



ANNUAL AND SUSTAINABILITY REPORT 2018

# Partnerships for greater security



## Mission.

To make people safe  
by pushing intellectual  
and technological boundaries.

## Vision.

It is a human right  
to feel safe.



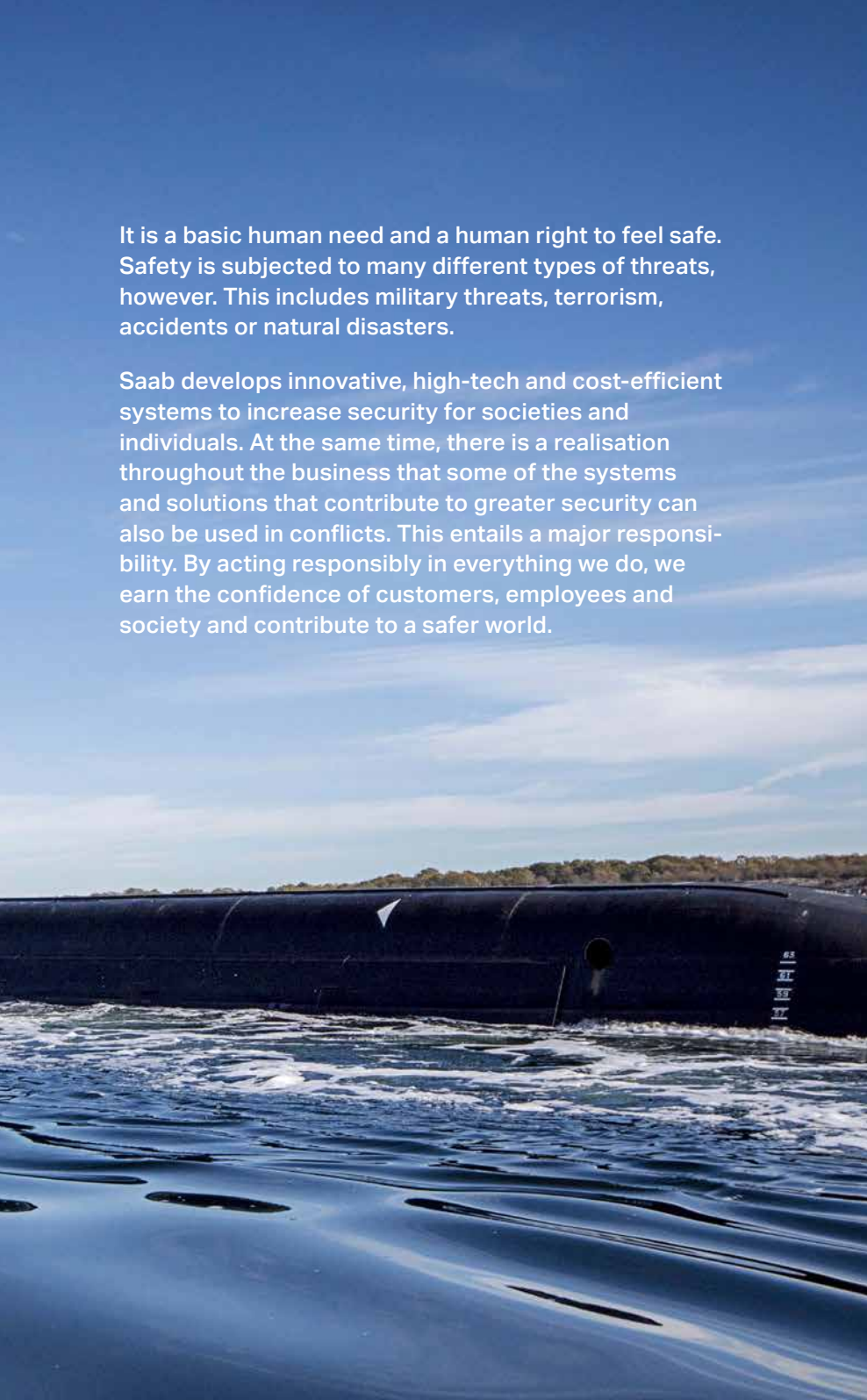
Saab has seen strong growth in recent years at the same time as the strategic focus has sharpened. Saab has three strategic priorities.



The T-X is a totally new, advanced pilot training aircraft developed collaboratively by Boeing and Saab specifically for the U.S. Air Force.



Sustainability is an integral part of Saab's strategy. The sustainability report provides an overview of Saab's sustainability work.



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, high-tech and cost-efficient 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 can also be used in conflicts. This entails a major responsibility. By acting responsibly in everything we do, we earn the confidence of customers, employees and society and contribute to a safer world.

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## About this report

Sustainability priorities are integrated throughout the annual report. Pages of 52–67 the report describe Saab's sustainability work in greater detail. The formal annual report comprises pages 38–135. Certain figures have been rounded off, so tables and calculations do not always add up exactly. A printed copy of the annual report can be ordered from [servicecenter@servistik.se](mailto:servicecenter@servistik.se).



# Saab serves the global market with world-leading products, services and solutions from military defence to civil security. Saab has operations and employees on every continent.

## Important events during the year

- During the first half year, Finland selected Saab as a major supplier for the Finnish Navy's Squadron 2000 Mid-Life Upgrade programme. Within the framework of the programme Saab signed a contract to produce and deliver the New Lightweight Torpedo, the first export order for this new product.
- In March, Saab made a successful first flight of the GlobalEye Airborne Early Warning & Control aircraft in Linköping, Sweden. GlobalEye combines air, maritime and ground surveillance in one swing-role solution.
- In May, Saab unveiled an aerostructures plant for Gripen: Saab Aeronáutica Montagens (SAM), in the city of São Bernardo do Campo, in São Paulo state, Brazil.
- The U.S. Air Force announced in September that it had selected Boeing to supply a new advanced pilot training system. In October, Saab received its first T-X related order from Boeing.
- Saab's Board of Directors resolved on 18 November, by virtue of the authorisation from the Extraordinary General Meeting on 16 November 2018, to increase the company's share capital through a SEK 6 billion rights issue of series A and B shares. The issue was successful.

### Saab's long-term financial goals

5%

Organic sales growth will average 5 per cent per year over a business cycle.

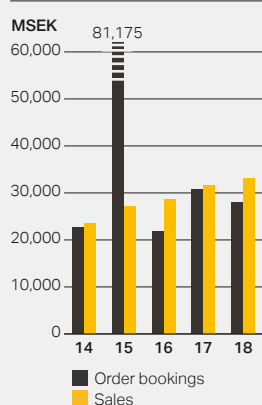
10%

The operating margin (EBIT) will average at least 10 per cent per year over a business cycle.

30%

The equity/assets ratio will exceed 30 per cent.

### Order bookings and sales



### Operating margin EBIT (%) and operating income EBIT (MSEK) by business area

|                             |     |
|-----------------------------|-----|
| Aeronautics, 8.4%           | 680 |
| Dynamics, 10.1%             | 535 |
| Surveillance, 8.5%          | 631 |
| Support and Services, 12.5% | 685 |
| IPS, 3.3%                   | 202 |
| Kockums, 5.3%               | 173 |

### Saab's long-term financial goals, %

|                              | 2018 | 2017 | 2016 |
|------------------------------|------|------|------|
| Organic sales growth         | 4    | 11   | 5    |
| Adjusted operating margin, % | 7.7  | 7.1  | 6.3  |
| Equity/assets ratio          | 35.0 | 31.7 | 32.3 |

### Financial highlights, MSEK

|  |         |         |         |
|--|---------|---------|---------|
| Order bookings                           | 27,975  | 30,841  | 21,828  |
| Order backlog at year-end                | 102,184 | 107,233 | 107,606 |
| Sales                                    | 33,156  | 31,666  | 28,631  |
| Operating income (EBIT)                  | 2,266   | 2,250   | 1,797   |
| Operating margin (EBIT), %               | 6.8     | 7.1     | 6.3     |
| Adjusted operating income                | 2,564   | 2,250   | 1,797   |
| Adjusted operating margin, %             | 7.7     | 7.1     | 6.3     |
| Net income                               | 1,366   | 1,508   | 1,175   |
| Earnings per share, SEK (after dilution) | 11.21   | 12.70   | 9.79    |
| Operational cash flow                    | -2,424  | 1,388   | 2,603   |
| Free cash flow                           | -3,195  | 852     | 2,359   |
| Dividend per share, SEK                  | 4.50    | 5.50    | 5.25    |
| Equity/assets ratio, %                   | 35.0    | 31.7    | 32.3    |
| Saab's GHG reduction (relates to 2017)   | 3.3     |         |         |
| Percentage of female managers            | 25.1    | 25.2    | 24.5    |
| Percentage of female employees           | 23.4    | 23.2    | 22.6    |
| Internally funded R&D, share of sales, % | 6.7     | 6.5     | 7.2     |
| Number of employees at year-end          | 17,096  | 16,427  | 15,465  |



## Saab's operating structure is divided into six business areas



### Aeronautics

Aeronautics is a world-leading manufacturer of innovative aviation systems and is engaged in the development of military aviation technology. The Gripen fighter and Saab's share of the T-X training aircraft both fall within this business area, which also conducts future studies of manned and unmanned aircraft.



### 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.



### Surveillance

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; Command, Control, Communications Computers and Intelligence.



### 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

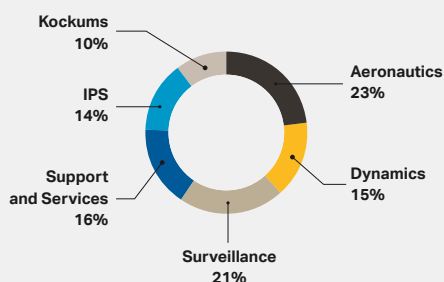
The business units within Industrial Products and Services, which are mainly focused on civilian customers, include Aerostructures, Avionics, Traffic Management and the consulting business Combitech.



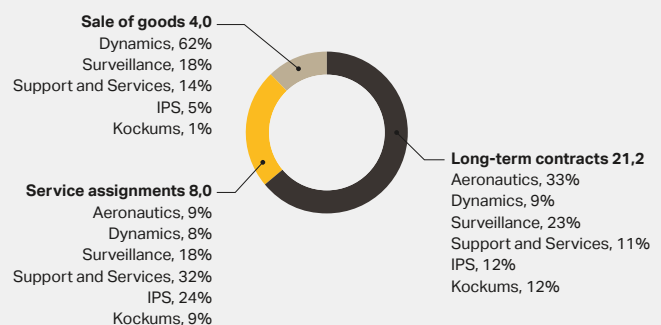
### Kockums

Kockums designs, delivers, and maintains world-class solutions for naval environments. The portfolio includes submarines with the Stirling system for air independent propulsion, surface combatants, mine hunting systems and autonomous vessels. Kockums' unique competence is in signature management, impact strength and advanced stealth technology.

### Sales per business area



### Sales by significant source, SEK billion



## Innovation creates a strong base for the future.

**Saab is developing in a positive way, but we cannot become complacent. We have to stay focused on the future by investing in research and development and we have to keep pace with our changing world. Companies that want to continue to grow have to invest more than ever in the right technology and strive to be more competitive both short- and long-term.**

### **Stronger capital base**

Saab's work increasingly involves international collaborations and large-scale projects. From this perspective, a robust balance sheet is essential in order to be an effective partner and to be a sustainable business. The approximately SEK 6 billion rights issue last autumn allows Saab to continue to execute its strategies with renewed confidence. We are very grateful for the strong support of our shareholders in strengthening Saab's capital base.

### **Standing firmly on two legs**

Sweden is a country dependent on exports. Swedish companies have never had a large home market and been forced early on to look abroad for growth. As a result, they are often globalized in terms of their customer base and employees, as well as production and supply chains. This is also true to a growing extent of Saab, which today is totally dependent on exports and partnerships with other countries to stay on the technological forefront and grow. But more than most of our multinationals, Saab has its production base in Sweden, and the relationship with our largest customer,

the Swedish defence forces, and Swedish authorities is critical to our success. Saab was founded just before World War II for the specific purpose of guaranteeing the nation's supply of high-tech defence materiel. Political decisions in Sweden continue to this day to set the basic terms for our business. Saab's role in Sweden is still to secure access to defence materiel and high-tech skills. Today we stand firmly on two legs: a base in Sweden and an increasingly export-oriented business.

### **Changes in the market**

At the same time, the world is changing faster than in a very long time. We are increasingly affected by geopolitics, international political tensions and protectionism. This is a trend that could threaten Swedish business opportunities. Add to that the impact and speed of technological development and you get a very demanding business landscape that requires agility and continuous product and service improvement.

To stay competitive, Saab must adapt to the changing business landscape, which means securing more international partner-



**"By co-operating with various partners, Saab can both expand in Sweden and broaden its operations outside the country."**

ships and investing heavily in technology and development, while also improving efficiencies and holding costs in check.

#### **Co-operation for future technology**

By co-operating with various partners, Saab can both expand in Sweden and broaden its operations outside the country. A large part of Saab's investments is made with partners in various parts of the world. A good example is the collaboration with Boeing to develop the T-X training aircraft, which is helping Saab to strengthen its U.S. presence as well. Saab is also participating actively in the current alliance to strengthen the European defence capabilities and the defence industry.

While the Board of Directors placed a priority during the year on the major development programs in the product portfolio, new investment in research and development also remains important.

#### **Positioned for the future**

Saab's long-term financial goal is to continue to grow sales and profitability. This is necessary to secure the funds we need to continue to invest in the future.

During the year, we intensified efforts to improve productivity within the company, where a number of measures will be taken. Looking a few years ahead, this will result in a more focused product portfolio and a level of profitability that allows us to continue to invest in technological development.

Saab today has a strong market position and invests greatly in technology to build on



this position. In this way, we stay competitive, create new business and help our customers to improve their defence capabilities. We also build know-how and contribute to the depth and breadth of Sweden's defence capabilities.

Stockholm, February 2019

Marcus Wallenberg  
*Chairman*



## Saab stands firmly to take the next step in its growth journey.

**It has now been several years since Saab began the journey to create a stronger market position and broader international base. This continued in 2018, and now it is time to take the next step. Saab creates solutions that make people and society safe. To ensure that this mission can be fulfilled in the future, Saab has to continue to develop cutting-edge technology, at the same time as we continue to become more efficient and more productive.**

### **Strengthened market position and several milestones in development projects**

Saab strengthened its market position during the year after several customers selected our solutions and we expanded cooperations in many parts of the world. Several milestones were reached in major development programmes with successful results. For example, a number of flights were flown with Saab's GlobalEye airborne early warning and control system, and in October a Gripen E was test-flown for the first time with the Meteor long-range air-to-air missile. The flight with Meteor was part of the ongoing weapon integration in the Gripen E test flight programme. A flight was flown with the second Gripen E as well. In addition, the Swedish submarine HMS Gotland was launched in connection with its Mid-Life Upgrade.

### **Partnership for strengthened growth and local presence**

For many years, Saab has been working to broaden and strengthen its business outside Sweden. We do so consistently through direct collaborations with armed forces and other

authorities in various countries and through partnerships with other defence contractors. During the year, Saab partnered with BAE Systems, along with Lockheed Martin Australia among others, to deliver Australia's Hunter-class frigates. Saab will integrate the combat management system, weapons and sensors on these vessels. In the U.S., the Air Force selected the T-X training aircraft from Saab and Boeing. Boeing is the designated prime contractor for this new, advanced system, which will help to train future generations of fighter pilots. Together, Saab and Boeing have designed, developed and tested the customised T-X trainer included in the system.

### **Strong demand for Saab's offer**

Order bookings during the year amounted to SEK 28 billion, with an increased backlog of small and medium-sized orders. At year-end 2018, the order backlog amounted to SEK 102 billion, 67 per cent of which consists of orders outside Sweden. Our order backlog remains strong and is now 3.1 times higher than our sales. Growth during the year was





**"Creating solutions to make society safe is our mission. And it is why we have to continue to invest in developing cutting-edge technology and constantly strive to be faster and more productive."**

robust for small and medium-sized orders, which shows that large parts of the business are seeing high demand. Sales rose by 5 per cent to approximately SEK 33 billion.

#### **Increased focus on a more efficient organisation**

We continued in 2018 to make our operations more efficient. The focus has been on further standardising and creating aligned business processes, so that they contribute to faster customer deliveries. To complement our continuous efficiency work, two major initiatives were launched to improve productivity under the names "Re-sizing" and "Re-shaping", the first measures of which were taken in the second half of the year. A review is being conducted of Saab's product portfolio, with the aim to reduce it, and of the marketing organisation with the aim of making this more efficient. Due to developments in automation and digitisation, Saab has decided here as well

to focus more than before on standardisation within the framework of the "Re-shaping" initiative.

A significant non-recurring expense of MSEK 298 was reported for the identified productivity improvements. Adjusted operating profit increased by 14 per cent to MSEK 2,654, with an operating margin of 7.7 per cent.

#### **Research and development strengthens competitiveness**

In a rapidly changing world, Saab has to continuously adapt to competitive conditions. This means keeping our offering updated, which is why we invested 23 per cent of sales in research and development in 2018. A large part of this work is done together with customers in various parts of the world. Combining their needs with the future opportunities that technology offers is critical when developing Saab's products and services. Collaboration is required between industry, authorities and academia to achieve the best results.

#### **Ready for the next step**

Saab is on a growth journey. Today's order backlog supports this continued journey, at the same time that we see further opportunities for growth. Capitalising on these opportunities requires investments in new partnerships and new technologies. To strengthen the financial base and make sure Saab can capitalise on these opportunities a rights issue of approximately SEK 6 billion was made in 2018. The rights issue was oversubscribed and I would like to thank our shareholders supporting our journey. Saab now stands strong for the years ahead and the great opportunities in the market. Our 17,000 employees will drive this continued growth through their talents, commitment and ambition.

Stockholm, February 2019

Håkan Buskhe  
*President & CEO*

## Saab has a number of fundamental strengths and competitive advantages that will help us to stay ahead also in the future.

### Focus on delivering world-leading products

The focus in the defence materiel market is on product performance and availability. In armed conflict, high demands are placed on reliability and precision. To earn customers' trust, Saab has focused on delivering the highest possible product performance and reliability based on generations of development and an in-depth understanding of customers' needs. Examples of Saab's leading export position, which is also a result of this performance focus, include the Carl-Gustaf multi-role weapon, which has been sold over to 40 countries; the Giraffe, Sea Giraffe and Arthur radar systems, which have been sold to more than ten countries; the Gripen fighter system, which has been sold to six countries; and camouflage systems from Barracuda, which have been sold to over 60 countries. Saab intends to maintain this focus on developing innovative solutions and has a number of ongoing development projects.

### Prioritise effective and agile research and development

Saab has a history of developing new products and platforms in a timely and cost-efficient manner, thanks to which the Group can be agile in the market and effectively meet customer demand for new products. Saab's ability to keep development costs low is appreciated by customers, who often share the economic risks in major development projects. Since large projects can be complex and potentially risky in terms of both time and cost, Saab can utilise its strength as a reliable partner as a competitive advantage.

Through continuous investments in research and development, a long-term view of product lifecycles and qualified employees, Saab has been able to limit development times and costs while maintaining or improving quality. Saab attaches great importance to developing modular and flexible products with long lifecycles and invests the necessary resources in research and development (R&D) and competent personnel to stay on the forefront of technological development.



### Prioritise selected markets and a strong local presence

Through acquisitions and by building operational and market oriented businesses as well as various partnerships, Saab has established a presence in selected markets such as Australia, the U.S., the UK and South Africa. Saab is also established in Brazil through the technology transfer programme for Gripen's development. The collaborations with Boeing on the T-X trainer aircraft and with Raytheon on guided ammunition for the Carl-Gustaf have further strengthened Saab's presence in the U.S. Saab believes that a strong local presence and opportunities for more collaborations better enable it to offer a combination of products and solutions, both large systems and small products. New products and solutions can in turn provide access to new markets.

### Knowledge gained through generations of development and close collaborations

The Group's production is highly advanced and the skills of its employees are essential. Saab as a company has contributed over generations to maintaining Sweden's technological readiness by maintaining a culture that encourages development and curiosity. Talented people and long-term collaborations with the Swedish armed forces have repeatedly proven to be the key to successful system and product development, and Saab will continue to focus on talent and work with other companies and armed forces to improve future products.

The Carl-Gustaf man-portable weapon system has been sold to over 40 countries.

# 18%

Share of employees outside Sweden



## Saab's strategy to stay a step ahead and maintain a strong market position while meeting customers' needs in an optimal way, is based on three key components: market, innovation and performance.

### Three-pronged strategy

To achieve the strategic and financial goals that have been set, Saab operates based on specific objectives. Saab is working to further strengthen its presence in key markets, develop innovative solutions and acquire companies in priority areas. Internally, efficiency programmes are used to continuously improve productivity.

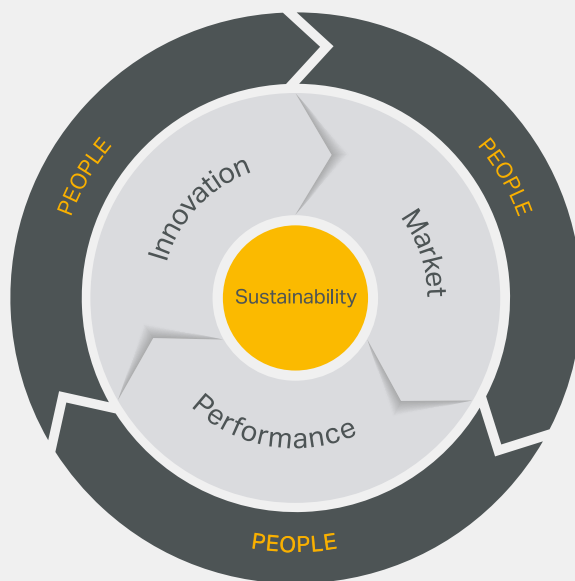
### Employees and sustainability are key elements

The focus is on continuously developing leaders and employees to build a culture focused on performance, innovation and motivation. Saab's employees drive the business forward and sustainability is reflected in everything

Saab does. Saab is an international partner that contributes to increased security and defence capabilities in Sweden and other countries, which is the foundation of Saab's commitment to sustainability.

### Positive development

A local presence close to customers creates stronger relationships and collaborations and greater insight into customers' needs. Better understanding these needs creates opportunities to develop the right combination of products and solutions, which in turn means that Saab also becomes more efficient and more focused on project execution, marketing and sales.



