quarter of the year? How should we view the year then for Dynamics? On that one also, you talked about increased R&D and also the mix in deliveries. What are you doing here in the R&D side in Dynamics?

Micael Johansson
CEO | Saab

No, I do not see this as a trend at all. I said that it differs between the quarters, and that was quite visible also on the slide that Anna showed. It depends on the batch deliveries and all that. As you see, they have a huge backlog, and they have a solid end of the year. This is not a trend, and if you look at the first nine months, it is almost 18% EBIT level and 24% growth. No, it is not a trend. Still high demand in the market. I look at this as a promising business going forward.

Micael Johansson
CEO | Saab

Yes, we have to invest in R&D. We actually have formed a new business unit within Dynamics, which is focusing on effectors that are more looking like drones rather than missiles or support weapon type of ammunition, because there will be loitering ammunition capability needed. There will be one-way effectors needed and a few other things. Then we, of course, work with the counter-UAS systems as well, partly with effectors from Dynamics, but also from the whole system side from Surveillance. That is the focus of our investments. Then continuously we look at new ammunition types for Carl-Gustaf support weapons as we speak.

Micael Johansson
CEO | Saab

Need for being relevant in the future, of course, but also increasing capacity. They are going in a very good way, I think.

Johan Andersson
Head of Investor Relations | Saab

Great. Thank you very much. Operator, should we see if you have any questions over the telephone conference?

Operator

Yes. The first question comes from the line of David Holmes from Bank of America. Please go ahead.

David Holmes
Analyst | Bank of America

Hi. Good morning, guys. Thanks for your time. I have a couple of questions. The first one's on the Aeronautics margin. I guess revenue slowed in Q3, but actually your margin expansion was, I think, 200 basis points. I think you called out mix as a driver here. Can you just help us understand what those mix tailwinds actually are and perhaps their sustainability?

Micael Johansson
CEO | Saab

On the Aeronautics margin, it is affected quite a lot by the T-7 ramp-up, and I've said that many times, but it's a bit of a struggle to get that ramp-up going. Well, now the U.S. Air Force have announced initial operation capability in August next year. It will be a ramp-up, but it will actually take a few years before we actually are up and running on the level of 50 systems per year that will generate a good business, and there are more contracts coming in as well. We are roughly, as Anna said, we're slightly above SEK 100 million per quarter now, but it's not that much above. We're roughly, on a yearly basis, at SEK 500 million affecting the Aeronautics margin.

Micael Johansson
CEO | Saab

The contracts on export that we have received are supporting the margin growth on Aeronautics. If you take away the T-7, so to say, it is on the level that we've talked about, sort of high single-digit numbers. So that's how I see it. The more volume we get on the Gripen going forward, of course, it will look even better, and then we ramp up deliveries. But we have to ramp up the T-7 and get out of this slow delivery pace that we have today at Boeing.

David Holmes
Analyst | Bank of America

Got it. Thank you. If I could just follow up on a question on the Naval margins. I think Q2 you had a provision that caused margins down. I guess, is there anyone else to flag in the Naval margin in Q3? Then I guess, I think you're talking about capacity expansion in the Naval segment, pressuring margins in Q3. Is that something that we should think about continuing for the next few quarters and perhaps only annualizing in Q3 next year?

Micael Johansson
CEO | Saab

I would say that the Naval margin, now it is a combination between the submarine contracts from Poland together with the Swedish contract improves the margin. There is no sort of specific negative thing, but we have the underwater business that is more about the tethered systems and the electrical ROVs and autonomous systems are still not fully profitable, which is pulling the margin down on the Naval side. Then, as you know, we have mixed it now with combat management systems, and we have one or two projects, not the German ones, but the one or two projects that are pulling the margin down. But the potential is definitely much higher than what you see here today in the mix of things. We see improvement going forward.

David Holmes
Analyst | Bank of America

Got it. Thank you very much. I will get back in the queue. Thanks.

Johan Andersson
Head of Investor Relations | Saab

Good. Thank you very much. Do we have any other in the queue from the conference call?