### Market

Through a strong local presence, partnerships and collaborations, the focus is on areas where Saab's market position is strong and on strengthening its position in areas with good growth opportunities. A long-term approach and responsible business deepen customer relationships and provide greater insight and opportunities to meet future demand for products and services.

### Innovation

The product portfolio is concentrated on innovations in five core areas where diversity and engaged employees drive innovation.

### Performance

The focus is on continuously making functional processes more efficient, developing, producing and delivering more efficiently in a shorter time to meet customer demand and increase their capabilities, implementing an even more business-oriented culture, and developing leaders and employees.

## Saab's strong growth in recent years has been supported by conscious choices about markets, international partnerships, and research and development.

### A stronger strategic focus...

Since 2016, Saab has had three strategic priorities: market, innovation and performance. Sustainability is fully integrated in the strategy and affects everything Saab does. Saab's innovative capabilities and cutting-edge expertise in systems integration, combined with being close to customers around the world, create unique opportunities to share insight and know-how with customers. In this way, Saab can stay a step ahead and meet the market's growing security needs with new and innovative sustainable solutions. At the same time, Saab is working continuously to execute more efficiently in order to meet long-term profitable growth targets.



**Market** – Focus on selected markets as well as a strong local presence, partnerships and collaborations.

**Innovation** – The product portfolio is concentrated on innovations in Saab's five core areas with the goal to deliver world-leading products and solutions.

**Performance** – Continuous improvements to functional processes, project execution and the way we operate.

### ...has led to an attractive offering and a strong market presence...

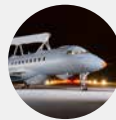
When geopolitics and technological development changed the international defence market at the end of 2008, Saab took a number of strategic decisions to ensure a strong, long-term market position. Major investments were made over several years to develop the product portfolio, secure core technologies and create a new marketing organisation. All in an effort to create a platform for stable and profitable growth. Several new platforms were developed, such as the new generation Gripen for Sweden and Brazil, five completely new ground-based



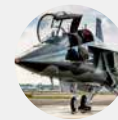
**Gripen**



**Submarines**



**GlobalEye**



**T-X trainer**



**Other**

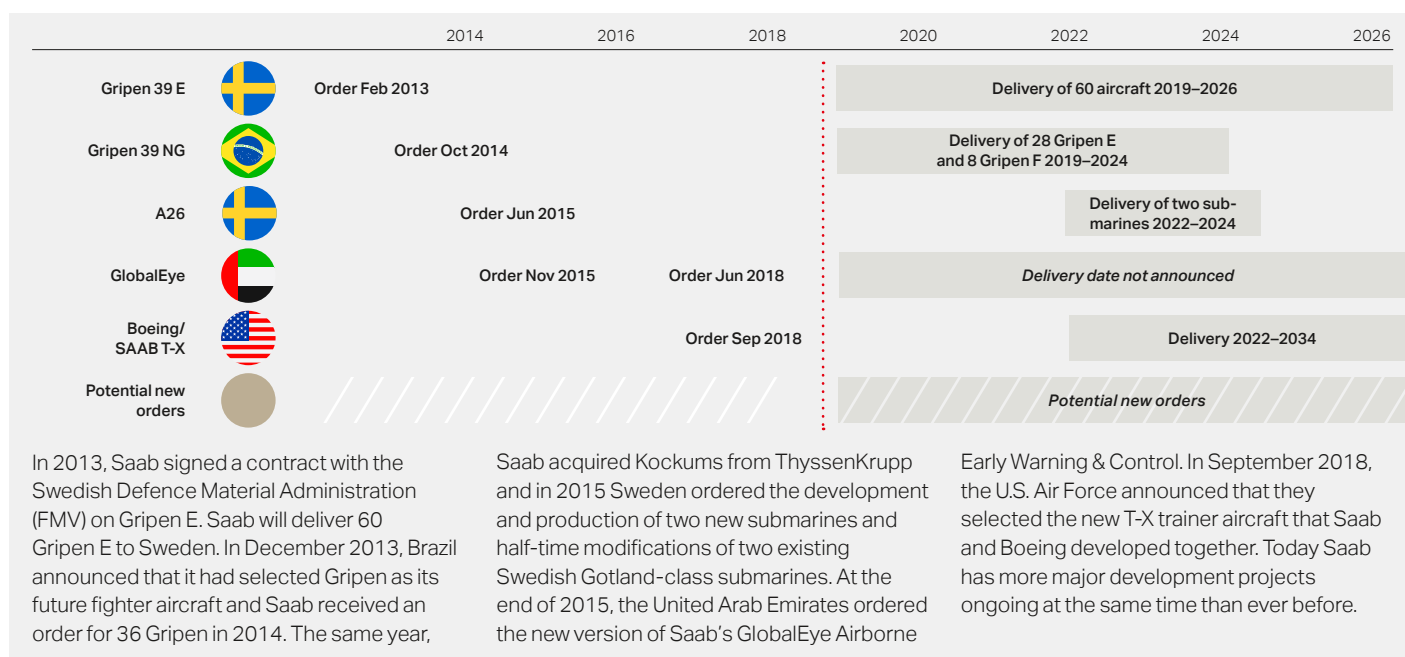
and naval radar systems, the new-generation Carl-Gustaf weapon system, the new A26 submarine for Sweden, and a new generation of the GlobalEye Airborne Early Warning & Control system. Saab's experience from Gripen's devel-

opment was also an important part of the partnership with Boeing to develop the T-X trainer for the U.S. Air Force. Today Saab has a strong global presence and, thanks to its unique product portfolio, a highly attractive offering.

#### Saab's marketing organisation



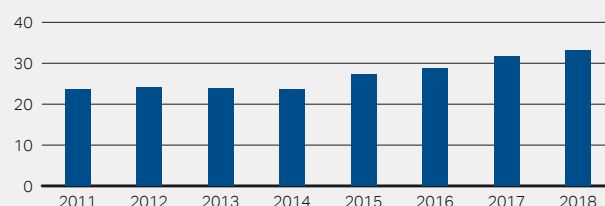
## ...which has resulted in a number of major orders...



## ...which has driven growth.

Since 2014, Saab has had strong sales growth, driven by the major development projects it is currently working on.

Sales, BSEK



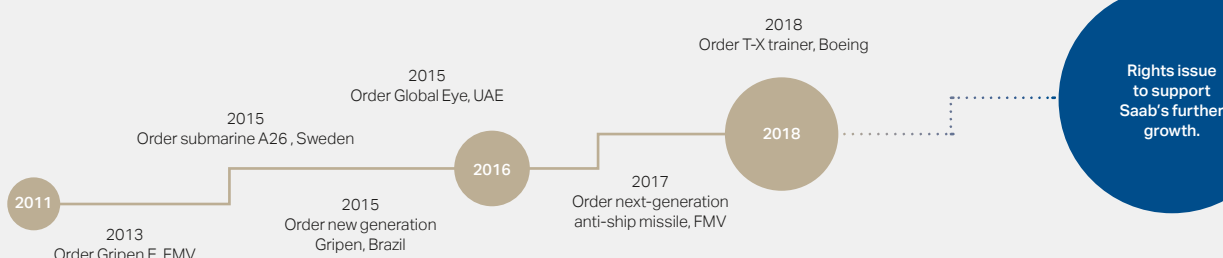
## Saab is now ready for major orders and collaborations.

The U.S. Air Force's choice of Saab and Boeing for the T-X programme is a first step in a completely new era for Saab. It not only the foundation of a partnership with Boeing for many years to come, but also opens up many opportunities for major new orders and partnerships in the rest of the world. The order is proof that Saab has demonstrated its unique capabilities in terms of being able to collabo-

rate and to build the world's best aircraft at a reasonable cost. As defence budgets rise in many regions of the world, Saab sees good opportunities to further strengthen its existing order backlog and increase future growth.

To facilitate this growth, however, Saab must be able to successfully compete for major new orders. This requires a strong capital base, which builds long-term customer

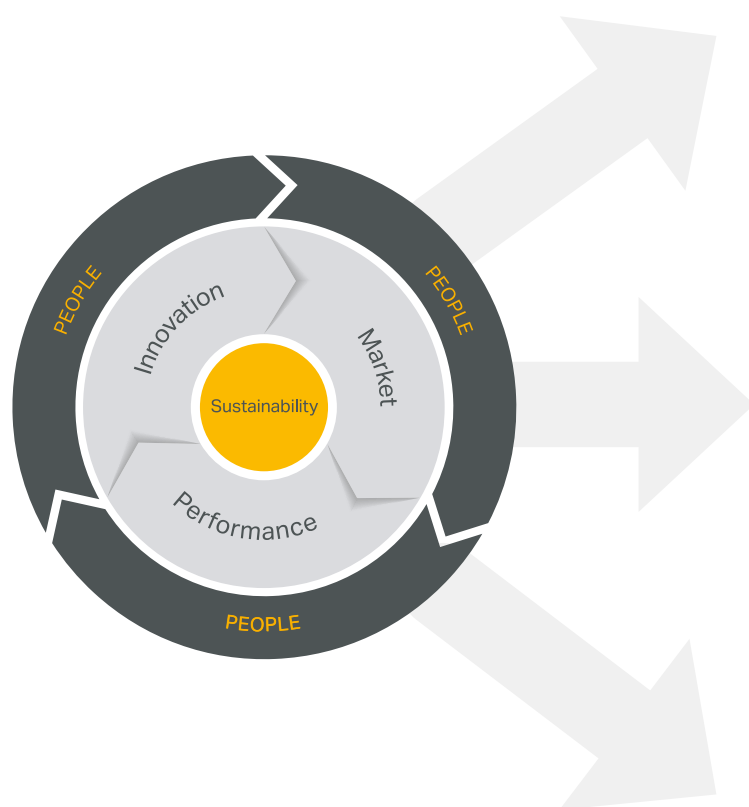
confidence and provides opportunities for further growth through new orders and larger collaborations and partnerships, while also creating room for increased investment in development, production and working capital. To support its continued growth, the company decided in October to further strengthen the balance sheet through an approximately BSEK 6 rights issue.





## The road to reach the long-term goals has been staked out through priority activities in the three strategic focus areas.

A number of initiatives were taken in 2018 to further streamline the organisation in order to achieve the long-term profitability goals and create room for further investments in research and development. All business areas and Group functions have well-defined savings programmes in place, and extensive analysis work is underway on marketing, the product portfolio and digitisation of internal processes.



### The road ahead

|                    |  |
|--------------------|--|
| <b>MARKET</b>      | <p><b>More focused marketing in selected markets</b></p> <ul style="list-style-type: none"> <li>• Industrial partnerships and technology transfers</li> <li>• Focused marketing investments</li> <li>• Increased local presence and partnerships</li> <li>• Increased medium-sized order bookings</li> <li>• Compliance with export regulations</li> <li>• Zero tolerance for corruption</li> </ul> <p><a href="#">Learn more on pages 16–23, 56–57 and 62–63</a></p>  |
| <b>INNOVATION</b>  | <p><b>Reduced and more concentrated product portfolio</b></p> <ul style="list-style-type: none"> <li>• Invest in pioneering technologies</li> <li>• Concentrate the product portfolio on innovations in five core areas</li> <li>• Increased R&amp;D collaborations with selected customers internationally</li> <li>• University partnerships</li> <li>• Attract talent and promote education and an interest in technology</li> <li>• Promote diversity</li> </ul> <p><a href="#">Learn more on pages 24–29, 60–61 and 64–65</a></p> |
| <b>PERFORMANCE</b> | <p><b>Higher degree of digitisation and process simplification</b></p> <ul style="list-style-type: none"> <li>• More efficient processes</li> <li>• Digitisation and automation</li> <li>• Information security</li> <li>• Develop leaders and employees</li> <li>• Responsible supplier relationships</li> <li>• Reduce GHG emissions, increase resource efficiency and phase out hazardous chemical substances</li> </ul> <p><a href="#">Learn more on pages 30–35, 58–59 and 60–64</a></p>  |

| Long-term goals   | Results 2018   | Connection to the UN's Global Goals   |
|---|--|---|
| <ul style="list-style-type: none"> <li>• Be well-established in selected markets and have a strong local presence</li> <li>• Organic sales growth will average 5 per cent per year over a business cycle</li> </ul>   | <ul style="list-style-type: none"> <li>• 71 per cent of order bookings and 67 per cent of the order backlog were outside Sweden</li> <li>• 18 per cent of our employees were outside Sweden</li> <li>• Organic sales growth was 4 per cent</li> </ul> <p><b>71%</b><br/>order bookings outside Sweden</p>                    |  <p>Peace, justice and strong institutions with the target of substantially reducing all forms of corruption.</p>  |
| <ul style="list-style-type: none"> <li>• Be an industry leader in innovation in the five core areas</li> <li>• Have a product portfolio consisting of technologically leading solutions and products adapted to the market's needs</li> <li>• Established products and services based on digital capacity, secure communication and effective data management that meet the customer's requirements</li> <li>• At least 25 per cent of employees and 30 per cent of managers will be women by 2025</li> </ul> | <ul style="list-style-type: none"> <li>• 6.7 per cent of sales was invested in self-funded research and development</li> <li>• 54 PhD candidates during the year</li> <li>• 23.5 per cent of employees and 25.1 per cent of managers were women</li> </ul> <p><b>54</b><br/>PhD candidates</p>                               |  <p>Quality education for all.</p>  <p>Gender equality.</p>  <p>Encourage innovation and substantially increase the number of people working research and development.</p> |
| <ul style="list-style-type: none"> <li>• The operating margin (EBIT) will average at least 10 per cent per year over a business cycle.</li> <li>• The equity/assets ratio will exceed 30 per cent</li> <li>• Reduce Saab's GHG emissions by 33 per cent by 2030 (related to 2017)</li> </ul>  | <ul style="list-style-type: none"> <li>• The operating margin adjusted for non-recurring items was 7.7 per cent</li> <li>• The equity/assets ratio was 35.0 per cent</li> <li>• GHG emissions from Saab's operations decreased by 3.3 per cent (related to 2017)</li> </ul> <p><b>7.7%</b><br/>Adjusted operating margin</p> |  <p>Climate action.</p>  |

## The geopolitical climate Saab operates in is characterised by increased uncertainty and rapid technological development.

In 2018, geopolitical uncertainty increased, which led many countries to invest more in their defence capabilities. At the same time, rapid technological developments are making it possible to continuously develop more effective defence and security solutions.

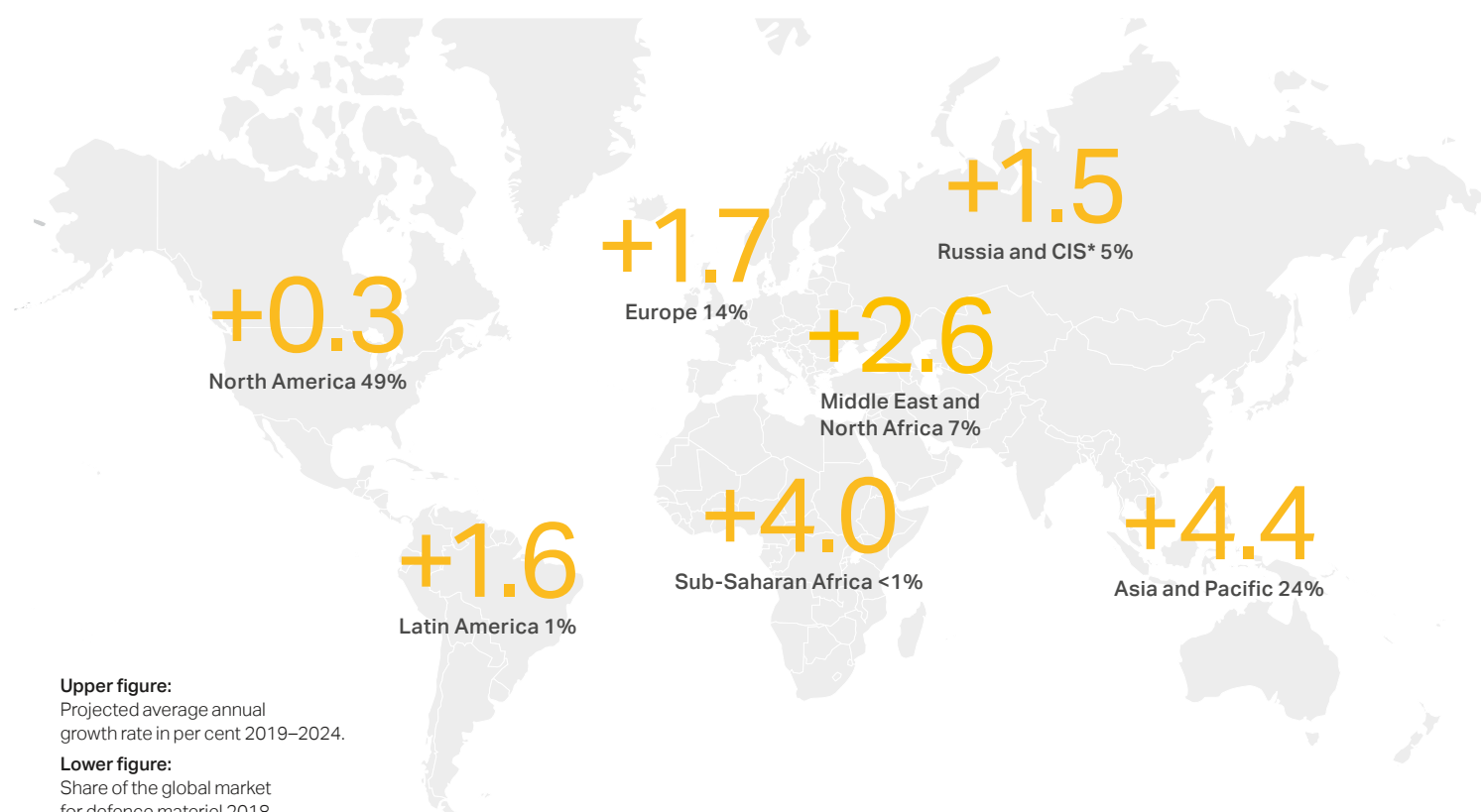
Saab's products are sold to over 100 countries and the company currently operates in 35 countries. Research and development are concentrated in Sweden. Saab has employees mainly in Europe, South Africa, the U.S, Australia and Brazil.

### Saab's markets

Saab is active in the defence market and in commercial aeronautics, infrastructure security and traffic management with solutions, services and products where Saab is either the main supplier of platforms and systems directly to the end-customer or is a subcontractor of subsystems and components. Saab also supplies consumables, spare parts and training. Saab categorises its main markets as the defence market

and commercial markets with submarkets as shown in the following matrix, which describes which business areas are active in each market segment. For the full-year 2018, 85 per cent of sales was from defence-related products and services, while the remaining 15 per cent related to commercial products and services.

| Business area                    | Market segment |      |       |                    |                                 |                                   |
|----------------------------------|----------------|------|-------|--------------------|---------------------------------|-----------------------------------|
|                                  | Defence market |      |       | Commercial markets |                                 |                                   |
|                                  | Air            | Land | Naval | Air                | Security and traffic management | Technological consulting services |
| Aeronautics                      | ■              |      |       |                    |                                 |                                   |
| Dynamics                         | ■              | ■    | ■     |                    | ■                               |                                   |
| Surveillance                     | ■              | ■    | ■     |                    |                                 |                                   |
| Support and Services             | ■              | ■    | ■     | ■                  | ■                               |                                   |
| Industrial Products and Services | ■              |      |       | ■                  | ■                               | ■                                 |
| Kockums                          |                |      | ■     |                    |                                 |                                   |
| Share of sales, 2018             | 85%            |      |       | 15%                |                                 |                                   |



**Upper figure:**  
Projected average annual growth rate in per cent 2019–2024.

**Lower figure:**  
Share of the global market for defence materiel 2018.

Source: IHS Janes

\* Commonwealth of Independent States



## Market trends

### Security policy

In recent years, geopolitical turmoil in the world has forced many countries to reassess their defence capabilities, both nationally and multilaterally. This, together with the fact that several countries in Europe have been the target of terrorism, has led to increased defence budgets. Multilateral alliances such as NATO and the EU are also investing more in their defence capabilities.

### Saab's response

Saab's customers want to work with sophisticated suppliers that understand global interdependencies as well as their specific situation. In the last decade, Saab has built up a marketing organisation with local hubs around the world at the same time that the product portfolio has been upgraded. The organisation has meant that the company can maintain close and lasting relationships with customers wherever they operate.

### Collaborations and interoperability

Security concerns have forced many countries to invest more in recent years in national defence and security at the same time that the need for multilateral peacekeeping has remained high. The peacekeeping operations are staffed and equipped by different countries, and demand is increasing for defence systems that are designed to easily work and integrate with those of other countries. Similar demands are placed on national armed forces, since they are expected in the event of a conflict or war to collaborate with allies.

### Saab's response

This trend requires Saab to develop cost-efficient and intelligent systems that can be coordinated and integrated with other systems. Cooperations and development together with customers and partners have shaped Saab from the start. Saab's solutions and systems are designed for collaboration and integration. This is the company's core competence.

### Cost-efficient products and solutions

Defence spending is limited at the same time that demand for cost-efficient and modern defence and security systems is growing. This applies to products that have already been developed as well as new ones that have to be developed together with customers. For existing products and systems, customers mainly want proven, robust systems at a low initial price and short delivery times. It is also critical that the products can be used and maintained cost-efficiently. When developing advanced systems, Saab has to be able to offer customers an organisation with access to the highest technological expertise and research resources at a reasonable cost.

### Saab's response

Saab has worked for a very long time with the Swedish defence and the armed forces of several other countries, which makes it uniquely qualified for collaboration and systems integration. Saab has always had to cost-efficiently integrate systems from different suppliers when designing its solutions and products. This has resulted in lower costs for Saab and its systems and solutions, and a cost-efficient product lifecycle.

### Technological development

Information and communication technology (ICT) has permeated today's society. A growing number of processes at all levels are being digitised, increasing vulnerabilities. Secure and resilient systems and solutions are a necessity. The rapid technological development is facilitating faster development of systems with new capabilities.

### Saab's response

Saab reinvests a large share of its sales in research and development. The company has always invested in robust solutions to protect against disruptions and attacks for its entire offering. Close, continuous dialog with customers, partners and universities ensures that Saab is a technological leader in its specialties. In addition, faster development cycles require an improved and more efficient development and delivery process. Saab develops and is constantly raising the efficiency of internal processes to stay on the forefront.

### Sustainable solutions

In a global world with limited energy resources, environmental degradation and climate threats, companies have to commit to social and environmental sustainability. In 2015, the UN introduced new sustainable development goals and challenged businesses to adopt them.