Operator

Yes. As a reminder, anyone who wishes to ask a question may press star and one on their telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from a question queue, you may press star and two. Questioners on the phone are requested to disable the loudspeaker mode while asking a question. In the interest of time, please limit yourself to two questions. Anyone who has a question may press star and one at this time. The next question comes from the line of Marie-Ange Riggio from Morgan Stanley. Please go ahead.

Marie-Ange Riggio
Analyst | Morgan Stanley

Yeah. Hi, thank you very much for taking my question. I have actually one question on the Polish submarine program, because you have already recognized some revenue in Q3. I am just wondering if you can quantify how much you have quantified in Q3, and how we should think about the revenue recognition for 2005 through 2038. Probably three on the Polish submarine program, we know that it will be diluted at the initial phase. Probably can you give any color about how long we should expect the initial margin dilution to persist, and what is the medium term margin potential of the program? Thank you very much.

Johan Andersson
Head of Investor Relations | Saab

Marie asked the question, just to summarize it, I think it was, you started to get revenues from the Polish submarine contract already now in Q3. Can you quantify it? How much was it? If it is a little bit dilutive in the beginning, when do you start to see that it is taking off in terms of margin, if you are sort of having other costs in ramping up here?

Micael Johansson
CEO | Saab

No, I just want to say that, yes, we have revenue from the Polish contract already because we started immediately cutting steel and stuff like that. I do not want to go specifically into different programs showing exactly what revenue we have. That is not something I want to guide upon. That will differ a bit between quarters depending on milestones that we have, of course, within the program and what is happening. Yes, it is up and running in a very good way, and so is the Swedish program. That is all I can say about the submarine contract.

Johan Andersson
Head of Investor Relations | Saab

Tagging on to the question, do you see the margin to be good over time here, or what is your view there in terms of when you are up and ramping with the production here?

Micael Johansson
CEO | Saab

No, as I said, the combination of the Swedish submarine program and the Polish one is a good one, and it is adding to increasing our margin in the Naval business. Absolutely. But I am not going to quantify it exactly. We do not give that guidance.

Johan Andersson
Head of Investor Relations | Saab

Thank you.

Marie-Ange Riggio
Analyst | Morgan Stanley

Okay, perfect. Thank you very much. Just probably just a quick follow-up because you just announced your CMD on May 12, which is great. Can you probably just give us a bit of color on what we should expect for the CMD in terms of projects focus or any midterm financial targets? Anything that you can say on that would be helpful. Thank you.

Micael Johansson
CEO | Saab

Detailed focus we will come back to, of course, but I would assume we will talk a lot about the capacity expansion that has come in play, but also what we are doing for the future type of capabilities. The guidance and the things we will come back to in the earlier part of the year. That will not be the main focus of the Capital Markets Day. That will be earlier. We have still five quarters to go now, but we, of course, understand that in the beginning of next year, we will talk more about how we will guide going forward in terms of period and also on what parameters. So that is not the main focus.

Micael Johansson
CEO | Saab

Of course, we will touch upon that, but that is not why we are calling for a Capital Markets Day in May. That is a bit too late to start talking about that.

Marie-Ange Riggio
Analyst | Morgan Stanley

Perfect. Thank you so much.

Johan Andersson
Head of Investor Relations | Saab

Thank you very much. Operator, do we have any further questions from the telephone conference?

Operator

Yes. We now have a question from the line of Fredrik Lithell from Handelsbanken. Please go ahead.

Fredrik Lithell
Analyst | Handelsbanken

Thank you. Thank you for taking my question as well. I had a little bit more broad-based question, maybe both for Micael and Anna to answer. Your sourcing situation, a lot of your products are dependent on semiconductors and also various metals. How do you work now to secure sourcing, and how do you make sure that you not source from risk countries, or that you mitigate that as much as you can? On that note also, do you have any long lead times, irrespective of what type of component or material it might be, and do you see price pressure upwards that are hard to mitigate in your situations? Thanks.

Micael Johansson
CEO | Saab

Thank you. Well, we can talk for an hour at least about all these things, because it is really something we put a lot of effort into, of course. It is different things. Of course, we work with this diligently, both in terms of making sure, as you said, that we avoid buying things from risk areas to more regionalize it. But then in the depth of the value chain, of course, you cannot control exactly what raw materials comes from where. Also the semiconductor part is, of course, important to have a continuous flow on. We see price increases, of course, on memories and semiconductors, looking at all the data centers. But we are not the big embracer or big user of these things in the sense that it affects our cost base dramatically.

Micael Johansson
CEO | Saab

Raw materials like aluminum and other rare earth minerals, we can actually store at quantities that will last for years. We are not the big user that it will affect our stock in a big way. But of course, we have resilience in our supply chain as the major focus now because things are happening every day and you have to have redundancy sometimes. You have to even maybe acquire companies to make sure that you are vertically integrated on certain things. Not so often on that side, but that can happen. What can I say?

Micael Johansson
CEO | Saab

It is all over the place, and you have to work it every day, in a mix of carrying a bit more stock, making sure we have redundancy, making sure we understand the politics and avoid certain areas, making sure that you have contracts protecting you from inflation perspectives and currency changes in a good way. It is a basket of things that we have to work with every day. But it is a very relevant question. If we talk about growth, this is probably the area where you have to focus the most to make sure that you can get your stuff out of the house in the frequency that we have today. I think we have done this in a good way so far, looking at the growth that you see, but it is not something you can be complacent about.

Anna Wijkander
CFO | Saab

Just to add, I can just add, we are working very hard on that, and it is very high focus. I think it is also worth mentioning that we are protected in our business and in our contracts with indexes, and that is something that we need to work continuously with, of course, in this situation as well.

Fredrik Lithell
Analyst | Handelsbanken

You have secured your situation with double sourcing on all accounts and all that, so that has already been taken care of since long, or?

Micael Johansson
CEO | Saab

As far as you can on certain areas, but you cannot have double sourcing on engines for a fighter, for example. Even though there is no risk there, of course. We have a great relationship with GE supplying the engines. Of course, on quite a few things further down the value chain, we have alternatives. We have to certify them for use in the military perspective. It is not a change you do from one week to the other. It is actually rather cumbersome to certify it and qualify it for use on what we do, but we do that as well. Absolutely.

Fredrik Lithell
Analyst | Handelsbanken

Great answer. Thank you. Thank you very much.

Micael Johansson
CEO | Saab

Thank you.

Johan Andersson
Head of Investor Relations | Saab

Excellent. Thank you. We have a question here for Anna coming from AlphaValue. This was a fantastic quarter in terms of cash flow. Very, very strong. Should we see this as a new level? How have you worked, should say, with your contracts? Is there something behind here that you are comfortable with cash flow? It shows also Q4 normally is a positive cash flow quarter. Can you elaborate a little bit around these parameters?

Anna Wijkander
CFO | Saab

It is a very good question, and as we said, this quarter, we had several customer advance payments, which impacted this level in the quarter. However, having large advance payment or early milestone payment is important for us when we grow the company as much as we do because we need to invest early, we need to have money to be able to deliver on the contracts. This is something that I would say that we have focused very much on and have been better on when it comes to our contracts that we have taken.

Anna Wijkander
CFO | Saab

Looking into how Q4 is going to look like, I can say that we are going to end this year with a strong cash flow, so I think we can stay with that.

Johan Andersson
Head of Investor Relations | Saab

Thank you. Thank you very much. Operator, do we have any other one in the telephone conference queue for a question?

Operator

Yes. The next question comes from the line of William Balksten from SB1 Markets. Please go ahead.

William Balksten
Analyst | SB1 Markets

Yes. Thank you, operator, and good morning, Micael, Anna, and Johan. Just one main question here, if I may. How does the margin in the backlog compare for Surveillance with the 13.7% we saw this quarter? How much operating leverage should we expect as GlobalEye goes from two to six aircraft a year? Thank you.

Micael Johansson
CEO | Saab

The backlog is a mix of large platform contracts and product-oriented things. As you know, the platform things are having a slightly lower margin than the product side. To go into exactly what that means for Surveillance is maybe not so easy, but I think Surveillance should be on reasonable levels. I've said always above 10%. That depends also on how many sensors on the product side they sell and also how many GlobalEyes they sell. If I simplify things, they have more in the portfolio, of course. I would say driving this sort of profitability and growth, that's the sensor side and airborne early warning, definitely. We have lots of good things in the backlog on that side, as you can see.