### Saab's response

The environment and sustainability in a broad sense are guiding lights for Saab. The company's environmental work is evaluated and reported annually. Saab helps to develop solutions that combine higher energy performance with lower costs and less impact. With energy savings and green technology transfers and innovation, Saab also contributes to technological and economic development in the markets where it is active.

### Industrial collaborations and technology transfers

More and more countries are demanding extensive industrial cooperations in connection with defence purchases. This cooperation can mean transfers of technology or knowledge, research partnerships or assistance in building up the local industry. The primary aim is to develop the local capabilities and industry.

### Saab's response

Since its systems and solutions are known for interoperability and systems integration, Saab is able to offer local collaborations and technology transfers. A close cooperation with Swedish authorities and other companies has been important to the development of Sweden's defence capabilities as well as for other countries. With employees on the ground in the local market, Saab also gains a better understanding of the country's needs, capabilities and procurement processes.

## STRATEGIC PRIORITIES

# Market



The market Saab operates in, both nationally and internationally, is changing rapidly, and Saab has to act faster to stay ahead. The focus is on areas where the company has a strong market position and on further strengthening that position in areas with good growth potential.

71%

of order bookings  
outside Sweden

67%

of the order backlog  
outside Sweden

4%

organic sales  
growth

**Saab is a long-term, reliable business partner and promotes an open and transparent market. A local presence, partnerships and collaborations are critical. They provide greater insights and opportunities to offer the right combination of products and solutions.**

#### **Industrial cooperations and technology transfers**

Industrial cooperations are an important element in Saab's international growth. One of the cornerstones of the company's strategy is to increase its local presence in priority markets with growth potential. To achieve this, cooperations with local companies, research centres or others in the community are an important component.

Not all defence deals require industrial cooperation. Some countries do by law, but others do not. There are countries where the customer will decide from one deal to the next whether an industrial cooperation is needed and how it is structured. The focus from Saab's side is to always abide by market terms and create long-term profitability. In this way, industrial cooperations support Saab's strategy to be more local and work closely with customers for the benefit of all the parties involved.

Saab participates in several innovative, broad-based partnerships between industry, the public sector and the research world. These partnerships expand on Saab's know-how and make it possible to better understand and meet customer demand.

#### **Partnerships**

One strategy Saab uses to reach new markets is through partnerships or as a subcontractor. The partnership with Boeing on the T-X trainer for the U.S. Air Force is an example, and during the year successfully produced an initial order. The T-X is not the only example, however. In the U.S., Saab is a subcontractor to several major defence contractors, and in other markets it is as a partner that Saab reaches new markets and customers.

#### **Increased local presence**

A local presence and greater business orientation are critical to win important deals in an increasingly complex market. Saab's strong local presence creates more opportunities to offer the right product and solution. Saab develops and evaluates its offers continuously in order to capitalise on growing opportunities in more markets around the world. Through its strong base in Sweden and local presence in over



30 countries, Saab is able to maintain close contact with all its customers.

A local presence is critical for both defence or civil security solutions.

#### **Targeted marketing initiatives**

Since 2013, Saab's marketing organisation has been divided into market areas. In the current organisation the five market areas are: Europe, North America, Latin America, the Middle East & Africa and Asia Pacific. This organisation has strengthened Saab's local presence in selected markets and helped it to grow mainly outside Sweden. Saab focuses its investments on markets where it already has a strong position and on areas with good growth potential.

For customers, this means access to more specialised skills, at the same time that Saab gains stronger insight into the market. Today Saab works closer to customers than ever before and is better able to offer the right combination of products and solutions.

Major international deals come with opportunities and demands to establish operations in the customer's country. Here marketing plays a role, to show customers that they are getting something back not only through the deliveries but also in the form of jobs and industrial development.

After a comprehensive Mid-Life Upgrade (MLU) to meet future naval challenges, the Swedish HMS Gotland submarine was launched in June 2018.

Saab has established operations in a number of countries. This applies to both production and development. In Brazil, a new production facility was opened in 2018. At the same time, development work is being done there to develop the two-seat version of Gripen NG, Gripen F. In the U.S., Saab will establish a production unit that will be ready when series orders for the T-X are expected from the U.S. Air Force. The business areas Surveillance, Dynamics and Support and Services already have operating units in the U.S. Saab's operations in Australia are another example of a successful long-term local presence.

#### Increased medium-sized orders

For Saab, it is important to have a steady inflow of small and medium-sized orders. The delivery time to the customer is shorter than for more complex solutions, and as a result it takes less time to convert the orders to revenue and profit. The installed base, i.e. previously sold solutions, is important to grow medium-sized orders, since a large percentage of small and medium-sized orders are often tied to an upgrade of previous orders for complex systems. During the year, medium-sized orders increased by 44 per cent.

#### Export compliance

For Saab, it is essential to comply with defence export regulations. This is critical to maintain trust in the business.

The majority of Saab's exports are from Sweden, where the Swedish Agency for Non-Proliferation and Export Controls (ISP) determines on behalf of the government which defence products Swedish industry may sell to which countries. The export of defence materiel requires a permit from the competent authority. Such permits can be issued if there are security and defence policy reasons for the export and 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 involved.

Saab also has its own internal processes to weigh in risks associated e.g. human rights when evaluating new business opportunities. Just like licensing authorities, Saab conducts an overall assessment in which several factors are considered. The Company's position is that trade with other countries can be a way to foster positive development.



#### Zero tolerance for corruption

Saab is a long-term, reliable business partner and promotes an open and transparent market. Corruption has negative consequences for society and business and is something Saab can never accept. Saab is guided by its fundamental values, the Code of Conduct, current laws, industry codes of conduct and clearly defined internal processes to prevent corruption risks. Prior to each deal, the Company performs corruption risk analysis. If Saab cannot satisfactorily minimise and manage the identified risks, Saab withdraws from the deal.

To gain entry to new markets, multinational companies often hire marketing consultants and other partners in the selling process. Saab does as well. This can help to understand how a market works, but can also increase exposure to corruption risks. Saab therefore applies a strict process in which cooperations with marketing consultants and other partners in the selling process are evaluated and approved by a central function at Saab that manages all such relationships. These partners also have to undergo special training and pledge to abide by Saab's ethical values and guidelines. During the year, Saab launched a special process to manage corruption risks in connection with industrial cooperations (see next page).

A global high-tech leader, Saab offers products, solutions and services in defence and security. In 2018, the Group had customers in over 100 countries. The Giraffe AMB radar is shown above.



## In 2018, Saab broadened its preventive anti-corruption work and developed a special process to manage corruption risks associated with industrial cooperations.

### Three of Saab's employees offer their views on Saab's anti-corruption work and the new process.

"Saab is on the cutting edge in fighting corruption. Our processes are continuously upgraded and adapted to new laws and regulations, so that we can continue to do business ethically. One example is the new process to assess industrial cooperations, thanks to which we can feel comfortable knowing that we are working with companies that have an ethical compass and no skeletons in the closet."

*Johan Wretman*  
Commercial Director  
Business Area Surveillance



"By continuously improving our processes, the bar has been raised on how we deal with corruption issues. Saab's progressive stance on corruption inspires confidence and is essential to a sustainable business. The driving force is to constantly strengthen the business culture at the same time that the tools we use have to fit the complexity of our business and our

need to cooperate with local partners around the world. One example worth mentioning is the new process for industrial cooperations, which includes better screening and more in-depth risk analyses."

*Lamija Dzuho*  
Commercial Manager  
Business Area Dynamics

"Structured, dedicated anti-corruption work clearly separated from businesses with a high risk of corruption is extremely important and one of the success factors for Saab in the current business environment. The new process for industrial cooperations clarifies internal responsibilities and roles. Since Saab's industrial cooperations with local partners

will undoubtedly grow in the future, it is especially important that our expertise in this area is continuously expanded."

*Åke Falck*  
Legal Counsel  
Group Legal Affairs



# Saab today has a distinctly global footprint and delivers security and defence capabilities to customers around the world.

In an increasingly complex market, a local presence is critical to win strategically important deals. By gradually expanding its local presence, Saab's has created international partnerships and strengthened its market position in the world in recent years. Many important orders for high-tech platforms have led to an increased internationalisation and a unique portfolio. Today Saab is on every continent.

When Saab signs large defence contracts, they usually contain more than just a product sale. Many countries also want technology and

skills transfers as well as various forms of industrial cooperation that in addition to strengthening the country's defence capabilities are designed to build up industrial know-how and contribute to positive economic development. For Saab, there are benefits to spreading knowledge through technology transfers. People from different companies, organisations and cultures meet and come up with new business ideas that create value for all the parties involved. Many times this generates new business and opportunities for growth.

Saab also participates in a number of other collaborations, including close development partnerships with suppliers and customers. Saab contributes to broad-based innovation partnerships between industry, academia and the public sector. These partnerships expand Saab's knowledge base while strengthening relationships with customers. Diversity and different ways of thinking drive innovation, and the fact that Saab conducts research and development work on several continents makes the company more competitive.

## North America



North America and the U.S. have the world's largest defence budget – both historically and for the foreseeable future. A very strong defence industry means, however, that the U.S. only imports about 1 per cent of its total materiel. For Saab, this makes a local presence and collaborations with the U.S. industry essential, as the partnership with Boeing on the T-X deal is a very successful example of.

### Key markets & position

The U.S. is one of Saab's key markets, where our largest products in addition to T-X are in the sensor segment, air traffic management, ground combat and camouflage products. Saab is working actively to expand its local presence in the market and more closely with customers and partners in the region.



## Latin America



Latin America is in need of a major military modernisation, and the region's defence budgets are therefore expected to have the highest growth rate in the world in the next five years, though starting from historically very low levels. Countries in the region, especially Brazil, are trying to re-establish their industry capabilities, and here Saab plays an important role with an existing Gripen contract, but also in many other product areas.

### Key markets & position

Brazil is Saab's key market in the region. The largest products in addition to Gripen are in air defence and naval applications.



## Middle East & Africa



The Middle East is the region of the world that imports the most materiel from other countries, corresponding to just over 80 per cent of the region's defence budgets.

The market is highly dependent on the price of oil and materiel is usually acquired from allies.

### Key markets & position

Saab's key markets in the region are the UAE and South Africa with products mainly in airborne surveillance radar and self-protection, but Saab is also working to strengthen its commercial offering in the market.





Gripen



Submarines



GlobalEye



T-X trainer



Other

## Europe



The European defence market is currently characterised by increased needs and demand. A number of initiatives have been launched to harmonise the European defence industry and increase the number of development partnerships between countries and industries.

### Key markets & position

To secure and strengthen the Company's position, it is essential for Saab to expand and deepen its industry collaborations in Europe. Aside from Sweden, Finland, the UK and Germany are the key markets for Saab. Saab is participating in the first development project of the European Defence Fund, Ocean 2020, in partnership with Italy's Leonardo and other European defence contractors.



## Asia Pacific



The region's defence material budgets represent about 25 per cent of the global total. China, which accounts for approximately 12 per cent, is not a market for Saab.

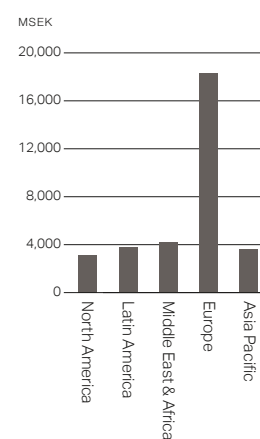
In Singapore, Saab has a research collaboration with Nanyang Technological University to develop advanced digital technology in air traffic management.

### Key markets & position

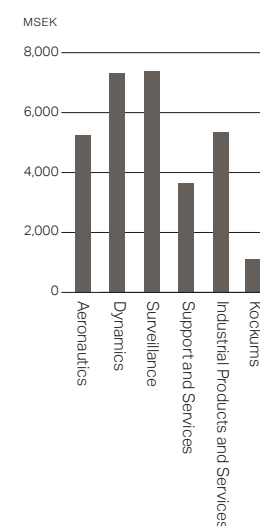
Saab's key markets in this region are India, where ground combat, self-protection and air traffic management are the most important products with growth potential, and Australia, which for Saab is a major market in the naval segment and civil security solutions.



Sales 2018 by market area



Order bookings by business area



## Case

# Successful collaboration with Boeing



Boeing T-X is a totally new, advanced pilot training system developed by Boeing in collaboration with Saab, specifically for the U.S. Air Force. It includes trainer aircraft, land-based training and support.

The U.S. Air Force plans to buy 351 T-X aircraft, 46 simulators and related land-based equipment, but could order up to 475 aircraft and 120 simulators as part of the current contract. The initial order for MUSD 813 is for engineering and manufacturing development (EMD) and includes five aircraft and seven simulators.

*"In this project we have redefined what is possible with limited development costs. We went from finished concept to first flight in 36 months,"* says Steve Parker, Vice President and T-X Program Manager at Boeing. *"It is a remarkable achievement."*

*"We were always focused on smart growth, so that the system can be developed and modified for new technology, missions and needs,"* he continued. *"Since we began with a completely new*

*concept, we could fully benefit from the latest technology, tools and manufacturing methods."*

### Why did Boeing choose to work with Saab?

*"Saab has the right mix of technological expertise and global presence. It has been a successful collaboration that we are very proud of. Together, our companies have developed a fantastic product that is capable and cost-efficient and is also so flexible that it can accommodate future missions."*

### What future customers do you have in mind?

*"We truly appreciate the interest that we are getting from various parts of the world and expect that the training system will become a franchise solution for many air forces around the world. At the programme level, we are totally focused on delivering to the U.S. Air Force in accordance with the terms of the contract. In addition, we see great potential to supply training systems to other domestic or international customers. We also see potential in the light combat aircraft segment in the U.S. and internationally,"* says Steve Parker.





## Case

### Global innovation partnerships strengthen growth

Saab's major sales campaigns often coincide with an ambition to grow in new markets. This is done in among other ways by contributing to the society by fostering technological development and growth. The idea is to bring the Swedish innovation system to customer's country through partnerships in innovation, entrepreneurship and business development.

*"The Swedish way of collaborating between industry, academia and the public sector has proven successful, especially in the digital arena, and we want to take that with us to new markets,"* says Magnus Ahlström, Vice President Global innovation at Saab.

Saab and Sweden are seen by many countries as leaders in entrepreneurship and innovative thinking, and Saab's role as a research and development partner is an important door opener for business. For example, Saab is one of the founders of the Swedish-Brazilian

Research and Innovation Centre CISB in Brazil. The organisation has 17 members and over 100 partners. Saab is also one of the founders of the Swiss-Swedish Innovation Initiative, a virtual innovation platform that brings together research, innovation organisations and companies in Sweden and Switzerland. The platform has been very successful and in four years has contributed to a significant increase in the number of bilateral research projects. Saab recently established research and innovation centres in Finland and Singapore as well.

*"Many potential customers want to acquire the technologies and capabilities we can offer,"* says Magnus Ahlström. *"This gives us an opportunity to participate early on in their projects and network at every level of the customer's country. Collaborating this way also makes it easier for us to mobilise and collaborate with others in Sweden who support the bilateral partnership."*

STRATEGIC PRIORITY

# Innovation



Saab has been shaped by fierce competition and strict requirements on low product lifecycle costs. Saab knows what is needed and how to get there: the latest technology, the smartest solutions and the newest innovations. Saab's competent and engaged employees are the key, and Saab believes that diversity drives innovation.

6.7%  
of sales revenues  
in self-funded research  
and development

22.8%  
of sales revenue in  
research and development

23.5%  
women globally

# Saab has to constantly challenge, question and develop new innovations in order to stay on the forefront and remain a leader in the development of cost-efficient systems and products.

## Innovative systems solutions

Saab's high-tech businesses play an important role in society to drive sustainable technological development and create secure societies. Saab's development philosophy and methodology, together with the advanced products and solutions Saab offers, generate know-how, solutions and innovations for the future. Changing threat scenarios, coupled with rapid technological development, are placing increasing demands on Saab's products and capabilities.

## R&D investments in five core areas

The company has to continuously challenge, question and develop new innovations to stay on the cutting edge. Saab therefore invests about a quarter of its annual sales in research and development (R&D). The strategy is to concentrate R&D investments in five core areas: aeronautics, advanced weapons systems, command and control systems, sensors and underwater systems, with the training and support as integral parts. Saab invests in product areas where the company is, or can become, a technological leader.

## Broad knowledge in military systems

Saab can supply customers with everything from complex platforms such as the Gripen system and the A26 submarine to less complex, robust systems such as the Carl Gustaf man-portable weapon and Saab's extensive radar and robot families. Saab is a world leader

in complex systems integration. The GlobalEye Airborne Early Warning & Control system is an example of this capability. It is based on Saab's expertise in a number of areas: radar, command, control and communication systems, and aircraft integration. Few suppliers in the world have the capacity to deliver such advanced systems.

## Competitive systems in civil security

Through innovations, Saab can also offer competitive civil security systems. The company's technology is used in airports, prisons, hospitals, seaports and cities to protect major events such as state visits and sports events. SAFE, Remote Tower, TactiCall, OneView and Aeronbahn are examples of products that protect borders, people and goods.

## Cost efficiency leader

The Saab air traffic control solutions help customers to reduce both costs and carbon emissions, see page 33. Many of Saab's products and systems are leaders in terms of Life Cycle Cost (LCC). Saab works continuously with innovations to reduce development and operating costs for various systems. Customer demand for efficiency, especially the demands that the Swedish armed forces have placed on Saab since it was founded, have driven the company to take a holistic approach rather than looking at separate parts. Saab has a tradition of doing the most with limited resources, as evidenced by this

operational and lifecycle perspective, which takes into account not only the cost to buy, but also costs to own and operate. Reliability, availability and perseverance are the keys.

## Consolidation of the product portfolio

In 2018, Saab began a reassessment of the Group's product portfolio. The goal is to identify products that do not create greater value and improve the company's return. The aim is to reduce the number of products in the Group by consolidating various parts and utilising economies of scale, divesting unprofitable parts or selling them. This reduces the Group's costs, while margins improve and funds are secured for future R&D.

## 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 civil traffic management on land, at sea and in the air.



### 4. Sensors

Airborne early warning and control 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.



### Diversity drives innovation

We at Saab have a firm belief, which is supported by research, that the different perspectives diversity brings to the organisation are a source of innovation. For Saab, it is important that all employees realise the importance of diversity and appreciate each other's unique contributions to the company. Diversity is an important parameter in Saab's global recruiting process and is included in the company's leadership training. Gender equality has long been an important issue for Saab. In ten years, from 2007 till 2017, Saab doubled the share of women in management positions. Persistence and continuously measuring and following up have been important success factors. The goal is to increase the share of female managers to 30 per cent globally and 35 per cent in Sweden by 2025. At the end of 2018, women accounted for 25.1 per cent of Saab's managers globally and 28.5 per cent in Sweden.



#### Louise Fuchs is one of Saab's 54 doctoral students

An important factor for Saab's innovative capabilities are cooperations with universities. Saab partners with several universities both in and outside Sweden. These partnerships give Saab's employees the opportunity to do research for a PhD, while researchers and students from the schools have a chance to get involved in Saab's work. Saab currently has 54 doctoral students. One of them is Louise Fuchs, who is working toward a PhD in artificial intelligence and machine learning for underwater robots.

**"The advantage of being a doctoral student is having one leg in each world. One in the industry, where the domain knowledge is, and one in academia, with its theoretical knowledge and access to the latest research. The combination of the two creates great opportunities for innovation."**



To broaden its future recruiting base, Saab has activities to encourage young women to take an increased interest in engineering. For two days during the summer vacation, 11 girls who graduated eighth grade visited Saab in Arboga, where they met female engineers and participated in practical exercises.

Saab in South Africa is a forerunner in diversity work and has initiated several projects aimed at people who have previously had difficulty getting a job due to apartheid. The projects align with the South African government's action plan to overcome social and economic imbalances.



Tina Bhoja is one of the participants in a programme to give the unemployed who were disadvantaged by apartheid an opportunity to enter the job market. The programme is run by Saab in South Africa and offers the participants 18 months of training and practical experience at Saab, after which they are hired.



### Promoting education and an interest in technology

To stay competitive in the future, Saab has to retain and develop its employees and attract new talent. Saab encourages primary and secondary school students to pursue a higher education by demonstrating the opportunities they can find in mathematics, technology and research. Saab's own employees often participate in the activities.



#### Female Role Model of the Year

Maria Paavola, founder of Teknikkvinnor, a network for women in technology, was named Female Role Model of the Year 2018, an award presented annually by Saab.

# 6

Saab's ranking in Universum's survey of Swedish engineering students' favourite places to work.

Several of Saab's employees in Australia serve as mentors in a programme called "Subs in schools technology challenge" to promote an interest in technology and the defence industry among secondary school students. Shown below are four mentors from Saab with students from St. Peters Girls School in Adelaide. "Being a mentor is a good way to do good while gaining valuable experience in leadership and project management," says Jacob Shearer, one of the mentors from Saab.



For one week during the summer vacation, Saab in Linköping arranged summer engineering school for 15–16 year-old students, who were taught 3D printing, measurement technology, robotic welding, reading drawings and building aircraft out of metal.

## Case Artificial Intelligence

### A powerful tool to develop sensors



Artificial intelligence (AI) represents a paradigm shift in technology that in a brief time has had a major impact on large swaths of society, and Saab is acting decisively to tap into the opportunities that AI offers. Pattern recognition is one of the areas where AI has proven most useful. This includes identifying objects in moving images from a TV sensor, a problem that is very difficult for traditional methods to handle. AI is already better than people at image recognition.

An important component in many of Saab's products are advanced sensors for radar, electronic warfare, cybersecurity, signal intelligence, communication, sonar, surveillance etc. These sensors generate large amounts of data that has to be quickly and efficiently processed in order to identify patterns/information. AI is a powerful tool for this.

One of the areas where Saab is working on advanced AI is cognitive sensor systems for radar and electronic warfare, which are important e.g. for Gripen. In a cognitive system, the sensor gets a much better understanding of surrounding signals where it is operating at the time, and in this way can be continuously optimised for the highest possible performance during a mission.

Another application is in cybersecurity. AI is used there to manage loads and security in networks for cloud platforms as well as to detect and divert cyberattacks.



## Case Ventures

### Find solutions, build companies and create value



Saab Ventures is a concrete example of how advanced military technology can be used to create value in other industries. By identifying needs in non-core markets that can be solved using advanced Saab technologies, considerable value can be created. Saab has a long and strong tradition of successful spin-offs, stretching from cars and computers to 3D mapping.

*"By combining Saab's technology with capital, domain knowledge and entrepreneurship, strong spin-offs can be established,"* says Roger Persson, Investment Director and Saab's man in charge of one of the successful spinoffs, CIND.

CIND was started in 2016 and for two years in a row has been named one of Sweden's 33 Hot Start-Ups (Top 33 List). The company utilises patent pending image processing technology that originated in missile technology development. The products are based on stereo camera technology, which is used to calculate the volume of timber stacks, for example.

For the forestry industry it offers a system to automatically measure logging truck loads. This helps customers to improve the measurement process and transport efficiency. Today the majority of large Swedish forestry companies are customers of CIND, which is thereby helping one of the country's most important industries be even more competitive.

A number of projects were carried out in 2018 in partnership with customers to find new applications for the company's technology.

*"CIND has expanded its operations to the logistics industry and offers a solution to measure volumes of goods and logistics terminals, which helps customers to optimise transports and estimate transport costs correctly,"* adds Roger Persson.

In the years to come, the company will launch new products for the forestry industry, continue to grow in the logistics industry and begin to sell its systems outside Sweden, both in forestry products and logistics.

STRATEGIC PRIORITY

# Performance



In a world of constant change and fierce competition, high efficiency and shorter lead times are essential in order to meet customer demands with technology and solutions that increase their capabilities and profitability. Saab has to be able to deliver more for less, which is why raising efficiency is a continuous process.

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

7.7%

Adjusted  
operating margin

35.0%

Equity/  
assets ratio

-3.3%

GHG emissions  
have been reduced  
by 3.3 per cent since 2017



# Reaching its long-term financial goals is Saab's highest priority. This focus was reaffirmed in 2018 through two Group-wide initiatives: Re-shaping and Re-sizing.

## Continuous process

Reaching its long-term financial goals is Saab's highest priority. Consequently, Saab works continuously to improve processes at every level. Getting all employees involved in this effort is critical to its success.

In 2018, the job continued by standardising and creating uniform business processes, so that they require less resources and lead to faster deliveries. In addition, other projects and initiatives focused on improving efficiencies were on-going.

Saab raised its operating margin adjusted for items affecting comparability during the year and took another step toward its long-term goal of an operating margin of 10 per cent.

## Continued growth

Saab has maintained solid sales growth in recent years, and on average over the last three years the long-term sales goal has been reached. Continued growth is a priority and is important for many reasons. With higher volume comes a larger base to allocate shared costs. A larger base leads to operational leverage and improved margins.

## Continued focus on project and programme implementation

Saab is currently conducting more and larger development programmes simultaneously than ever before. Complex programmes build competence in the company. There are also

competence synergies between the programmes, where knowledge is shared between programmes. It is critical that all contracts and projects are completed and followed up, so that any discrepancies can be addressed early on.

## New initiatives

In addition to the day-to-day work being done to increase efficiencies, two new initiatives were started in 2018 to improve profitability. Learn more about the two initiatives – Re-sizing and Re-shaping – below.

## Re-sizing

In the Re-sizing project all business units have analysed and identified measures to raise the company's efficiency in terms of sales per employee. The number of consultants will be reduced. This is because the larger programmes are in a period of transition from having been focused on development to becoming more focused on production. In this stage there is less need for development resources. In the third quarter of 2018, expenses were allocated for workforce reductions.



## Re-shaping

The Re-shaping initiative is divided into three parts:

### 1. Review of Saab's product portfolio

Saab invests in product innovation mainly in its core businesses and where the company is, or can become, a market or technological leader. Saab today has a broad product portfolio containing several hundred products. Very many of the various product areas have synergies with each other and are often used together in various solutions. In cases where the products do not reach their goals or do not contribute to the synergies that Saab

sees as necessary to continue to invest in the product, decisions will or have been made to take mitigating measures. The measures can include a plan to improve profitability, merge the product areas or ultimately discontinue the products.

### 2. Marketing efficiency

Saab has built up a successful marketing organisation in recent years covering large parts of the global market. The structure has proven successful and contributed to Saab's strong market position and high order backlog. Saab continuously evaluates its

organisational structure and now sees opportunities to further improve marketing efficiency through a greater focus on the key markets identified in each region.

### 3. Digitisation and automation

Technological development, digitisation and artificial intelligence are helping us to work smarter and more efficiently. Parts of the company have successfully improved administrative efficiency through standardisation and automation. This trend continues.

### Focus on information and IT security

Saab manages information that is vitally important to its customers and in many cases to Sweden's and other nations' security. In an increasingly uncertain world with growing cybersecurity challenges, continuous and systematic information and IT security is critical. Saab works constantly to improve its global security management, a key element of which is risk management. Every employee and manager has to understand their role in the security work. In 2018, Saab continued to implement its information and IT security strategy, in part through employee training. Taking advantage of the opportunities that new information technology offers requires that information and IT security is fully integrated with business and technological development.

Saab's systems are secure and resilient in the face of growing cyberthreats. In building this capability Saab has developed a level of competence that the Company is now preparing to offer to external customers. Saab therefore started a new business unit in 2018 solely dedicated to cybersecurity solutions.

### Develop a business-oriented and performance-driven culture

Our employees' abilities are critical to meeting the business objectives. For every employee to have an opportunity to maximise their potential requires competent leaders. Our goal is to develop an even more business-oriented and performance-based culture. An important part is internationalisation, building cooperation and understanding between countries. To spread this culture throughout

the company, employees are offered several forms of skills and leadership training. Some of it is mandatory for all employees and is provided flexibly and cost efficiently using e-training. The most important part of an employee's development, however, takes place on the job in interactions with colleagues, who share their know-how and experience. Individual Performance Management (IPM) reviews are an important tool where each employee and their supervisor together set personal goals tied to the company's overarching business objectives. During the year, Saab prepared to implement a new uniform system support with standardised HR processes for among other things recruitment, performance management, talent management, training and managing employee data.

To achieve higher performance, Saab has to offer a safe, secure and healthy place of work. During the year, Saab developed a global process to proactively address occupational health and safety and began its implementation.

### New environmental strategy

During the year, Saab adopted a new environmental strategy with focus on reducing GHG emissions, increasing resource efficiency and reducing hazardous substances and their emissions. Environmental aspects and requirements are reflected in Saab's enterprise management system and integrated in every level of the product lifecycle, from development to disposal.

Saab's new environmental strategy sets among other things a new goal to reduce GHG emissions. By 2030 Saab will reduce its emis-

sions by at least 33 per cent compared to 2017. The goal is consistent with the Paris Agreement and the goal to limit global warming to less than 2° Celsius.

Saab's broad product portfolio contains a large number of products and services that have a positive impact on the environment. The company also participates in several research and development partnerships to create sustainable solutions for the future.

### Responsible supplier relationships

Saab in most cases has close, long-term relationships with its suppliers, which is vital in order to provide customers with world-class products. Saab sees its suppliers as an extension of the Company's own operations and requires that they take the same social and environmental responsibility as Saab does. Systematic measures to ensure that responsibility is being taken in the supply chain not only minimises risks, but also leads to improvements in the quality of the products the Company buys. Saab is making an ongoing effort to minimise social and environmental risks in its supply chain. Saab strives to include its supplier code of conduct in all contracts with a significant commercial impact. In the supplier code of conduct, which is based on the UN Global Compact's principles and the International Labour Organization's core conventions, the Company states that it expects suppliers to place similar demands on their subcontractors. During the year, Saab hired a resource to coordinate sustainability work in the supply chain.

Saab in South Africa is working to promote diversity among its suppliers by supporting small businesses run by young people, women or other groups that previously faced discrimination. In addition to a financial contribution, Saab provides these firms with mentorships, networking opportunities and expertise in technology and marketing. Since the programme started in 2014, Saab has supported 14 companies. The goal is that they will be able to stand on their own within three years. By helping small businesses grow and become profitable, Saab contributes to economic growth and creates jobs in South Africa.



## Savings in one month at JFK airport

2,900  
hours

The air traffic control system that Saab delivered to JFK Airport in New York improves performance, reduces fuel

1.3  
million kg fuel

costs and cuts carbon emissions. The figures above are the savings in one month, according to an independent

4.3  
million kg carbon emissions

study by MIT. Saab's traffic management systems are installed at 19 of the 20 busiest airports in the world.

## Saab contributes to project to reduce Sweden's total carbon emissions by five per cent

Saab is contributing to CemZero, a pilot study into electrified cement production with the goal of ensuring zero carbon dioxide emissions by 2030. This would reduce Sweden's total emissions by about five per cent. Cement is manufactured by heating up limestone and sand with fossil fuels. One of the electricity based heating methods included in the pilot study is microwave heating, where Combitech, Saab's wholly owned technical consulting company, is providing its expertise.

*"To build an energy-efficient microwave heating system, you not only need systems expertise, but also have to understand the material's ability to absorb microwave energy, its geometry and the process flow,"* says Christoffer Eek, head of Combitech's microwave heating development unit.

The calculations Combitech has done show that while it is possible to use microwave heating in cement manufacturing, it is temperature dependent. Through Combitech, Saab will conduct further studies on microwave heating to contribute to the project. The CemZero project is a collaboration between Cementa and Vattenfall.



Saab is one of the main suppliers to Clean Sky, Europe's largest research programme dedicated to reducing aircraft emissions. Saab has contributed an innovative aircraft wing that reduces wind resistance with laminar flow to cut fuel consumption.





## Case Training & Simulation

### Focus and priorities generate good margins

The business unit Training & Simulation, with nearly 500 employees in 11 countries, has delivered a significant earnings improvement in recent years. In 2015, the unit reached breakeven, but in 2016 the numbers turned higher and in 2018 Training & Simulation again delivered good results.

The improvement is rooted in a clear focus and ability to prioritise, mainly through the process of elimination. Training & Simulation today has a clearly defined strategy in terms of both product and market, and well-defined goals for order bookings and deliveries. The goals are broken down for the 18 locations where the business unit is represented, through each department down to the individual employee's personal goals.

*"We work a lot with goals and values, how we work in teams and give feedback. I have been fortunate to work with employees who share a strong desire to reach the goals we have set,"* says Åsa Thegström, Vice President Head of Business Unit Training & Simulation since 1 January 2016.

Another reason for the strong earnings is the growing customer interest in the unit's services, for both national and multinational exercises, not to mention that Training & Simulation is on the forefront in terms of technology and functionality.

*"Our solutions are world leading and we are very good at implementing training for many different nationalities. The Aurora 2017 military exercise is a good example of this."*

*"We work closely with our customers and are on-site when they conduct exercises. Being there also gives us a better chance of securing additional orders. Training systems tend to be scalable, where a small facility can be expanded into a larger one."*

*"We have invested heavily in research and development to remain the leading supplier of training systems in the land force domain. But not so much that we can't maintain a reasonable level of profitability. It is always a balancing act between profitability goals and growth goals,"* says Åsa Thegström.





## Case MBSE

### Digitisation improves systems development

Digitisation is part of Saab's long-term strategy and provides a number of opportunities for efficiencies. One is Model-Based Systems Engineering (MBSE), which offers an efficient way to develop systems and software, e.g. by producing more complete designs prior to series production and because functions can be simulated before software is implemented.

A model-based approach is essential to developing large, complex systems that have to be integrated within tight timeframes. It is also imperative in order to work effectively with partners.

*"A model of our design makes it easier to understand the limits between the different systems and how they are integrated,"* says Jonas Palm, head of tactical systems in the business area Aeronautics.

Another benefit is that visualisation makes it easier to communicate between different levels of the organisation and to train new

employees. Being able to test higher abstraction levels early on, before the product is ready, also means considerably fewer errors.

*"MBSE is not only more efficient technique for systems development, but also contributes to smarter, more agile ways of working. The traditional project process is changing, so for example we can get more work done simultaneously, resulting in shorter time-frames,"* says Sam Nicander, Head of Systems Engineering in the business area Aeronautics.

MBSE also facilitates the next step in digitisation with increasing automation. By automating development processes, which in turn leads to higher quality and a faster route from concept to finished product, there are more possibilities to profit from development work.

# Saab's share

## Share capital and number of shares

Saab implemented a rights issue in the fourth quarter of 2018, after which there are 135,845,847 shares in Saab, comprised of 2,383,903 unlisted Series A shares and 133,461,944 listed Series B shares. Series A shares have ten votes each, while Series B shares have one vote each. Saab's share capital amounted to SEK 1,746,405,504 on 31 December 2018, in addition to SEK 427,128,048 in the ongoing rights issue. 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.

The issue proceeds amounted to MSEK 6,006, whereof MSEK 22 relates to issue costs, MSEK 428 to the ongoing rights issue, which will subsequently increase the share capital, and the remaining MSEK 5,578 to other capital contributions.

Because the rights issue was finalised in early 2019, the number of shares, voting rights and ownership structure are shown as of 31 January 2019.

## Shares and votes, 31 January 2019

| Share class  | Number of shares   | % of shares | Number of votes <sup>1)</sup> | % of votes |
|--------------|--------------------|-------------|-------------------------------|------------|
| Series A     | 2,383,903          | 1.8         | 23,839,030                    | 15.4       |
| Series B     | 133,461,944        | 98.2        | 131,100,764                   | 84.6       |
| <b>Total</b> | <b>135,845,847</b> | <b>100</b>  | <b>154,939,794</b>            | <b>100</b> |

<sup>1)</sup> Number of votes excludes 2,361,180 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 50,174 shareholders at 31 January 2019, compared to 41,577 at year-end 2017. Swedish investors accounted for 80.2 per cent (74.5) of the capital and 82.6 per cent (78.0) of the votes.

## Saab's largest shareholders, 31 January 2019

| Owner                                    | Number of shares   | % of share capital | % of votes <sup>1)</sup> |
|--|--------------------|--------------------|--------------------------|
| Investor AB                              | 40,972,622         | 30.2               | 40.3                     |
| Knut and Alice Wallenberg Foundation     | 11,987,609         | 8.8                | 7.7                      |
| Swedbank Robur funds                     | 7,652,433          | 5.6                | 4.9                      |
| Första AP-fonden (AP1)                   | 5,083,223          | 3.7                | 3.3                      |
| AFA Försäkring                           | 3,899,196          | 2.9                | 2.5                      |
| Vanguard                                 | 2,541,990          | 1.9                | 1.6                      |
| Livförsäkringsbolaget Skandia            | 2,328,078          | 1.7                | 1.5                      |
| Fidelity Investments (FMR)               | 2,128,150          | 1.6                | 1.4                      |
| Nordea funds                             | 1,911,930          | 1.4                | 1.2                      |
| Norges Bank                              | 1,843,900          | 1.4                | 1.2                      |
| Gladiator                                | 1,800,000          | 1.3                | 1.2                      |
| SEB funds                                | 1,789,857          | 1.3                | 1.2                      |
| Unionen                                  | 1,520,970          | 1.1                | 1.0                      |
| Eleva Capital LLP                        | 1,281,199          | 0.9                | 0.8                      |
| Skandia Fonder                           | 1,094,959          | 0.8                | 0.7                      |
| <b>Subtotal, 15 largest shareholders</b> | <b>87,860,715</b>  | <b>64.7</b>        | <b>70.5</b>              |
| Other Swedish shareholders               | 26,532,535         | 19.5               | 17.1                     |
| Other international shareholders         | 9,574,235          | 7.0                | 6.2                      |
| Anonymous shareholders                   | 9,541,781          | 7.0                | 6.2                      |
| Repurchased shares                       | 2,361,180          | 1.7                | -                        |
| <b>Total</b>                             | <b>135,845,847</b> | <b>100</b>         | <b>100</b>               |

<sup>1)</sup> % of votes is calculated based on the number of shares, excluding treasury shares, at 31 January 2019.

Source: Modular Finance

## Distribution of shareholders, 31 January 2019

| Number of shares       | Number of share-holders | % of share-holders | Number of shares   | % of share capital |
|------------------------|-------------------------|--------------------|--------------------|--------------------|
| 1–500                  | 43,323                  | 86.3               | 4,321,193          | 3.2                |
| 501–1,000              | 3,323                   | 6.6                | 2,434,018          | 1.8                |
| 1,001–5,000            | 3,067                   | 6.1                | 5,886,915          | 4.3                |
| 5,001–10,000           | 212                     | 0.4                | 1,477,313          | 1.1                |
| 10,001–20,000          | 111                     | 0.2                | 1,567,151          | 1.2                |
| 20,001–50,000          | 53                      | 0.1                | 1,782,577          | 1.3                |
| 50,001–                | 85                      | 0.2                | 108,834,899        | 80.2               |
| Anonymous shareholders |                         |                    | 9,541,781          | 6.9                |
| <b>Total</b>           | <b>50,174</b>           | <b>100</b>         | <b>135,845,847</b> | <b>100</b>         |

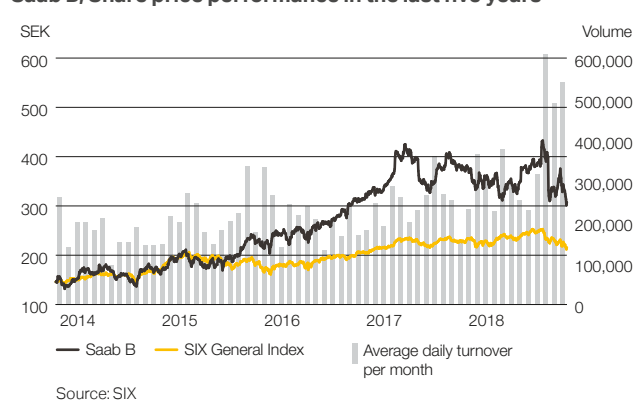
Source: Modular Finance

## Trading volume and statistics

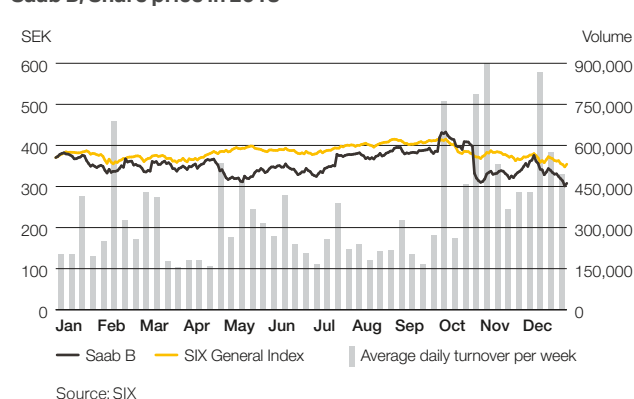
A total of 88,022,032 of Saab's Series B shares (60,869,967) were traded on Nasdaq Stockholm in 2018, or about 44.8 per cent of the total turnover in Saab's Series B shares. On other trading platforms, about 43.3 per cent of Saab's Series B shares were traded on Cboe, 7.7 per cent on the London Stock Exchange and about 1.8 per cent on Turquoise.

Remaining shares were traded in smaller quantities across a number of different platforms. The share price reached a high of SEK 438.4 on 28 September and a low of SEK 294.8 on 26 October in Nasdaq Stockholm trading.

## Saab B, Share price performance in the last five years



## Saab B, Share price in 2018



### 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 during a twelve-month period. 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 in 2018 resolved to adopt Long-Term Incentive plan 2019 (LTI 2019), consisting of Share Matching Plan 2019, Performance Share Plan 2019 and Special Projects Incentive 2019. In addition to LTI 2019, the Annual General Meeting resolved to adopt Special Projects Incentive 2018.

For more information on the incentive plan, see the Administration Report on pages 78–79 and note 9.

### Authorisation

The Annual General Meeting 2018 resolved to authorise the Board of Directors to decide to acquire not more than 1,470,000 Saab Series B shares to secure delivery of shares to participants in Saab's long-term Share Matching Plan, Performance Share Plan and Special Projects Incentive and for subsequent transfers through the market to cover certain expenses associated with LTI 2019 and Special Projects Incentive 2018, mainly consisting of social security costs. The Annual General

Meeting 2018 also 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.

In June 2018, the Board of Directors decided to use its authorisation to repurchase Saab Series B shares. Repurchases of Series B shares were made in July and August 2018 for an amount of MSEK 203.

### Dividend and dividend policy

Saab's long-term policy is to pay a dividend corresponding to 20–40 per cent of net income over a business cycle. For the financial year 2018 the Board of Directors is proposing a dividend of SEK 4.50 per share (5.50), this corresponds to an increase of 2.2 per cent compared to the previous year, as the number of shares eligible for dividends increased by 25 per cent after the rights issue. The proposed dividend corresponds to 46 per cent (40) of net income.

### Five-year summary

For information on data per share, see [www.saabgroup.com](http://www.saabgroup.com).

### Analysts who cover Saab

For information on analysts who cover Saab, see [www.saabgroup.com](http://www.saabgroup.com).

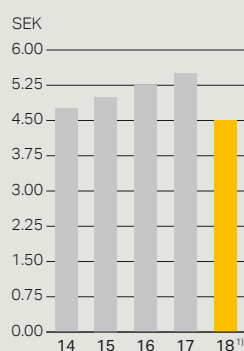
# 6,608

of Saab's employees have enrolled in Saab's Share Matching Plan 2019. Some participants are enrolled in several plans. The corresponding number last year was 5,903, which means an increase of 12 per cent.

### Investor relations

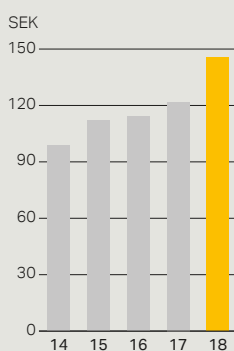
Ann-Sofi Jönsson,  
Head of Investor Relations  
[ann-sofi.jonsson@saabgroup.com](mailto:ann-sofi.jonsson@saabgroup.com)  
Tel: +46-8-463 02 14

Dividend per share

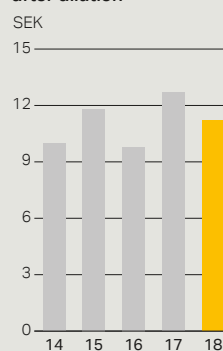


<sup>1)</sup> See dividend and dividend policy.

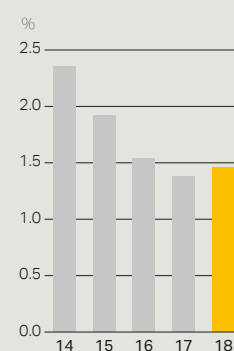
Equity per share



Earnings per share after dilution



Yield at year-end



# Administration report and financial statements

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## Group – Financial review 2018

### Financial review 2018

Saab AB (publ.), corporate identity number 556036-0793, has its registered address in Linköping, Sweden. The head office's visiting address is Olof Palmes gata 17, 5tr, 111 22 Stockholm. The telephone number to the head office of Saab AB is +46 8-463 00 00.