Micael Johansson
CEO | Saab

Of course, we will get some leverage on the GlobalEye when we expand from two to six aircraft, but we also have to establish another hub, which is sort of an investment into this. We have a good flow of things in Linköping, sort of finalizing these aircraft, but you need to get up and running, of course, on that also in Canada, which is not happening day one. That is something you have to take into that equation. You get operational leverage, but it may be affected a bit by establishing a new hub.

Anna Wijkander
CFO | Saab

And also maybe to add on that, these GlobalEye contracts, they are normally delivered during a longer period than the product contracts that we have. It is also a mix from that perspective in the backlog, how it is going to turn out.

Micael Johansson
CEO | Saab

But we have a good backlog. We are pleased with the backlog, definitely.

Johan Andersson
Head of Investor Relations | Saab

Great. Did you have any other question?

William Balksten
Analyst | SB1 Markets

Yes, just one more short term. You currently have capacity investments of around SEK 8 billion a year. Is that level we should expect over the next couple of years, or are we closer to a peak here?

Micael Johansson
CEO | Saab

I would say looking at this the way we see it, we might still have a rather high level also the coming year at least. But then it's more hard to say, that sort of might be the peak levels that we see 2026, 2027, and then we might come down a bit. Not exactly how much I will say, but this is now when we're doing this sort of last year, this year, next year.

Johan Andersson
Head of Investor Relations | Saab

Great.

William Balksten
Analyst | SB1 Markets

All right. Thank you.

Johan Andersson
Head of Investor Relations | Saab

Thank you very much.

William Balksten
Analyst | SB1 Markets

Let me get back in line.

Johan Andersson
Head of Investor Relations | Saab

Perfect. Excellent. Maybe a quick question that came in here. You have a quite a large investment worth in Helsing. What's the strategy and the view on that from your perspective and the benefit for Saab?

Micael Johansson
CEO | Saab

Well, I mean the equity investment is of course minor in terms of percentages. The collaboration on AI and other things with Helsing is the more important part of things to get a few shortcuts into that area because AI and AI agents are instrumental to us in our systems as well going forward. That was the whole idea, so to say. Now of course the valuation from the last round is of course improving also the investments as such, having a bigger value. That was not sort of the important thing when we went. It was the collaboration.

Johan Andersson
Head of Investor Relations | Saab

Great. Another question from Royal Bank of Canada. On the unmanned side, when do you think in time here that can start to become meaningful? We understand that you partly get this financed to some extent as well, but when do you see this to become larger?

Micael Johansson
CEO | Saab

I think in the Western world demand now, you see what is happening in Ukraine. Millions and millions of drones are being used every year, and they have a fantastic capacity of all kinds of drones. We are looking into different types of unmanned capability. What we are doing on the Aeronautics side is more of a sophisticated capability, but cheaper than a fighter aircraft of course, a lot cheaper, but that can actually carry substantial weapon capability, but also sensing and they are supposed to come back, so to say. They can act on their own, but they can also act together with the Gripen E fighter, for example. They are not attritable, but they can still take a bit more risks since they are unmanned.

Micael Johansson
CEO | Saab

Then we have the lower segment that we are seeing investments coming into play as we speak. The new business unit in Dynamics is doing one-way effectors that can be used either for counter-UAS applications or for, as I said, one-way effectors in terms of actually being almost a missile, but it is a drone. It is not that huge volumes yet of drones are being acquired by all the defense forces in Europe, for example. We are talking tens of thousands maybe rather than millions because they are training and incorporating these in their concepts of operations as we speak.

Micael Johansson
CEO | Saab

There will have to be that capability in all armed forces going forward. It is now and going forward, I would say. To quantify it is difficult in the Western world, but it will be in the portfolio and it will be in our market from now and onwards.

Johan Andersson
Head of Investor Relations | Saab

Interesting future there. Operator, do we have any further questions from the telephone conference?

Operator

Yes, we now have a question from the line of Sash Tusa from Agency Partners. Please go ahead.

Sash Tusa
Analyst | Agency Partners

Thank you very much indeed. Good morning. I have just got a couple. The first, I wonder whether you could just talk a little bit more about the scale of the startup costs for T-7. Are those startup costs increasing because the production volumes are increasing? Or are there costs that are independent of the ramp that are increasing to a bigger extent than you had previously forecast? Then the second question, purely detailed, but you mentioned the GlobalEye contract for an undisclosed customer in the third quarter. I think you implied in your initial comments that that was for a new customer. I wonder if I could check that I heard you right. Thank you.

Micael Johansson
CEO | Saab

On the last question on the GlobalEye, yes, a new customer to us. Absolutely. Still undisclosed.

Sash Tusa
Analyst | Agency Partners

Still undisclosed.[crosstalk].

Micael Johansson
CEO | Saab

Still undisclosed, you heard right. When it comes to the ramp-up cost on T-7, it is a combination of investing in more tools to automize the line in a more proper way. It is adjusting the line a bit to make it more suitable for higher volumes. It is lots of training when it comes to people, and making sure that the turnover rate on employees is not as high as it has been for certain periods of time. Things like that. It is hard to say exactly. Some of it is, as you say, independent of the ramp-up thing, but some things we invest in now and working with are definitely connected to the ramp-up.

Micael Johansson
CEO | Saab

All in all, you have a factory and you have a big amount of people working in the factory, and the flows, the number of aircraft getting out of the factory right now is not high enough to support that. That is the simple equation. It is both what you said, of course. We are getting there, definitely. It is the most modern factory that we have, but it is not easy to move a production facility in the Aeronautics arena from the center of gravity in Linköping with all the Aeronautics competence to a new place in West Lafayette, and the training, finding the right people, and having that as a separate working entity.

Micael Johansson
CEO | Saab

We are investing a lot to make that happen because there will be hundreds and hundreds and hundreds of aircraft leaving that facility. It is worth every investment that we do. Of course, I want to see the under absorption go down and not go up, really. Right now, we are on the level of roughly SEK 500 million on a yearly basis.

Sash Tusa
Analyst | Agency Partners

Great. Thanks so much. That is really useful.

Johan Andersson
Head of Investor Relations | Saab

Thank you very much, Sash. Operator, do we have a final question from the telephone conference? I think we have two minutes scheduled left here.

Operator

Yes. The next question comes from the line of Afonso Osório from Barclays. Please go ahead.

Afonso Osório
Analyst | Barclays

Hello. Good morning. Thank you for taking my question. Just one last one on Canada, Micael. If you can expand on your, or if you have any update on your negotiations with Canada for the Gripen and GlobalEye? I think just to double check, I think last time we spoken Q2, you said it was for the GlobalEye for six aircraft in your negotiation. Is that still the case? Has anything else changed in the meantime? Thank you.

Micael Johansson
CEO | Saab

On the GlobalEye, we have signed, as I said, a term sheet now, scoping, setting the framework for the final contract, and negotiations are ongoing. I cannot exactly say a date and time when it will be signed, but we are moving ahead according to plan on that side. We are talking about six aircraft, that is correct. On the Gripen side, we are running a campaign to convince everyone that it is a good match to have a dual fleet with the F-35, is good at certain things, and Gripen gives a combat mass perspective and can be used at dispersed air bases and all that. Then we are setting up a hub to manufacture the Gripen in Canada, so lots of industrial collaboration. But that is a political decision to say, "Yes, we want this sovereign capability in Canada," and then I think we are the best partners.

Micael Johansson
CEO | Saab

We have a fantastic offer, but it is still a political decision to take for Prime Minister Carney. But we are campaigning as much as we can to make it happen. I will be there myself next week at an Aerospace Summit conference in Canada, so I will have more of a feeling where we are after that conference, I think.

Afonso Osório
Analyst | Barclays

That is great. Thank you.

Micael Johansson
CEO | Saab

Thank you.

Johan Andersson
Head of Investor Relations | Saab

Thank you. That sounds promising, Micael. Anna and Micael, for joining us today. If you have any further questions, just reach out to the investor relations team during the day here. With that, we close the conference for the third quarter 2026 now, looking forward to host you when we are reporting our Q4 results. Thank you very much.

Micael Johansson
CEO | Saab

Thank you.

Anna Wijkander
CFO | Saab

Thank you.