Saab has been listed on Nasdaq Stockholm since 1998 and on the Large Cap list since 2006. The largest shareholder is Investor, with 30.2 per cent of the shares, corresponding to 40.3 per cent of the votes. The share of the votes is calculated based on the number of shares, excluding treasury shares, at year-end. Saab implemented a rights issue in 2018. At year-end, after the issue, there were a total of 135,671,872 shares in the company, distributed between 2,383,903 Series A shares with ten votes each and 133,287,969 Series B shares with one vote each.

At year-end, a total of 2,363,299 Series B shares had been repurchased to guarantee the Group's share matching plans. The repurchased shares are held as treasury shares.

### Corporate governance report

In accordance with the Swedish Annual Accounts Act, Saab has prepared a corporate governance report. The corporate governance report, found here on pages 68–77, contains the Board of Directors' report on internal control of financial reporting, which includes disclosures on both the Parent Company and the Group.

### Sustainability report

In accordance with the Annual Accounts Act, Saab has prepared a sustainability report, which can be found in this document on pages 52–67.

### Operations

As one of the world's leading high technology companies, Saab offers products, solutions and services for military defence and civil security. In 2018, 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 U.S. and Australia, and the Group has local offices in more than 30 countries around the world.

Saab was organised in six business areas in 2018: Aeronautics, Dynamics, Surveillance, Support and Services, Industrial Products and Services, and Kockums.

### 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 -640 (-515) in 2018.

### 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 2018, organic sales growth was 4 per cent (11).

The *operating margin (EBIT)* will average at least 10 per cent per year over a business cycle. In 2018, the operating margin was 6.8 per cent (7.1). The operating margin excluding non-recurring items was 7.7 per cent (7.1).

The *equity/assets ratio* will exceed 30 per cent. At year-end 2018, the equity/assets ratio was 35.0 per cent (31.7).

### Dividend and dividend policy

Saab's long-term policy is to pay a dividend corresponding to 20–40 per cent of net income over a business cycle. For the financial year 2018 the Board of Directors is proposing a dividend of SEK 4.50 per share (5.50), this corresponds to an increase of 2.2 per cent compared to the previous year, as the number of shares eligible for dividends increased by 25 per cent after the rights issue. The proposed dividend corresponds to 46 per cent (40) of net income.

### Outlook 2019

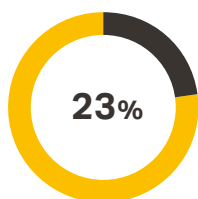
Sales growth in 2019 is expected to be in line with Saab's long-term financial goal: annual organic sales growth of 5 per cent.

The operating margin in 2019, excluding material non-recurring items, is expected to improve compared to 2018, bringing Saab a further step closer to its financial goal: an operating margin of 10 per cent.

## Business area Aeronautics



Aeronautics is the innovative supplier of world-class 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. Collaborations with other world leading entities, both large and small, is a success factor.



Share of sales 2018

### 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.
- Future manned and unmanned aircraft systems.
- Saab and Boeing have jointly developed the next generation trainer aircraft for the U.S. Air Force's T-X program.

Aeronautics includes the business units Gripen E/F, Gripen C/D, Gripen Brazil, Advanced Pilot Training Systems (T-X).

### Orders

In 2018, Saab received an order from FMV valued at SEK 1.4 billion to provide operational and development support for Gripen during a period of three years from 2018 to 2020. FMV also ordered an upgrade of the Gripen C/D system to improve and modify existing

capabilities in a previous upgrade, which was introduced across the Swedish fleet in 2016. In September, the U.S. Air Force selected T-X as its future trainer aircraft, which will be manufactured by Boeing and Saab. In October, Saab received an initial order from Boeing related to T-X.

### Sales, income and margin

Sales increased in 2018 mainly due to a higher activity level within Gripen development and production for Brazil. The operating margin improved due to the higher activity level, and lower R&D expenditures for the T-X programme compared to 2017.

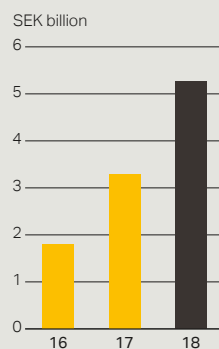
### Cash flow

Cash flow was negative as a result of increased capital employed and utilisation of previous advances.

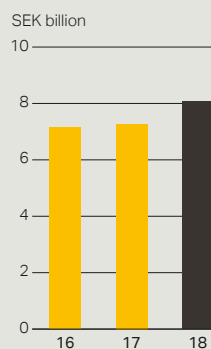
### Key figures

| MSEK                   | 2018   | 2017   |
|------------------------|--------|--------|
| Order bookings         | 5,261  | 3,295  |
| Order backlog          | 47,359 | 50,154 |
| Sales                  | 8,056  | 7,267  |
| EBITDA                 | 736    | 528    |
| EBITDA margin, %       | 9.1    | 7.3    |
| Operating income, EBIT | 680    | 478    |
| Operating margin, %    | 8.4    | 6.6    |
| Operational cash flow  | -1,096 | 1,264  |
| No. of employees (FTE) | 3,212  | 3,073  |

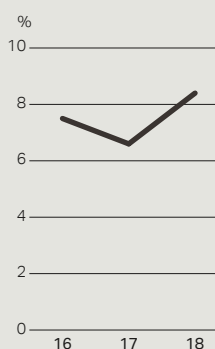
### Order bookings



### Sales

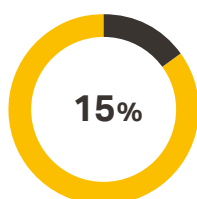


### Operating margin



## 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. The product portfolio also consists of niche products for the civil and defence markets such as underwater vehicles for the offshore industry.



Share of sales 2018

### 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.
- Training systems for ground combat based on laser and radio as well as virtual training solutions.
- 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 business units Ground Combat, Missile Systems, Underwater Systems, Training and Simulation, and Barracuda.

### Orders

In 2018, Finland selected Saab as a supplier for the Finnish Navy's Squadron 2000 Mid-Life Upgrade programme. Within the framework of

the programme Saab signed a contract to produce and deliver the New Lightweight Torpedo, which was the first export order for this new product. An order was received from the U.S. Army for the shoulder-launched AT4CS RS (Confined Space Reduced Sensitivity). In 2018, several countries ordered the latest generation of the Carl-Gustaf M4 multi-role weapon, and at year-end a total of 10 countries had ordered the system. In the comparative period 2017, a contract was signed with FMV for the development and production of the next generation anti-ship missile valued at SEK 3.2 billion.

### Sales, income and margin

Sales and the operating margin decreased due to fewer deliveries in 2018 compared to 2017. A change in the product mix also contributed to a lower operating margin. In addition, a non-recurring expense of MSEK 6 was recognised for productivity enhancements.

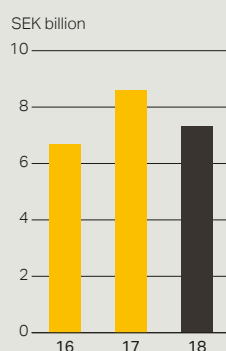
### Cash flow

Operational cash flow was negatively affected by fewer customer deliveries compared to 2017.

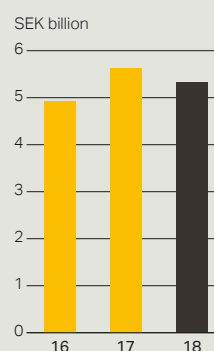
### Key figures

| MSEK                   | 2018   | 2017   |
|------------------------|--------|--------|
| Order bookings         | 7,308  | 8,615  |
| Order backlog          | 13,645 | 11,597 |
| Sales                  | 5,319  | 5,617  |
| EBITDA                 | 610    | 765    |
| EBITDA margin, %       | 11.5   | 13.6   |
| Operating income, EBIT | 535    | 680    |
| Operating margin, %    | 10.1   | 12.1   |
| Operational cash flow  | -120   | 1,105  |
| No. of employees (FTE) | 2,252  | 2,143  |

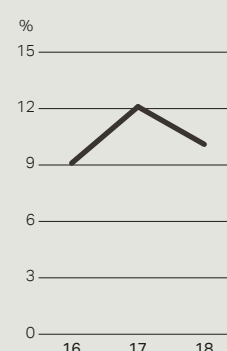
### Order bookings



### Sales



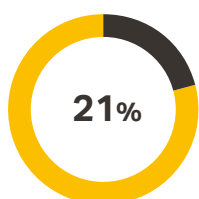
### Operating margin



## Business area Surveillance



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; Command, Control, Communications Computers and Intelligence.



Share of sales 2018

### Services and solutions

- The airborne surveillance systems GlobalEye and Saab 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.
- Combat management systems based on 9LV for navies as well as air forces and armies.
- 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.
- Nose radar for fighter aircraft, data links and laser rangefinders.

Surveillance includes the business units Combat Systems and C4I Solutions, Cyber Security, Electronic Warfare Systems and Radar Solutions. The previous business units Airborne Surveillance Systems and Surface Radar Solutions were merged into the new unit Radar Solutions effective 1 January 2019.

### Orders

In 2018, Surveillance received several medium-sized orders, including from the United Arab Emirates for additional functionality for the GlobalEye Advanced Airborne Early Warning & Control solution and from FMV for among other things the Giraffe 4A multi-function radar. Within the framework of the Finnish Navy's Squadron 2000 Mid-Life Upgrade programme orders were received for the 9LV Combat Management System (CMS), the 9LV Fire Control System (FCS) including the Ceros 200 fire control director and the Trackfire Remote Weapon Station (RWS).

### Sales, income and margin

Sales increased in 2018 mainly due to a higher activity level for Airborne Surveillance Systems. During the year, a non-recurring expense of MSEK 42 was recognised for productivity improvements, including adjustments to part of the operations in Sweden, Norway and Germany.

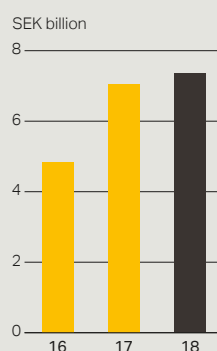
### Cash flow

In 2018, the level of completion was high in large parts of the business, which resulted in a negative cash flow.

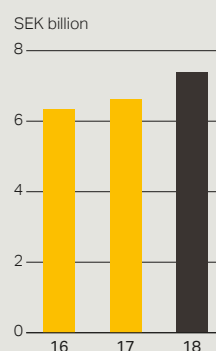
### Key figures

| MSEK                   | 2018   | 2017   |
|------------------------|--------|--------|
| Order bookings         | 7,370  | 7,048  |
| Order backlog          | 14,731 | 14,764 |
| Sales                  | 7,397  | 6,633  |
| EBITDA                 | 904    | 925    |
| EBITDA margin, %       | 12.2   | 13.9   |
| Operating income, EBIT | 631    | 632    |
| Operating margin, %    | 8.5    | 9.5    |
| Operational cash flow  | -1,085 | -60    |
| No. of employees (FTE) | 3,770  | 3,601  |

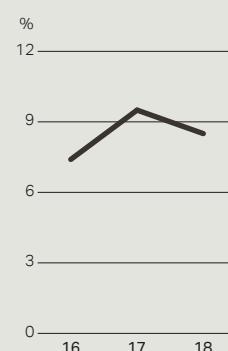
### Order bookings



### 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 lifecycle.
- Everything from individual spare parts to availability-based commitments.
- Technical services, maintenance and repairs.
- Products and integration for airborne surveillance systems, communication systems, CBRN (chemical, biological, radiological and nuclear) defence solutions, military avionics and field solutions.

Support and Services includes the business units Aviation Services, Airborne ISR, Gripen Support, Communication and Tactical Solutions.

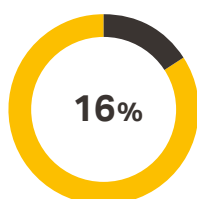
### Orders

Several orders were received in 2018, including from FMV for maintenance and technical system support for flight safety equipment. FMV also extended Saab's support and maintenance contract for Helicopter 15 in Sweden.

A contract was signed with Vard Group AS to equip the Norwegian Coast Guard's vessels with Saab's TactiCall communication system. In the comparative period 2017, Saab received two orders in airborne ISR with a value for Support and Services of approximately SEK 2 billion. In addition, a contract was signed with FMV for continued support and maintenance of Gripen C/D with a value for Support and Services of SEK 1.2 billion.

### Sales, income and margin

The main reason for the lower sales compared to 2017 was that Saab received a major order in 2017, which gave rise to higher revenue recognition at the start of the project. During the year, a non-recurring cost of MSEK 50 was recognised for productivity improvements related to adjustments to the business area's product portfolio.

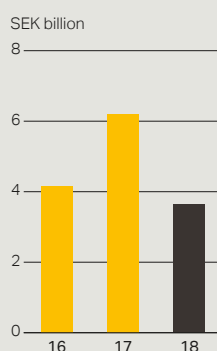


Share of sales 2018

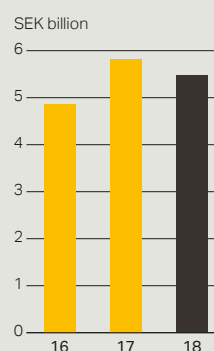
### Key figures

| MSEK                   | 2018   | 2017   |
|------------------------|--------|--------|
| Order bookings         | 3,635  | 6,199  |
| Order backlog          | 10,690 | 12,513 |
| Sales                  | 5,470  | 5,818  |
| EBITDA                 | 754    | 721    |
| EBITDA margin, %       | 13.8   | 12.4   |
| Operating income, EBIT | 685    | 702    |
| Operating margin, %    | 12.5   | 12.1   |
| Operational cash flow  | 369    | 126    |
| No. of employees (FTE) | 1,851  | 1,865  |

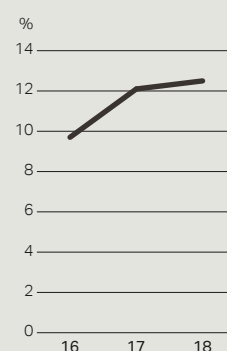
### Order bookings



### Sales



### Operating margin



## Business area Industrial Products and Services



The business units within **Industrial Products and Services**, which are mainly focused on civilian customers, include **Aerostructures**, **Avionics**, **Traffic Management** and the consulting business **Combitech**.

### 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 cybersecurity and digitisation.
- Leading technology for traffic management and public safety.
- Production of parts for 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 business area Industrial Products and Services includes the business units Aerostructures, Avionics Systems, Traffic Management and the independent consulting firm Combitech.

### Order bookings

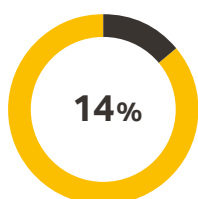
During the year, the business unit Traffic Management received an order from FMV for integrated traffic management and airport systems at all Swedish Air Force airports and air bases around the country. In 2018, order bookings were lower than in 2017 mainly because the business unit Traffic Management received several large orders in 2017.

### Sales, income and margin

Sales within several business units increased in 2018 and the operating margin rose due to improved project execution mainly in the business unit Traffic Management.

### Cash flow

Operational cash flow was negative due to currency transactions related to projects in the business unit Aerostructures.

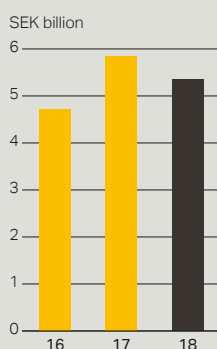


Share of sales 2018

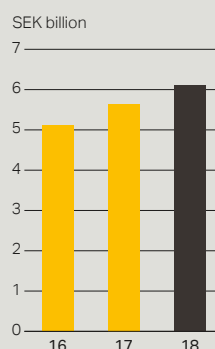
### Key figures

| MSEK                   | 2018   | 2017   |
|------------------------|--------|--------|
| Order bookings         | 5,344  | 5,842  |
| Order backlog          | 11,004 | 11,697 |
| Sales                  | 6,107  | 5,635  |
| EBITDA                 | 290    | 213    |
| EBITDA margin, %       | 4.7    | 3.8    |
| Operating income, EBIT | 202    | 116    |
| Operating margin, %    | 3.3    | 2.1    |
| Operational cash flow  | -351   | -296   |
| No. of employees (FTE) | 3,566  | 3,488  |

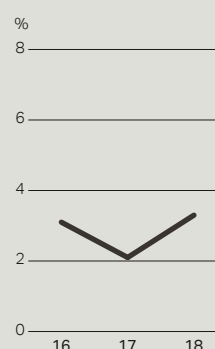
### Order bookings



### Sales

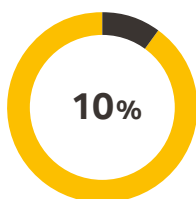


### Operating margin



## Business area Kockums

Kockums is a world leader in its segment in the development, production and in-service support of submarines, surface vessels and naval systems. The product portfolio includes submarines with air-independent propulsion, warships with stealth technology and minesweeping systems. Kockums also supplies sub-systems and components for integration in naval solutions for customers in and outside Sweden.



Share of sales 2018

### 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.

The business area's unique expertise is in signature management and stealth technology, material optimisation and shock resistance, as well as in systems integration. Kockums' products are designed for availability, simplified maintenance and a long operating life. One example is the Västergötland-class submarine, which after 30 years is operational in both Sweden and Singapore. Air-independent propulsion with the Stirling system, carbon fibre composite designs and minesweeping systems are solutions where Kockums is the leader and where its products are in use in a number of countries. Kockums' production facility in Karlskrona has undergone major modernisation since Saab's acquisition.

Through investments in methodological improvements, industrial robots and digitisation, Saab Kockums today ranks as one of the world's most modern shipyards for production and in-service support of submarines. Kockums includes the business units Submarines and Surface Ships.

### Order bookings

In 2018, for example, Saab signed a contract with ASC to update the Integrated Ship Control Management and Monitoring System (ISCMMMS) for four of the Royal Australian Navy's Collins Class submarines.

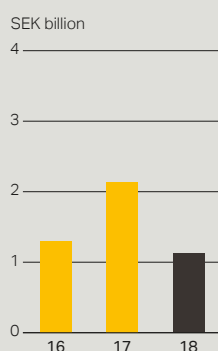
### Sales, income and margin

Sales increased in 2018 due to high activity in surface combatants and the acquisitions of N. Sundin Dockstavarvet AB and the repair shipyard Muskövarvet AB on 29 December 2017.

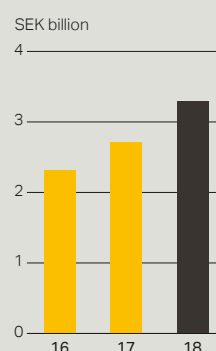
### Key figures

| MSEK                   | 2018  | 2017  |
|------------------------|-------|-------|
| Order bookings         | 1,123 | 2,129 |
| Order backlog          | 6,646 | 8,815 |
| Sales                  | 3,291 | 2,712 |
| EBITDA                 | 203   | 180   |
| EBITDA margin, %       | 6.2   | 6.6   |
| Operating income, EBIT | 173   | 157   |
| Operating margin, %    | 5.3   | 5.8   |
| Operational cash flow  | 251   | 206   |
| No. of employees (FTE) | 1,205 | 1,115 |

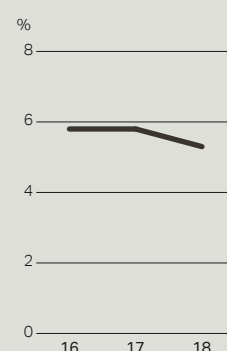
### Order bookings



### Sales



### Operating margin



## Other significant events

### Other significant events during the period January–December 2018

- In January, Saab inaugurated a new development centre, STC (Saab Technology Centre), in Tampere, Finland. In the initial stage, Saab established a unit at STC with a focus on Electronic Warfare (EW).
- Saab announced in March that Ann-Kristin Adolfsson, Chief Strategy Officer, had been appointed Head of Saab Ventures. Due to her new role, Ann-Kristin Adolfsson left Group Management.
- On March 14, Saab successfully completed the first flight of the new GlobalEye. GlobalEye combines air, maritime and ground surveillance in one swing-role solution. The system provides users with extended radar range with the Erieye ER radar and better range with the Global 6000 jet platform, combined with the ability to perform multiple roles using a single solution, including search and rescue, border surveillance and military operations.
- The Annual General Meeting on 10 April 2018 resolved to pay shareholders a dividend of SEK 5.50 per share (total MSEK 588). The record date was 12 April 2018 and the dividend was paid out on 17 April 2018.
- The Annual General Meeting resolved to re-elect Håkan Buskhe, Sten Jakobsson, Danica Kragic Jensfelt, Sara Mazur, Daniel Nodhäll, Bert Nordberg, Cecilia Stegö Chilò, Erika Söderberg Johnson, and Joakim Westh and to re-elect Marcus Wallenberg as Chairman of the Board.
- In May, Saab unveiled a manufacturing facility for Gripen aerostructures: Saab Aeronáutica Montagens (SAM), in the city of São Bernardo do Campo, in São Paulo state, Brazil.
- In September, Saab announced the final results of its tender offer to the holders of certain outstanding publicly listed medium term notes, at the same time that the company announced the terms of the new

financing. More information on the offer can be found at [www.saabgroup.com](http://www.saabgroup.com), investor, debt and funding.

- On 27 September, the U.S. Air Force announced Boeing as the prime contractor for a new advanced pilot training system. Saab is a risk-sharing partner with Boeing in the development of the T-X aircraft, which is part of the system. On 18 October, Saab received an order from Boeing for the Engineering and Manufacturing Development (EMD) phase for the Advanced Pilot Training Aircraft, T-X. The value of this order is approximately MUSD 117.6. The order will run until 2022.
- On 23 October, Saab announced plans to raise approximately SEK 6 billion through a rights issue to support the company's continued growth. In December, the final outcome of the rights issue showed that shares corresponding to 99.3 per cent of the offered shares were subscribed for by exercise of subscription rights. Together with applications for subscription without subscription rights, this corresponded to approximately 190.4 per cent of the shares offered. Through the rights issue, Saab received proceeds of approximately MSEK 6,006 before issue costs.
- Christian Hedelin was appointed Chief Strategy Officer on 1 November 2018 and became a member of Saab's Group Management.
- On 26 November, Saab announced that Gripen E had successfully completed the first separation tests to verify the aircraft's ability to release and launch external payloads. The tests took place in October 2018 at the Vidsel Test Range in north of Sweden. In October, Saab also successfully completed a test flight of a Gripen E aircraft with the Meteor Beyond Visual Range Air-to-Air Missile (BVRAAM) for the first time.

### Significant events after the conclusion of the period

- On 3 January, Saab completed a successful first flight with the second GlobalEye Airborne Early Warning & Control (AEW&C) aircraft.
- Supported by the Swedish state, Saab submitted a proposal for the Swiss New Fighter Aircraft procurement to armasuisse, the Swiss defence procurement agency. Saab is offering Gripen E and a comprehensive industrial participation programme for Swiss industry corresponding to 100 percent of the contract value.
- Saab signed a contract in January with the UK Ministry of Defence for support and services related to the land-based Giraffe AMB radar systems. This multi-function radar has been in operation in the UK since 2007.
- Supported by the Swedish state, Saab submitted a proposal for the Finnish HX fighter procurement to the Finnish defence procurement agency, the Logistics Command of the Finnish Defence Forces. The proposal comprises 64 Gripen aircraft, both single-seat Gripen E and dual-seat Gripen F, and is the formal response to the customer's Request for Quotation (RFQ) issued in April 2018.
- The last shares in connection with Saab's rights issue were registered on 31 January, finalising the issue.





On 14 March 2018, Saab completed a successful first flight with the new GlobalEye Airborne Early Warning & Control (AEW&C) aircraft in Linköping, Sweden.

## Risks and uncertainties

All businesses entail risk. Risks that are managed well can lead to opportunities and add value, while risks that are not managed properly can cause damages and losses. Saab takes a structured and proactive approach to managing risks.

Saab develops, manufactures and supplies technologically advanced systems and products to military and civil customers around the world. Operations largely consist of major projects carried out over long periods of time, usually several years, in close cooperation with customers, suppliers, partners and institutions.

Saab is affected by geopolitical factors and industry and business related events that can give rise to uncertainties and risks. The ability to identify, evaluate and manage risks is therefore essential to strategy implementation and in governance and control. The aim, by understanding risks and their impact, is to better support decision-making and meet Saab's long-term goals through balanced risk-taking within an established framework.

### Risk management

Within Saab, each business area, market area and Group function is responsible within its respective organisation for identifying and managing risks in accordance with the Group's risk process and current policies, guidelines and instructions.

When combined with Enterprise Risk Management (ERM), which focuses on the overarching risks and uncertainties the Group is exposed to, we get both a top-down and bottom-up view to support Saab's strategy and long-term goals.

The purpose of ERM is to provide a Group overview of the risks and uncertainties Saab is exposed to and to support value creation, ensure risk awareness and balance risk versus return.

Most of the operating risks that are identified are managed at a local level. Among these risks, Saab identifies a number through the ERM process that individually or in combination can have a large impact at the business area level. These risks are weighed against the company's risk tolerance, and decisions are made on the appropriate measures to avoid, reduce, spread or accept risks. A number of these risks can potentially also affect the entire Group.

ERM work is part of the strategic work and involves the managements of the business and market areas as well as Group Management and Group functions.

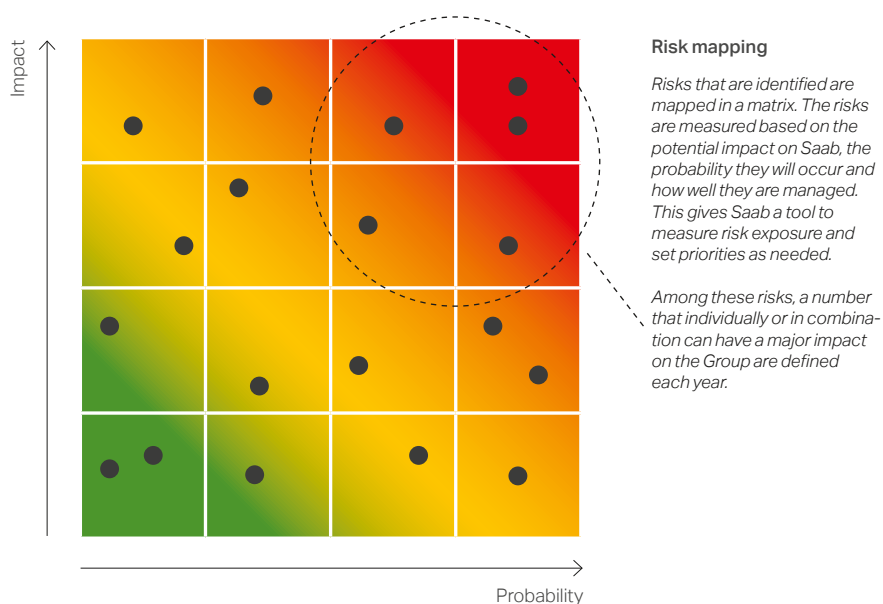
The ERM function works actively with overarching risk management. The most pressing risks and uncertainties and how they are managed are regularly reported to Group Management, the Audit Committee and the Board of Directors.

### Risk categories

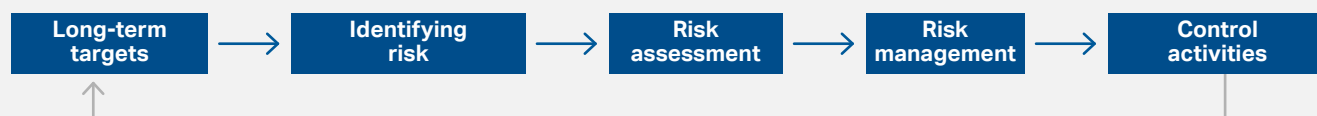
In the ERM process Saab's risks are classified into five categories.

- Strategic risks
- Market and political risks
- Operational risks
- Financial risks
- Compliance risks

Risks are also managed through the Saab Group's global insurance programme, which contains all the usual business insurance, including product liability and injury prevention policies, the main purpose of which is to prevent property damage and business disruptions. Insurance is procured in the Swedish and international markets. In addition, Saab's internal audit unit is responsible for independently reviewing the effectiveness of a sample of internal control processes each year.



### Enterprise Risk Management



| Risk   | Description  | Management  |
|--|--|---|
| <b>STRATEGIC RISKS</b>   | The strategy to grow globally by strengthening its presence in key markets, developing innovative solutions and acquiring companies in priority areas exposes Saab to various risks that can affect its ability to create value.   | Strategic risks are managed through strategies and plans established by the Board of Directors, Group Management and the managements of the business and market areas.  |
| Development and introduction of new high-tech systems and products | <p>Saab's success is dependent on its ability to develop and manufacture innovative products and launch them on the market at the right time and at competitive prices. Due to long development cycles, market changes can mean that demand has changed when products are ready to be brought to market. The risk is that the products do not generate the previously expected return.</p> <p>Historically, a large share of Saab's product renewal has been achieved collaboratively with the Swedish Armed Forces and FMV and together with other nations.</p> <p>There is also a risk that competitors develop new products or disruptive technologies that can make Saab's products appear obsolete.</p> | <ul style="list-style-type: none"> <li>Investments in new products are made after analysis and assessment of future business opportunities.</li> <li>To reduce the development risk inherent in major systems multinational partnerships are imperative and for internally developed products, such as for example radar, command and control, and electronic warfare systems as well as tactical weapons it is important to early identify a launch customer.</li> <li>Saab expects Sweden to account for the largest share of its development expenditures in the fighter aircraft, missile and underwater areas.</li> <li>Develop certain technology in partnership with other companies, e.g. the T-X trainer aircraft together with Boeing.</li> <li>Using modular design, new models can be developed continuously, cost efficiently and faster.</li> <li>Saab's is active e.g. in autonomous vehicles, AI and Big Data.</li> </ul> |
| International expansion and collaborations                         | Acquisitions and collaborations are an integral part of Saab's international growth strategy to further strengthen its presence in selected key markets.   | <ul style="list-style-type: none"> <li>Joint ventures with other companies.</li> <li>Research collaborations with universities.</li> <li>Thorough analysis in connection with acquisitions and expansion.</li> </ul>  |
| Attract and retain key employees                                   | Saab's future competitiveness depends on its ability to globally attract and retain employees and leaders with the right skills in e.g. multiple technologies, production, IT security, business development and project management. Saab is also dependent on the professional development of its employees. A detailed description of Saab's sustainability work and key performance indicators for employees can be found on pages 60-61.   | <ul style="list-style-type: none"> <li>Apply a structured process to develop employees and identify talents.</li> <li>Work long-term to position Saab as an attractive employer among students and young professionals.</li> <li>Offer PhD services, trainee programmes, master's thesis opportunities and summer jobs.</li> <li>Promote education and an interest in technology among younger students to broaden the future recruiting base.</li> </ul>   |
| Information management and cyber-related risks                     | <p>Saab manages information that is vital to its customers and in many cases to their national security. The information security risk for Saab is that information will fall into the wrong hands if handled incorrectly or in the event of an IT breach or manipulation of communication channels.</p> <p>Cyberthreats are a category of risk that has increased for Saab's products, which contain a large amount of software and defence secrets, since it has become more common for these products to be linked to civil networks.</p>   | <ul style="list-style-type: none"> <li>Continuous and systematic information and IT security work.</li> <li>Clearly defined rules, processes, routines and technical solutions for information, IT and communication security.</li> <li>All employees receive training in information management and security.</li> <li>Different levels of physical and digital security classifications to reduce the risk of information leaks.</li> <li>Established the business unit Cyber Security, which works with solutions to increase cybersecurity in Saab's products.</li> </ul>   |

| Risk   | Description   | Management  |
|--|---|---|
| <b>MARKET AND POLITICAL RISKS</b>                      | About 85 per cent of Saab's sales consists of defence materiel, which is regulated by national laws and regulations as well as international conventions, and more than half of total sales are international. Saab is therefore dependent on stable political and multinational relationships around the world and national priorities.  | Saab works proactively to manage market and political risks and uncertainties, including through strategic impact assessments and alternative strategies. It is impossible, however, to completely avoid losing business opportunities or incurring damage if political or other market risks are realised.   |
| Geopolitical and macroeconomic risks and uncertainties | <p>Demand for the defence materiel is dependent on states having a political mandate and willingness, as well as government budget possibility. The defence industry is therefore affected by a number of macroeconomic factors, e.g. global economic growth, trade barriers and changes in exchange rates. It is also exposed to risks related to geopolitical concerns.</p> <p>A large share of Saab's order backlog consists of 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 if the customer is adversely affected by market factors.</p> | <ul style="list-style-type: none"> <li>Market intelligence.</li> <li>Dialog with authorities and the political establishment.</li> <li>Proactive measures to assess and manage risks and opportunities.</li> <li>Major investments are mainly in a small number of focus countries.</li> <li>International partnerships.</li> <li>Terms and conditions.</li> <li>Export guarantees, insurance solutions and other instruments.</li> </ul> |

| Risk               | Description   | Management  |
|--------------------|---|---|
| Regulatory changes | The large share of Saab's exports is from Sweden, where the Swedish Inspectorate of Strategic Products (ISP) determines which defence products Saab may manufacture, market, sell and export, and to which countries. Since 2018, the democratic status of the recipient country is also taken into account by the ISP when granting licenses. Saab may also be dependent on export control laws in other countries where it has operations or suppliers. Some of Saab's civil products are governed by export controls on dual-use products. The risk for Saab arises from changes to laws, regulations and permits. | <ul style="list-style-type: none"> <li>• Continuously monitor laws, regulations and ordinances to adapt the business as needed.</li> <li>• Dialogue with authorities in the political establishment.</li> <li>• Terms and conditions.</li> <li>• Central and local export control functions.</li> </ul> |

| Risk   | Description  | Management   |
|--|--|--|
| <b>OPERATIONAL RISKS</b>                                       | Operational risks can affect Saab's ability to deliver on its commitments and are important to day-to-day operations. Operational risks include risks relating to order bookings, contract management, project implementation, suppliers, product liability, the environment, and occupational health and safety.  | Operational risks are managed in tactical and operational decisions as well as at an operating level throughout the organisation. Information about Saab's work with product liability and with environmental and occupational health and safety risks can be found in the sustainability report on pages 52-67.   |
| Risks related to implementation of long-term customer projects | <p>Saab's operations involve complex, long-term development projects on the leading edge of technology that in some cases also include industrial cooperations with the customer's country. When a contract is signed, the product may not be fully developed in some instances. Contracts also often include a fixed-price component, which can entail a risk of incorrect pricing if the costs cannot be adequately estimated.</p> <p>The risk in long-term customer projects is therefore that Saab does not succeed in delivering cost-efficient high-tech solutions as per the terms of the contract or in implementing the required industrial cooperation. Consequently, the commitment may not be fulfilled and the costs may run significantly higher with a negative impact on financial position and cash flow.</p> <p>The Group applies the percentage of completion method to recognise revenue from the majority of long-term customer projects. An estimation of total costs, including assessments of technical and commercial risks, is critical to revenue recognition and provisions for project losses as well as inventory valuations. Revised estimates of total project costs have a retroactive impact on results.</p> | <ul style="list-style-type: none"> <li>• Before contract is signed, a thorough analysis is made of the terms and risks.</li> <li>• An established quality assurance process – the Win Business process – includes a comprehensive analysis of risks and what is required to manage them.</li> <li>• During project implementation – the Execute Business process – various types of reviews with clear toll-gates are conducted continuously to identify and assess these risks and the measures taken to mitigate them.</li> <li>• Effective management of both delivery projects and industrial cooperations.</li> <li>• High demands are placed on project planning and control as well as monitoring to ensure at any given time that assumptions and assessments provide a satisfactory basis for reporting revenue and results.</li> <li>• Saab's largest projects are also regularly monitored by Group Management and reported to the Board of Directors.</li> <li>• Other projects with high impact are regularly monitored by each business area management and reported to Group Management.</li> </ul> |
| Dependence on new contracts and increased competition          | <p>A large share of Saab's revenue comes from a limited number of customers and relatively few contracts. Saab is therefore dependent on winning new contracts in a market with limited access, since there are only a certain number of governments and defence contractors to sell to.</p> <p>Competition in the military market as well as the commercial aircraft and security market is fierce. US and European companies are especially strong players, with competition also increasing from companies in other parts of the world. Many competitors are also strong in their home markets.</p>   | <ul style="list-style-type: none"> <li>• Work to optimise the product portfolio.</li> <li>• Focus e.g. on quality, innovation, security, development times, delivery precision and price.</li> <li>• Reference customers.</li> <li>• Presence in selected markets with own operations, sales offices and personnel.</li> <li>• Participation in international collaborations.</li> </ul>   |
| Supply chain risks   | Saab is dependent on deliveries from subcontractors of e.g. subsystems, components and equipment. For certain subsystems, Saab is dependent on deliveries from one or a few suppliers.   | <ul style="list-style-type: none"> <li>• Select, evaluate and document suppliers and business partners based on objective factors such as quality, delivery, price and reliability.</li> <li>• Close cooperations with suppliers for high quality.</li> <li>• Systematic measures to ensure that suppliers take ethical, social and environmental responsibility and work proactively to prevent damages.</li> <li>• Saab's supplier Code of Conduct.</li> </ul>   |



| Risk                   | Description   | Management  |
|------------------------|---|---|
| <b>FINANCIAL RISKS</b> | Financial risks can affect the ability to protect Saab's financial position. The risk consists of potentially negative effects on Saab's financial assets and liabilities as well as contractual commitments. For more information, see note 36.  | Financial risks are governed by the Group's financial policy, which is adopted by Saab's Board of Directors, as well as detailed directives and processes. Management of these risks is centralised in Group Treasury and largely involves the use of financial instruments. The goal is to actively manage financial risks in order to reduce any negative impacts on the Group's results, competitive strength and financial flexibility.                                   |
| Interest rate risk     | The risk that Saab's net financial items will be negatively affected by changes in interest rate levels. Saab is exposed 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. Saab has both interest-bearing assets and liabilities.   | <ul style="list-style-type: none"> <li>• Interest rate futures and swaps to achieve the desired interest rate duration.</li> <li>• Interest rate and foreign currency risk from foreign currency funding is managed with currency swaps (internal) or cross currency basis swaps (external).</li> </ul>   |
| Currency risk          | The risk that unfavourable exchange rates will negatively affect results or equity, e.g. when revenue and expenses are in currencies other than the functional currency (transaction exposure), when translating foreign subsidiaries to SEK (translation exposure) and when submitting fixed-price tenders in foreign currency.  | <ul style="list-style-type: none"> <li>• Currency exposure in the order backlog (transaction exposure) is hedged through netting and with currency derivatives (mainly forward exchange contracts), which means that changes in exchange rates do not affect the order backlog's future results.</li> <li>• Foreign currency risk due to translation exposure is not hedged.</li> <li>• Fixed-price tenders in foreign currency are managed in a tender portfolio</li> </ul>  |
| Refinancing risk       | The risk that Saab cannot replace maturing loans with either new loans or its own funds, or that it becomes significantly more expensive. For more information, see note 30.<br><br>Financial debt mainly consists of various types of credit facilities and a Medium Term Note programme.  | <ul style="list-style-type: none"> <li>• Debt is managed by Group Treasury and loans are primarily raised by the Parent Company to ensure efficiency and risk control.</li> <li>• A diversified loan maturity structure.</li> <li>• Capital is tied up in the loan portfolio for an average of 24-60 months.</li> </ul>   |
| Counterparty risk      | Saab is exposed in its day-to-day operations to credit risks, mainly in transactions with customers and financial institutions.<br><br>Credit risk in accounts receivable is considered low, since the receivables are primarily from governments and public authorities.<br><br>Financial credit risk consists of exposure to financial institutions through e.g. deposits, investments and outstanding derivatives. | <ul style="list-style-type: none"> <li>• Accounts receivable are hedged to a limited extent through letters of credit and in certain specific contracts through export credit institutions.</li> <li>• All financial counterparties must have a long-term credit rating of no lower than A- from Standard and Poor's or A3 from Moody's.</li> <li>• ISDA master agreements with financial counterparties.</li> </ul>  |
| Pension obligations    | Post-employment benefits refer to defined-contribution and defined-benefit pensions.<br><br>Saab has an extensive defined-benefit obligation, where the risks consist e.g. of changes that affect the capital market and discount rate as well as actuarial assumptions such as expected lifespan and inflation. See more information in note 32.   | <ul style="list-style-type: none"> <li>• For its defined-contribution pensions Saab pays fees to a separate legal entity that assumes the obligations.</li> <li>• Defined-benefit pension obligations remain in the Group and are secured through Saab's pension foundation or insurance.</li> <li>• Obligations are compared annually to the plan's assets, and in the event of a deficit Saab is reporting this as a debt in the statement of financial position</li> </ul> |

| Risk                    | Description   | Management  |
|-------------------------|---|---|
| <b>COMPLIANCE RISKS</b> | In our business we are obligated to follow laws and regulations and make conscious decisions about the global standards we will live up to.<br><br>Saab does business around the world and has relationships with customers and other stakeholders on every continent. Ethical values, transparent relationships and compliance are of vital importance to Saab. The confidence of the public and the political system, together with employee pride, is critical to Saab's long-term profitability and survival.<br><br>Learn more about Saab's sustainability work and key performance indicators on pages 52-67. | <p>Compliance issues are integrated in the business strategy and affect Saab's strategic priorities. This work is guided by Saab's Code of Conduct, which is adopted by the Board of Directors.</p> <ul style="list-style-type: none"> <li>• Training in Saab's Code of Conduct.</li> <li>• Strict scrutiny of marketing consultants and business partners.</li> <li>• Whistleblower system.</li> <li>• Supplier Code of Conduct.</li> <li>• Information and IT security strategy and security classification.</li> <li>• Internal training on information management for all employees.</li> <li>• Systematic environmental work to reduce impacts.</li> <li>• Global occupational health and safety policy.</li> <li>• Participation in the UN's Global Compact.</li> <li>• ISO 9001 and 14001 certified.</li> <li>• Saab's internal ethics and compliance function.</li> <li>• Internal Control and Internal Audit.</li> </ul> |

## Sustainability report

Saab was founded 80 years ago at a turbulent time in the world when Sweden had to better protect its borders. Since then, Saab has developed into an international partner that contributes to increased security and defence capabilities in Sweden and other countries. This is the foundation of our sustainability commitment.

## Security and defence capabilities for customers around the world

Saab's mission is to make people safe by pushing intellectual and technological boundaries. Saab serves governments, public authorities and companies around the world with solutions for military defence, aerospace and civil security. We continuously develop, adapt and improve new technology to meet changing customer needs and create value in line with our vision to keep society and people safe.

Geopolitical tensions and changing threat scenarios, coupled with rapid technological development, have led to increased demand for security and defence capabilities. To stay a step ahead and meet customers' needs in an optimal way, Saab has prioritised three areas: market, performance and innovation. In practice this means staying close to customers and working more effectively with innovation as a guiding principle in all our businesses. At the same time, sustainability affects everything Saab does, and engaged employees are the key to our continued growth.

Saab's broad product portfolio is divided into five core areas: aeronautics, advanced weapons systems, command and control systems, sensors, and underwater systems, with training and support in each area.

Industrial cooperations are an important element in Saab's international growth. When Saab signs large defence contracts, they usually contain more than just a product sale. Many countries also want technology and skills transfers as well as various forms of industrial cooperation. By customising offerings, Saab has contributed together with its partners to several successful projects that affect the country's economy in a positive direction. For Saab, there are benefits to spreading knowledge through technology transfers. People from different companies and organisations meet and come up with new business ideas that create value for all the parties involved.

Saab's strategic direction, which includes the sustainability priorities, creates a stable foundation for profitable growth, which is also a prerequisite for creating long-term value for shareholders, customers, employees and the communities Saab serves.

### Saab's sales come from:

- Long-term customer contracts in the form of the development and manufacture of complex systems
- Service assignments in the form of consulting and support services, e.g. training and ongoing maintenance tied to previous deliveries
- Sale of products and spare parts that Saab manufactures and stocks, or purchases, on behalf of the customer

### Economic value generated

7.6

SEK billion  
Research and development

10.8

SEK billion  
Employee salaries

3.2

SEK billion  
Taxes paid to society

588

SEK million  
Dividend to shareholders

16.5

SEK billion  
Supplier costs

17,096

Number of employees

### About Saab's sustainability report

Saab's sustainability report contains information on the company's development and impact in the areas of anti-corruption, the environment, employees, human rights and society. The report describes work practices, goals, results, performance indicators and material sustainability risks for each area. A brief

description of Saab's business model is provided as well. The sustainability report is prepared in accordance with the Annual Accounts Act and comprises all of the group's operations for the financial year 2018, unless indicated otherwise. Saab also reports sustainability data in accordance with the Global Reporting Initiative

(GRI) and the UN Global Compact. The GRI Index with cross references to the UN Global Compact can be found at [www.saabgroup.com/responsibility](http://www.saabgroup.com/responsibility). Since 2006, Saab reports GHG emissions to the Carbon Disclosure Project (CDP). For more information on CDP and Saab's complete report, see [www.cdp.net](http://www.cdp.net)

## Priority sustainability issues

To create security and defence capabilities in a responsible and sustainable way, Saab has prioritised a number of sustainability issues. The issues cover how we fight corruption, how we take responsibility for reducing our impact on the environment, our

responsibility as an employer, what we do to minimise the risk of causing or contributing to human rights violations, and our role in society. The issues are integrated in the business strategy and business plan and contribute to Saab's strategic priorities:

market, innovation and performance. Saab has also prioritised five of the UN's sustainable development goals that are tied to Saab's business strategy.

### Anti-corruption

| Priority sustainability issue | Long-term goal   | Results 2018    | Connection to strategic priority | Connection to the UN's Global Goals <sup>1</sup> |
|-------------------------------|--|-----------------|----------------------------------|--|
| Zero tolerance for corruption | Saab's anti-corruption programme will be among the best in the industry. All employees will understand the importance of and promote openness and integrity. | See pages 56–57 | Market                           | Target 16.5: Reduce corruption and bribery.      |

### Environment

| Priority sustainability issue  | Long-term goal  | Results 2018        | Connection to strategic priority | Connection to the UN's Global Goals <sup>1</sup> |
|--------------------------------|---|---------------------|----------------------------------|--|
| Reduce climate impact          | Reduce Saab's GHG emissions by 33% by 2030 (related to 2017).   | 3.3% decrease       | Performance                      | Goal 13: Climate action.                         |
| Phase out hazardous substances | Hexavalent chromium will not be used in new designs after 2025.   | Measured as of 2019 | Performance                      |  |
| Resource efficiency            | Reduce the number of chemical products in the areas of adhesives and paints by 20% by 2025 (related to 2018). | Measured as of 2019 | Performance                      |  |

### Employees

| Priority sustainability issue | Long-term goal   | Results 2018  | Connection to strategic priority | Connection to the UN's Global Goals <sup>1</sup> |
|-------------------------------|--|---|----------------------------------|--|
| Health and safety             | 10 reported incidents per workplace injury (a higher propensity to report incidents reduces the risk of workplace injuries). | 5 reported incidents per workplace injury.  | Performance                      |  |
| Gender equality and diversity | At least 25% of employees and 30% of managers will be women by 2025.   | 23.5% of employees and 25.1% of managers were women.                              | Innovation                       | Goal 5: Gender equality.                         |
| Personal development          | 100% of employees will meet annually with their manager to discuss goals, personal development and performance.              | The goal was not measured globally in 2018 since Saab is replacing its HR system. | Performance                      |  |

### Human rights

| Priority sustainability issue      | Long-term goal   | Results 2018 | Connection to strategic priority | Connection to the UN's Global Goals <sup>1</sup> |
|------------------------------------|--|--------------|----------------------------------|--|
| Export compliance                  | Saab will continuously develop rules and processes to remain a leader in export control.     | See page 62  | Market                           | Target 16.4: Reduce illicit arms flows.          |
| Responsible supplier relationships | Saab will continue to collaborate with suppliers on social and environmental responsibility. | See page 63  | Performance                      |  |



## Society

| Priority sustainability issue                   | Long-term goal  | Results 2018      | Connection to strategic priority | Connection to the UN's Global Goals <sup>1</sup>   |
|---|---|-------------------|----------------------------------|--|
| Information security                            | Have information and IT security that is fully integrated with business and technological development.                            | See page 64       | Performance                      |  |
| Product safety                                  | The safety level in Saab's systems and products will meet relevant laws, regulations, international standards and best practices. | See page 65       | Performance                      |  |
| Innovation and spreading knowledge              | Saab will annually have at least 20 PhD candidates.   | 54 PhD candidates | Innovation                       | Target 9.5: Encourage innovation and substantially increase the number of research and development workers.                              |
| Promote education and an interest in technology | Increase partnerships with primary and secondary schools in communities where Saab is active.                                     | See page 64       | Innovation                       | Target 4.4: Increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment. |

<sup>1</sup> Saab contributes to several of the UN's global goals. Shown here are only the connections to the five goals Saab has prioritised.



### THE GLOBAL GOALS For Sustainable Development

Based on its priority sustainability issues and opportunities to make a difference, Saab has chosen to focus on five of the UN's sustainable development goals. They are connected to the strategic priorities indicated in Saab's sustainability strategy above.



#### Goal 4. Quality education

Saab focuses in particular on Goal 4.4, to increase the number of youth and adults with relevant skills, including technical and vocational skills, for employment. Saab contributes to the goal through its commitment to promote education and an interest in technology.



#### Goal 5. Gender equality

Saab focuses in particular on Goal 5.5 to ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making. Saab contributes to the goal by working actively to increase the number of female leaders at Saab.



#### Goal 9. Industry, innovation and infrastructure

Saab focuses in particular on Goal 9.5 to encourage innovation and substantially increase the number of research and development workers. Saab contributes to the goal through university partnerships, industrial and innovation collaborations, and technology transfers.



#### Goal 13. Climate action

Saab contributes to the goal by developing sustainable innovations and systematically reducing carbon emissions from its own operations.



#### Goal 16. Peace, justice and strong institutions

Saab focuses in particular on target 16.4 to fight illicit arms of flows and target 16.5 to fight corruption and bribery. Saab contributes by complying with export controls that apply to its products and working systematically to prevent corruption. Saab is also of the opinion that democracy and social welfare cannot be achieved without security, which Saab's products contribute to.

# Anti-corruption

Corruption has negative consequences for society and business and is something Saab will never accept.

We are guided by our fundamental values, the Code of Conduct, laws, industry codes of conduct and clearly defined internal processes to prevent corruption risks. Prior to each deal, Saab requires a corruption risk assessment. If the identified risks cannot be minimised and managed satisfactorily, Saab will withdraw from the deal.

## Scrutiny of business partners

Hiring external parties in the selling process is sometimes important, to better understand how a market works, but can also include increased exposure to corruption risks. Saab therefore applies a strict process in which cooperations with marketing consultants are managed by a central function that evaluates the consultant, sets compensation and negotiates the contract. Saab's marketing consultants also have to undergo special training and pledge to abide by Saab's ethical values and guidelines. In 2018, Saab also established a process for other business relationships associated with a high corruption risk, e.g. industrial cooperations and joint ventures.

Saab's internal auditors conduct reviews each year of a number of randomly selected contractual relations to verify compliance with the process and ensure that the counterparty is acting in line with Saab's values and contractual terms.

## Training

In addition to training on the Code of Conduct, Saab also has separate, web-based anti-corruption training. Employees in positions in risk areas, such as marketing and sales, industrial cooperations and project management, also receive in-depth classroom training covering among other things general risk awareness, internal processes and the company's corruption risk management. Every three years the Board of Directors receives more extensive anti-corruption training.

## Whistleblowing system

Employees who become aware of or suspect non-compliance with laws or Saab's Code of Conduct are expected to report it through Saab's whistleblowing system, which complements traditional line reporting. The system is administered by an external party and provides the option to report anonymously online and by phone.

For management and organisation of Saab's anti-corruption work, see page 66.

## Examples of activities in 2018

- Implemented process for corruption risk assessment of specially identified collaborations and transactions (tenders, joint ventures, real estate, offsets and targeted procurement) and provided training for all the business areas on the new process.
- Launched Ethics and Compliance Portal on Saab's intranet.
- Conducted local policy audits in the U.S., South Africa, the UK and Germany.
- Expanded the corruption risk section in Saab's risk management process.

## Planned activities in 2019

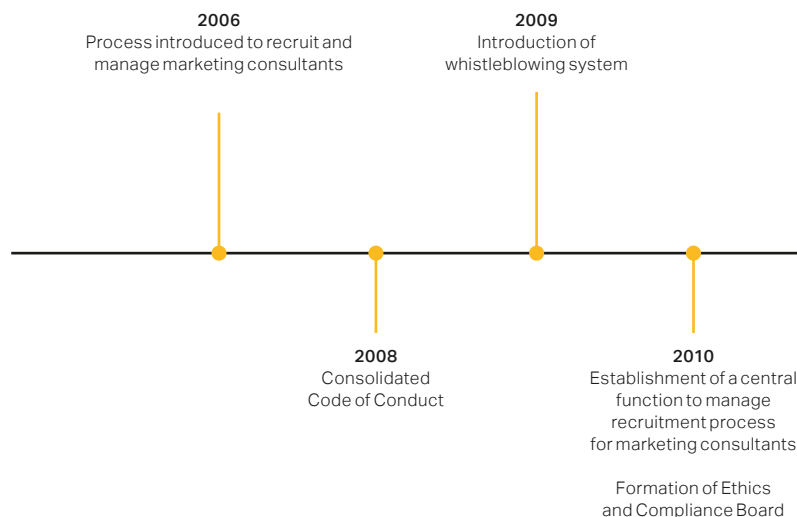
- Introduce annual certification of Code of Conduct and complementary rules for the Group's senior executives.
- Conduct local policy audits in at least four countries.
- Introduce updated rules on gifts and hospitality.
- Conduct a reassessment of Saab's anti-corruption training programme.
- Improve Saab's external website on the anti-corruption programme.

## Primary risks:

- Non-compliance can have a negative impact on social development in the countries where Saab is active and result in loss of confidence in Saab and the values the company stands for

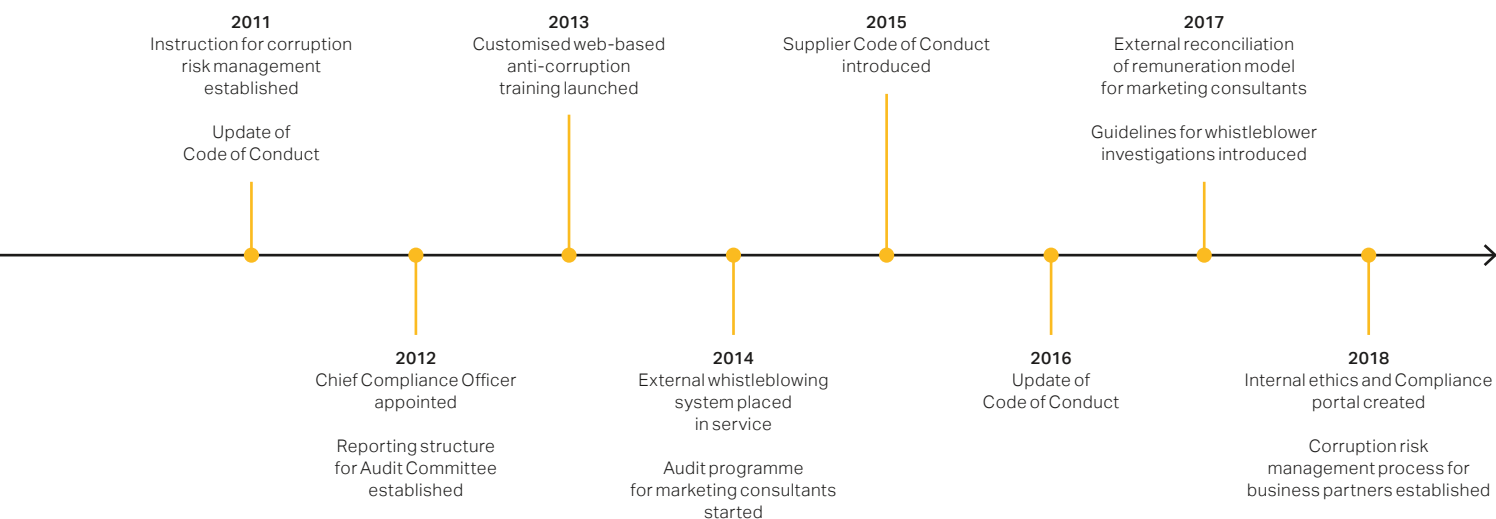
## Primary policy documents:

- Code of Conduct
- Supplier Code of Conduct
- Managing Business Partners
- Gifts and hospitality
- Sponsorships and social engagement



**Performance indicators**

|  | 2017 | 2018 | Goal |
|--|------|------|------|
| Number of extended anti-corruption training sessions held since 2011 | 112  | 116  | -    |
| Number of marketing consultant audits                                | 5    | 5    | 5    |



# Environment

Active environmental work leads to more efficient resource consumption and a lower risk of being faced with costly environmental laws at the same time that it creates confidence in the company.

Saab is working to reduce greenhouse gas emissions, use resources more efficiently and phase out hazardous substances. Environmental aspects and requirements are reflected in Saab's global management system and integrated in every level of the product lifecycle, from product development to disposal.

## Reduce climate impact

During the year, Saab set a new objective to reduce GHG emissions by at least 33 per cent by 2030 compared to 2017. The goal is consistent with the Paris Agreement and the goal to limit global warming to less than 2° Celsius. During the year Saab reduced emissions by 3.3 per cent related to 2017.

Measures to reduce climate impacts include energy efficiencies in Saab's properties, installation of solar panels and introduction of electric cars and charging stations. Another important factor is creating environmental awareness among employees.

The large share of Saab's CO<sub>2</sub> emissions come from business travel. As the business becomes more international, it becomes more important to strike a balance between the need to travel and the impact on the climate. Because of this, we try in various ways to travel more efficiently, including by encouraging the use of web conferencing.

Saab reports greenhouse gas emissions to the Carbon Disclosure Project (CDP). For information on CDP and Saab's complete report, see [www.cdp.net](http://www.cdp.net).

## Phase out hazardous substances

To minimise risks and costs associated with chemical laws and customer requirements, Saab is working strategically to phase out hazardous substances. A number of internal projects are underway to find and validate new alternatives. Saab is also active in global collaborations to develop alternatives.

Certain hazardous substances are still needed to meet safety and technical

performance requirements in the aviation and defence fields.

## Resource efficiency

Saab's products are usually designed for very long operating lives. By utilising resources efficiently throughout the lifecycle, we create products with less of an environmental impact and low lifecycle costs, a feature that characterises Saab's products and makes them competitive. One of Gripen's competitive advantages, besides an optimised design with light materials and low fuel consumption, is a unique maintenance concept.

Electrification, which is an important method to reduce emissions from burning fossil fuels, is something Saab is working on in several areas, ranging from future transport modes to manufacturing processes.

Saab's broad product portfolio contains a large number of products and services that have a positive impact on the environment. The company also participates in several research and development collaborations to create sustainable solutions for the future. See page 33 and [www.saabgroup.com](http://www.saabgroup.com).

## Examples of activities in 2018

- Established new environmental strategy, including new environmental objectives.
- Launched new, global, web-based environmental training that is mandatory for all employees.
- Updated the environmental policy.
- Held CO<sub>2</sub> contest at Combitech (Saab's wholly owned technical consulting company), where the office with the lowest emissions was named the winner.
- Implemented energy efficiencies mainly at Saab facilities outside Sweden, through investments, oversight and regulation of equipment and lighting as well as installation of a solar panels by Saab in South Africa that reduces total energy consumption at the facility by 30 per cent.
- Performed extensive test flights of an aircraft wing that reduces wind resistance by laminar flow and thereby cuts fuel consumption, within the framework of the Clean Sky project. Learn more on page 33 and at [www.saabgroup.com](http://www.saabgroup.com).

## Primary risks:

- That Saab fails to reduce GHG emissions
- That Saab fails to develop acceptable alternatives to existing hazardous substances
- Extreme weather events that can affect the supply chain, our own operations and customers
- Unknown, historical contamination of land and water

## Primary policy documents:

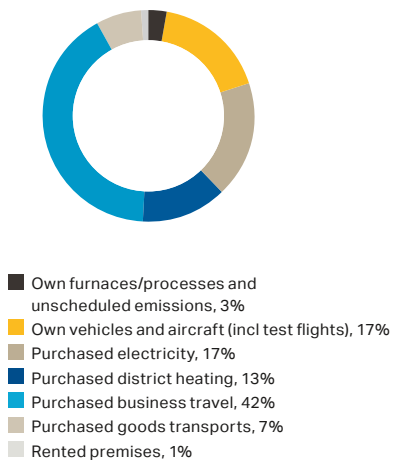
- Environmental policy
- Code of Conduct
- Supplier Code of Conduct

## Planned activities in 2019

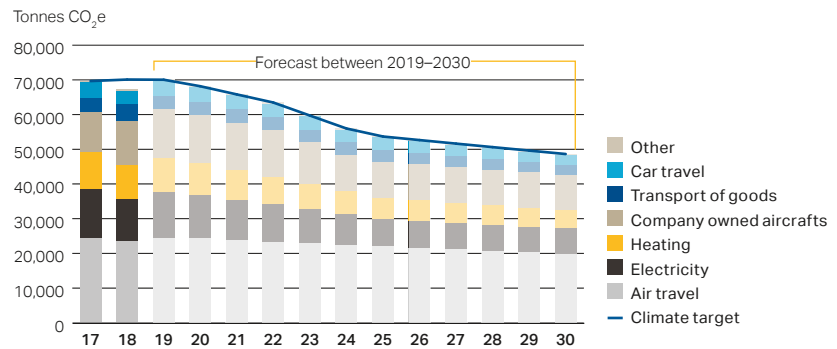
- Launch the new environmental strategy.
- Implement a new tool for travel analysis with a focus on CO<sub>2</sub> emissions.
- Ensure that all employees conduct basic environmental training.
- Work with energy efficiency with the greatest focus on facilities with the biggest savings potential.
- Nightly surveillance of offices and production facilities in all major operating locations to identify energy thieves.
- Implement new method to list substances contained in products.
- Improve the process to identify and map hazardous substances in products, production and maintenance.
- Develop and improve strategies for circular flows.



## GHG emissions by source

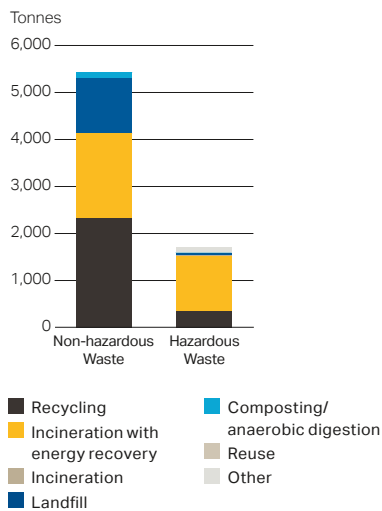


## GHG emissions relative to Saab's climate target 2030

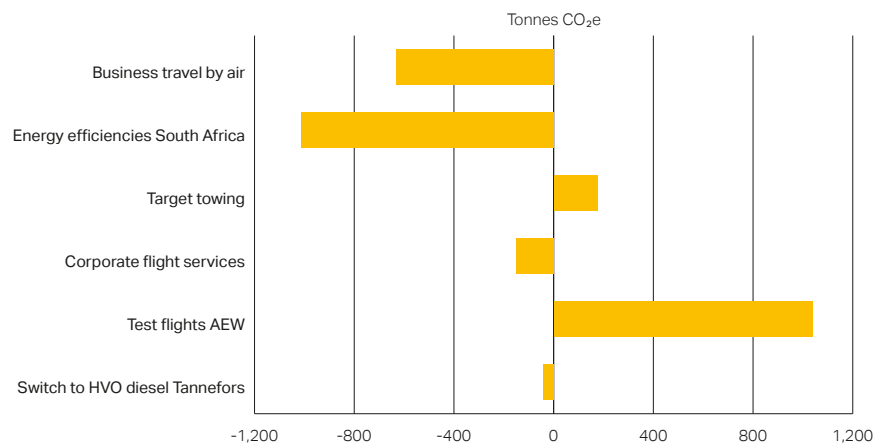


| Performance indicators                              | 2018                   | Target              |
|---|------------------------|---------------------|
| Reduction of Saab's GHG emissions (related to 2017) | 3.3 per cent reduction | 33 per cent to 2030 |

## Waste (tonnes)



## Major changes in emissions in 2018 compared to 2017



# Employees

To be even more competitive in the future, Saab has to stay on the forefront of technology. Employees are the driving force that will take this work forward.

For every employee to have an opportunity to maximize their potential requires competent leaders. The aspiration is to continue to develop an even more business-oriented and performance-driven leadership, where internationalisation and diversity are key elements.

## Develop and retain

Every employee should clearly understand their expectations. A performance-driven culture contributes to engagement and opportunities for every employee to reach their potential. Individual Performance Management (IPM) reviews are an important tool where the employee and their supervisor together set personal goals tied to the company's business goals. Saab measures employee engagement through pulse surveys, the results of which serve as a basis for dialog between leaders and their employees.

Saab offers various forms of skills and leadership development. This includes training, some of which is mandatory for all employees, and e-learning, which is flexible and cost-efficient. We also promote learning in the form of networks and mentorships and by encouraging employees to take on new challenges.

To identify young talents, Saab uses a well-established talent process where individuals receive training before rising to a leadership position. Employees identified as top talents are given special development plans to gain a more in-depth understanding of the company. The Saab Graduate Leadership Programme is available for recent graduates or those starting out in their careers.

## Attract employees

To remain competitive, Saab has to continue to attract the right talent. The company is working to position itself as an attractive employer among students and professionals. An annual trainee program, offers of summer jobs and master's programmes, school visits, study visits and career fairs are among the examples.

Saab is also working long-term to promote education and an interest in technology among young students to broaden its future recruiting base and at the same time take social responsibility. Learn more about Saab's social engagement on page 26–27.

## Health and safety

A prerequisite for higher performance is that Saab offers a safe, secure and healthy workplace from a physical, organisational and social perspective. Saab has an occupational health and safety policy that has been translated into several languages. During the year, Saab developed a global process to support proactive occupational health and safety management. The updated process emphasises getting employees involved in the work, e.g. performing risk assessments and reporting workplace injuries and incidents.

Managers and employees both have to understand the factors that affect occupational health and safety at work. Training and communication material for both groups are continuously developed to improve their skills.

Occupational health and safety is also built into business processes to address early on the risks that may be associated with various assignments in high risk environments. An important obligation as an employer is to ensure that employees are prepared and well-equipped for travel and foreign assignments. Saab therefore has extensive routines and training prior to travel.

## Diversity

Saab is an inclusive workplace where diversity and gender equality are a given. We at Saab have a firm belief, which is supported by research, that the different perspectives diversity brings to the organisation are a source of innovation. Having equal treatment and non-discrimination as a principle also aligns with the principle of human rights. All those who work with recruiting receive training in diversity issues, and diversity is a parameter in leadership training and the global recruitment process. The company has a number of networks for women and a network for diversity in a broader sense.

An overwhelming majority of Saab's employees are men. Saab has therefore focused for several years on increasing the share of women in management positions. Through systematic and persistent efforts, the company has succeeded in doubling the share of female managers in ten years, between 2007 and 2017. Saab has remained focused on gender equality and has now raised the target. Each business area's management team has an ambassador for gender equality, who moves the work forward and is responsible for developing business area's action plan. Together with representatives from HR, the ambassadors

### Primary risks:

- That Saab fails to attract and retain the right talents
- That Saab fails to promote diversity and inclusiveness, affecting an important source of innovation
- That employees do not maintain a work-life balance
- That employee health is affected by organisational, social and physical risks in the workspace

### Primary policy documents:

- Code of Conduct
- Occupational health and safety policy
- Travel security policy

form a working group for gender equality and diversity. Their work is overseen by Group Management.

Saab in South Africa has started several projects aimed at people who are having difficulty entering the job market due to apartheid. As part of a skills programme, Saab has hired disabled youth, who receive training and mentorship so that they can fully contribute to the business. The company also provides annual training for a number of unemployed youth on the so-called ICP standards, a sought-after skill in the manufacturing sector. The projects align with the South African government's action plan to overcome social and economic imbalances created by apartheid, Broad Based Black Economic Empowerment (BBBEE).

### Examples of activities in 2018

- Developed a new strategy to attract the right future talents.
- Prepared for implementation of new uniform system support with standardised HR processes for recruiting, performance reviews, talent identification, skills training and handling personal data.
- Began clarifying various career options using a consistent structure to create transparency and promote internal mobility
- Analysed the requirements of the ISO 45001 occupational health and safety standard and began implementation.
- Developed a global process to proactively address occupational health and safety issues and began implementation.
- Began working with a global provider of occupational health and safety training and compliance support.

- Launched web-based training on "Health and safety from an organisational and social perspective" for employees in Sweden.

#### Planned activities in 2019

- Implement a new uniform system support with standardised HR processes for among other things recruitment, performance management, talent management, training and managing employee data.
- Continue implementation of the global occupational health and safety process.
- Conduct internal and external audits to prepare for ISO 45001 certification audit.

# 25.1%

Share of female managers globally

# 23.5%

Share of female employees globally

# 28.5%

Share of female managers in Sweden

# 23.5%

Share of female employees in Sweden

#### Performance indicators – Develop

|   | 2017                                   | 2018                                  | Target |
|---|--|---------------------------------------|--------|
| Number of training sessions completed by employees during the year (only training booked through Saab's internal training portal) | 49,155 (of whom 15% external training) | 60,287 (of whom 7% external training) | -      |
| Share of employees who state in the employee survey they are engaged in their work  | 75%                                    | 76%                                   | -      |
| Share of employees who have discussed their personal goals, development and performance with their manager                        | Measured globally from 2019            | Measured globally from 2019           | 100 %  |

#### Performance indicators – Attract

|  | 2017 | 2018 | Target         |
|--|------|------|----------------|
| Number of Master's students (Sweden)   | 191  | 227  | At least 150   |
| Number of summer jobs (Sweden)   | 466  | 423  | -              |
| Rank in Universum's survey of Swedish engineering students' favourite places to work | 6    | 6    | Among top five |
| Employee turnover (Sweden)   | 6.7% | 7.5% | -              |

#### Performance indicators – Health and safety

|  | 2017                                     | 2018                                     | Target |
|--|--|--|--------|
| Number of reported incidents per workplace injury (a higher propensity to report incidents reduces the risk of a workplace injury) | -  | 5  | 10     |
| Total Case Incident Rate   | -  | 1.72                                     | -      |
| Number of reported workplace injuries  | 211                                      | 183                                      | -      |
| Health index (percentage of employees who have taken less than 40 hours of sick leave in a year) (Sweden)                          | 74.9%                                    | 73.4%                                    | -      |
| Sick leave (Sweden)  | 2.94%                                    | 3.15%                                    | -      |
| Sick leave, women (Sweden)   | 4.55%                                    | 4.75%                                    | -      |
| Sick leave, men (Sweden)   | 2.48%                                    | 2.68%                                    | -      |
| Number of employees who completed Saab's travel security training steps 1 and 2 as well as first aid training (L-ABC) since 2016   | Step 1: 472<br>Step 2: 146<br>L-ABC: 167 | Step 1: 693<br>Step 2: 221<br>L-ABC: 701 | -      |

#### Performance indicators – Diversity

|  | 2017  | 2018            | Target |
|--|-------|-----------------|--------|
| Share of women in Group Management   | 38.5% | 30.7%           | -      |
| Share of women on the Board of Directors (AGM elected excluding CEO)   | 44.4% | 44.4%           | -      |
| Share of female summer workers (Sweden)  | 43%   | 38%             | -      |
| Share of master thesis students who are female (Sweden)  | 28%   | 27%             | 30%    |
| Share of women in the Saab skills programme (South Africa)   | 40%   | 43%             | -      |
| Number of nationalities among Saab's employees   | 53    | 51              | -      |
| Share of employees outside Sweden  | 19%   | 18%             | -      |
| Average age of Saab's employees  | 46    | 45              | -      |
| Saab's grade in B-BBEE (Broad Based Black Economic Empowerment), a South African programme to assist the previously disadvantaged groups | 2     | 4 <sup>1)</sup> | -      |

<sup>1)</sup> Saab reached a lower level compared to 2017 due to the changes in the legal requirements for B-BBEE in 2018.

# Human rights

As a responsible company in a global market, it goes without saying that Saab respects basic human rights and tries not to cause or contribute to adverse impacts on human rights.

Saab has pledged to apply the UN Global Compact's ten principles and integrated them in its Code of Conduct. Through procurement processes and in contacts with partners we increase awareness of the UN Global Compact and in this way promote the values Saab stands for. Saab has an impact on human rights through its work in a number of areas, ranging from diversity and occupational health and safety to anti-corruption and export control. This work with human rights issues is a continuous process that develops over time.

Saab uses the UN guiding principles for business and human rights to support its work. According to these principles, companies are expected to identify their most important human rights issues, where there is a risk of serious adverse consequences from the company's operations. Saab has identified compliance with export regulations (right to life, freedom and personal safety) and responsible supplier relationships (right to fair working conditions) as its most important issues.

## Compliance with export regulations

At the same time that defence materiel contributes to upholding human rights, it can, if used incorrectly and contrary to international law, also lead to human rights violations. The export of defence materiel therefore represents a great responsibility and is subject to strict regulations.

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. A domestic defence industry is an important component in a country's defence capabilities, but requires sales and technological collaborations with other countries for its long-term development.

The large part of Saab's exports is from Sweden, where the Inspectorate of strategic products (ISP) determines on behalf of the government which defence products Saab may sell to which countries. Defence exports require authorisation, which can be given if there are security and defence policy reasons for the export and it is consistent with Swedish foreign policy interests. Export authorisations are granted 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 involved; see below.

Saab also has its own internal processes to weigh the risks associated with among other things human rights to evaluate new business opportunities. Saab makes a comprehensive assessment in which several factors are considered. The company's stance is that international trade can be a way to promote countries' development.

Saab has Group-wide policies and tools to facilitate compliance with the export controls that apply to the company's products and operations. 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

### Primary risks:

- Non-compliance with Saab's supplier code of conduct.
- That minerals and other raw materials Saab and its subcontractors use in their products are obtained from conflict areas.

### Primary policy documents:

- Code of Conduct
- Supplier Code of Conduct
- Conflict mineral policy
- Occupational health and safety policy
- Export control policy

### The type of product being exported is factored into export authorisation decisions

The licensing authority in Sweden divides the products into the following categories:

- Military equipment for combat, e.g. weapons
- Other military equipment, e.g. radar surveillance systems
- Dual use products, e.g. electronics and computers



collaboration and prioritise needs, Saab also has an export control council with representatives from various parts of the business.

Saab is constantly developing its processes to improve the work. 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 biennial conference is held to review various export controls and related legal matters. We also work with other industries through trade associations in Sweden, EU and U.S.

### **Responsible supplier relationships**

The large share of Saab's purchases is from Sweden and an overwhelming majority of suppliers are in Europe. Saab has relatively few first-tier suppliers in countries where national laws and internationally accepted principles and norms for fair labour, anti-corruption and the environment are not fully accepted. Saab therefore sees the biggest risks further down the supply chain. Saab mainly buys components and technologies connected to its systems and to a lesser extent operational and other services.

We see our suppliers as an extension of our own operations and expect them to take the same social and environmental responsibility as we do. Systematic measures to ensure that responsibility is being taken in the supply chain not only minimises risks, but also leads to higher quality in the products we buy. In many cases Saab has close, long-term relationships with well-respected suppliers.

Saab works continuously to find better ways to minimise social and environmental risks in the supply chain. We strive to include

the code of conduct in all contracts with a significant commercial impact. In the supplier code of conduct, which is based on the UN Global Compact's principles and the International Labour Organization's core conventions, we stipulate that we expect our suppliers to 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 with them. Serious non-compliance or an unwillingness to cooperate can, however, have contractual consequences for the supplier.

Conflict minerals are extracted in conflict zones and sold to finance armed groups and sustain violence against local populations. Saab's aspiration is to eliminate these minerals from its products. The supplier code of conduct includes a special section on conflict minerals and we also have a policy and rules for them.

### **Examples of activities in 2018**

- Hired a resource to coordinate sustainability work in the supply chain.
- Drafted special policy and action plan for "Combating human trafficking and slavery".

### **Planned activities in 2019**

- Develop an interactive tool to effectively allow suppliers to access and accept Saab's code of conduct.
- For each business area, implement a number of follow-ups, evaluations and dialogs with suppliers that have accepted the code of conduct.
- Train Saab's procurement organisation on sustainability in the supply chain.
- Update the supplier code of conduct.

# Society

Saab's sustainability commitment is rooted in its mission to make people and society safe by contributing to security and defence capabilities. With its high-tech businesses, Saab also creates additional value for society.

Saab's operations play an important role in driving innovation and technological development in society. With employees in a large number of locations, Saab creates jobs and opportunities for collaboration and spreads knowledge. Considering the products it sells, Saab naturally takes responsibility for information and product security.

## Innovation and spreading knowledge

Saab's advanced product development generates know-how, technological solutions and innovations for the future. An important part of Saab's innovative capabilities is university partnerships. Among other things, Saab employees have the opportunity to research for a PhD, while researchers and students from the schools can get involved in Saab's work. In collaboration with the universities, a number of adjunct professors have been appointed as well.

When Saab signs large defence contracts, they usually contain more than just a product sale. Many countries also want technology and skills transfers as well as various forms of industrial cooperation. Through customised offerings, Saab has contributed together with partners to several successful projects that affect the country's economy in a positive direction.

Sweden is seen by many countries as a leader in entrepreneurship and innovative thinking. Saab brings the way research and development is done in Sweden to new markets by building relationships with academia, businesses and the public sector.

Many potential customers want access to the technology and capabilities Saab can offer. At the same time, this gives Saab an opportunity to participate early on in customer projects. For example, Saab is one of the founders of the Swedish-Brazilian Research and Innovation Centre CISB in Brazil. The organisation has 17 members and over 100 partners. Saab is also one of the founders of the Swiss-Swedish Innovation Initiative, a virtual innovation platform to bring together research, innovation organisations and companies in Sweden and Switzerland. The platform has been very successful and in

four years has contributed to a significant increase in the number of bilateral research projects. Saab recently established research and innovation centres in Finland and Singapore as well.

Some of Saab's development projects result in product ideas that fall outside the core business. These projects are managed by Saab Ventures, which together with outside investors further develops the ideas and finds a natural home for them. See examples at [www.saabgroup.com](http://www.saabgroup.com).

## Promote education and an interest in technology

Saab's aspiration is to contribute to social development in the markets where we operate with a focus on promoting education and an interest in technology. This creates confidence in Saab's businesses and helps to develop skills that are beneficial to society as a whole as well as to Saab. Social initiatives are mainly done with the help of the company's employees, since this provides valuable experience for those who get involved.

To promote an interest in technology, Saab offers a number of activities for children and young adults from preschool upward. Everything from technology classes for kids, technology contests, study visits and summer engineering school to a high school program where students have close contact with Saab's businesses. See more examples at [www.saabgroup.com](http://www.saabgroup.com).

Saab has taken this ability to think innovatively and create change and applied it to equestrian sports by sponsoring a concept called Equestrian Innovations. With an emphasis on innovative thinking, Saab wants to play a part in helping the sport to develop. A number of exciting collaborative projects create new knowledge and lead to greater innovation, at the same time that they spark interest in an engineering education among young equestrians. Saab gets young people involved through seminars on innovation and personal development tied to the equestrian environment.

## Information security

Saab manages information that is vitally important to its customers and in many cases to Sweden's and other nations' security. In an increasingly uncertain world with growing cybersecurity challenges, continuous and systematic information and IT

### Primary risks:

- That information falls into the wrong hands through mishandling or a break-in in Saab's IT-systems
- Future shortage of engineers

### Primary policy documents:

- Product safety policy
- Information security policy
- Policy on sponsorships and social engagement
- Code of Conduct

### Universities Saab mainly partners with:

KTH Royal Institute of Technology in Stockholm, the Institute of Technology at Linköping University, Chalmers University of Technology in Göteborg, the Swedish Defence University in Stockholm, Lund University, Aalto University in Finland and Nanyang Technology University in Singapore.

security is critical. We work constantly to improve its global security management, a key element of which is risk management. Every employee and manager has to understand their role in the security work. Taking advantage of the opportunities that new information technology offers requires that information and IT security is fully integrated with business and technological development.

### Product safety

With a product portfolio containing everything from advanced aircraft systems to submarines, it is vital that Saab's products are safe to use. The safety level of Saab's systems and products must meet appropriate laws, regulations, international standards and best practices.

The methodical safety analysis conducted during product development is described in the System Safety Handbook and included in Saab's global enterprise management system.

System safety engineers in Saab's organisation handle analysis work in the projects and share knowledge on product safety through information and training. Collaboration in this area is important and affects not only the system safety engineers but also many others such as designers, systems engineers, buyers and project leaders.

To guarantee the continued airworthiness of its military and commercial aircraft, Saab has special processes for aviation and system safety. As part of the processes, Saab monitors how the aircraft are used and analyses all reported events. Another area with high product safety demands is the submarine and surface vessels business. It is critical to identify and manage risks at an early stage in order to ensure a final product that is safe to use and will not cause harm to people, property or the environment.

### Performance indicators

|   | 2017              | 2018   | Goal   |
|---|-------------------|--|--|
| Number of PhD candidates (university collaborations and PhD candidates contribute to innovation).   | 36 PhD candidates | 54 PhD candidates                            | Saab will annually have at least 20 PhD candidates |
| Number of participants in youth seminars on innovation and personal development in equestrian sports.   | 510               | 570  | -  |
| Number of employees who serve as math tutors (Sweden).  | 27                | 28   | -  |
| Participants in the "Saab skills programme" (to promote engineering skills and assist those who have previously been locked out of the job market due to apartheid) (South Africa). | 110               | 106  | -  |
| Share of systems safety risks addressed in the submarine and surface vessel design and construction phase.  | 100%              | 99% (the work will be completed during 2019) | 100%   |

### Examples of activities in 2018

- Provided summer engineering school, study visits, technology contests, mentoring programs, etc. for children and young adults from preschool to high school.
- Signed a cooperative agreement with Lund University.
- Further developed technical security solutions.
- Started a working group to manage and further develop a systems safety handbook.

### Planned activities in 2019

- Saab Technical High School will celebrate its 10th anniversary.
- In collaboration with Vinnova, among others, innovation platforms will be launched in customer countries to coordinate collaborations between government, industry and academia.
- Develop a process to collaborate with start-ups and small businesses in order to encourage innovation at Saab.
- Implement audit programmes for selected parts of Saab's IT infrastructure.
- Develop Saab's product safety process to meet increasing demands from current and future customers.

## Governance of sustainability work

The Board of Directors adopts the Group's Code of Conduct and sustainability reports. The Corporate Responsibility Council proposes priorities to Group Management. The Council is comprised of representatives from Saab's Group Management and is led by the Executive Vice President, who is responsible for sustainability issues in Group Management. Saab's Corporate Responsibility function coordinates sustainability work within the Group. For each priority sustainability issue a person is appointed each year to gather information within their area and report goals and results.

### 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 important functions are Ethics and Compliance, which are responsible for monitoring, coordinating and developing efforts to prevent corruption and provides expertise in this area, and Market Network Management, which, in collaboration with the marketing and product functions, oversees the entire process of hiring 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. Follow-up and evaluation of the work takes place once a year through the management review, and at audits at different levels within the company.

### Employer of choice

Saab's Head of Group Human Resources has overarching responsibility for HR work within the Group. This 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. Activities that contribute to social development should, according to the strategy for social engagement, mainly be carried out with the help of 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 managed through 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, English, Portuguese, Spanish, German, Arabic and Czech. 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. Group policies are available to all employees on Saab's

global enterprise system. Saab is certified according to the ISO 14001 environmental management system.

### Collaborations, initiatives 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 the International Aerospace Environmental Group (IAEG)
- Global Compact Network Nordic Countries
- Carbon Disclosure Project
- Global Reporting Initiative
- Green Chain





## Stakeholder dialog and materiality analysis

Stakeholders' expectations, together with Saab's own strategic assessment, serve as the basis for selecting priority issues for Saab's sustainability work (see pages 54-55) and, as a result, the contents of this report. Saab receives input from stakeholders through a number of channels, several

examples of which are listed in the table below. Saab also participates in several collaborations and organisations that provide valuable contributions to the work (see page 66).

The sustainability issues most stakeholders point to as especially important for

Saab's operations are zero tolerance for corruption and export compliance. Many also want to know more about how Saab works with sustainable innovations. Each stakeholder group also has expectations on Saab based on their specific area of interest.

| Stakeholder group  | Primary forms of dialog   |
|--|---|
| <b>Owners and investors</b>  | <ul style="list-style-type: none"> <li>• Separate meetings with investors on sustainability issues</li> <li>• Annual General Meeting</li> <li>• Sustainability surveys from investors and analysts</li> <li>• Continuous dialog with investors and analysts</li> </ul>                              |
| <b>Employees</b>   | <ul style="list-style-type: none"> <li>• Continuous dialog on the job</li> <li>• Personal reviews</li> <li>• Annual employee survey</li> </ul>  |
| <b>Students and potential employees</b>  | <ul style="list-style-type: none"> <li>• Labour market days and similar events</li> <li>• University collaborations</li> <li>• External surveys on what students expect from future employers</li> </ul>  |
| <b>Customers</b>   | <ul style="list-style-type: none"> <li>• Personal meetings, trade shows and conferences</li> </ul>  |
| <b>Society as a whole, including decision-makers and stakeholder organisations</b> | <ul style="list-style-type: none"> <li>• Participation in defence forums and debates, e.g. Almedalen and Folk och Försvar in Sälen</li> <li>• Collaborations with public organisations and authorities, e.g. the EU and UN</li> <li>• Volunteer work and collaborations with non-profits</li> </ul> |
| <b>Suppliers and partner</b>   | <ul style="list-style-type: none"> <li>• Continuous contact with suppliers and partners</li> </ul>  |

# 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.

## 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.bolagsstyrring.se](http://www.bolagsstyrring.se).

This Corporate Governance Report is prepared in accordance with the Annual Accounts Act and the Code, and describes how Saab applied the Code in the financial year 2018. Saab's website, [www.saabgroup.com](http://www.saabgroup.com), has a special section on corporate governance issues, which is updated continuously in accordance with the Code.

The Corporate Governance Report includes the Board of Directors' report on internal control over financial reporting.

This Corporate Governance Report has been reviewed by the company's auditor. Saab did not deviate from the provisions of the Code in 2018.

## ① Shareholders' meeting and ownership structure

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 votes. The Annual General Meeting shall be held within six months of the end of each financial year. Shareholders at the Annual General Meeting vote, for example, on resolutions relating to the annual report, dividend, Board election, Board fees, auditor's fees, adoption of remuneration guidelines for senior executives and, when applicable, election of the external auditor and other matters stipulated in the Companies Act. Preparations for and the execution of the AGM 2018 were carried out in accordance with the Code, and the AGM 2019 will also comply with the provisions of the Code. The Annual General Meeting of Saab was held on 10 April 2018 in Linköping and was attended by 587 shareholders, representing about 66 per cent of the total number of votes in the company. This year the Annual General Meeting will be held on 11 April 2019 in Linköping; for more information, see page 141. On 16 November 2018, Saab held an Extraordinary General Meeting in Stockholm. Shareholders at the meeting resolved to authorise the Board of Directors to decide on a rights issue for the company's shareholders. The Extraordinary General Meeting was attended by 335 shareholders, or about 65 per cent of the total number of votes in the company.

On 31 December 2018, Saab's share capital amounted to SEK 2,170,749,952 and consisted of 2,383,903 Series A shares and 133,287,969 Series B shares. After final registration of the issue by the Swedish Companies Registration Office (Bolagsverket) in early January 2019, the share capital amounts to SEK 2,173,533,552 and consists of 2,383,903 Series A shares and 133,461,944 Series B shares. Series A shares have ten votes each, while Series B shares have one vote each. A Series A share may, on demand of the owner, be converted to a 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's 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 79 for more information. As of 31 December 2018, Saab held 2,363,299 of its own Series B shares, corresponding to 1.8 per cent of the share capital. For more information on the ownership structure, see page 36.

## Largest shareholders, 31 January 2019

| Source: Modular Finance              | % of capital | % of votes |
|--------------------------------------|--------------|------------|
| Investor AB                          | 30.2         | 40.3       |
| Knut and Alice Wallenberg Foundation | 8.8          | 7.7        |
| Swedbank Robur Fonder                | 5.6          | 4.9        |
| Första AP-fonden                     | 3.7          | 3.3        |
| AFA Försäkring                       | 2.9          | 2.5        |
| Vanguard                             | 1.9          | 1.6        |
| Livförsäkringsbolaget Skandia        | 1.7          | 1.5        |
| Fidelity Investments (FMR)           | 1.6          | 1.4        |
| Nordea Fonder                        | 1.4          | 1.2        |
| Norges Bank                          | 1.4          | 1.2        |

## 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 votes 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.

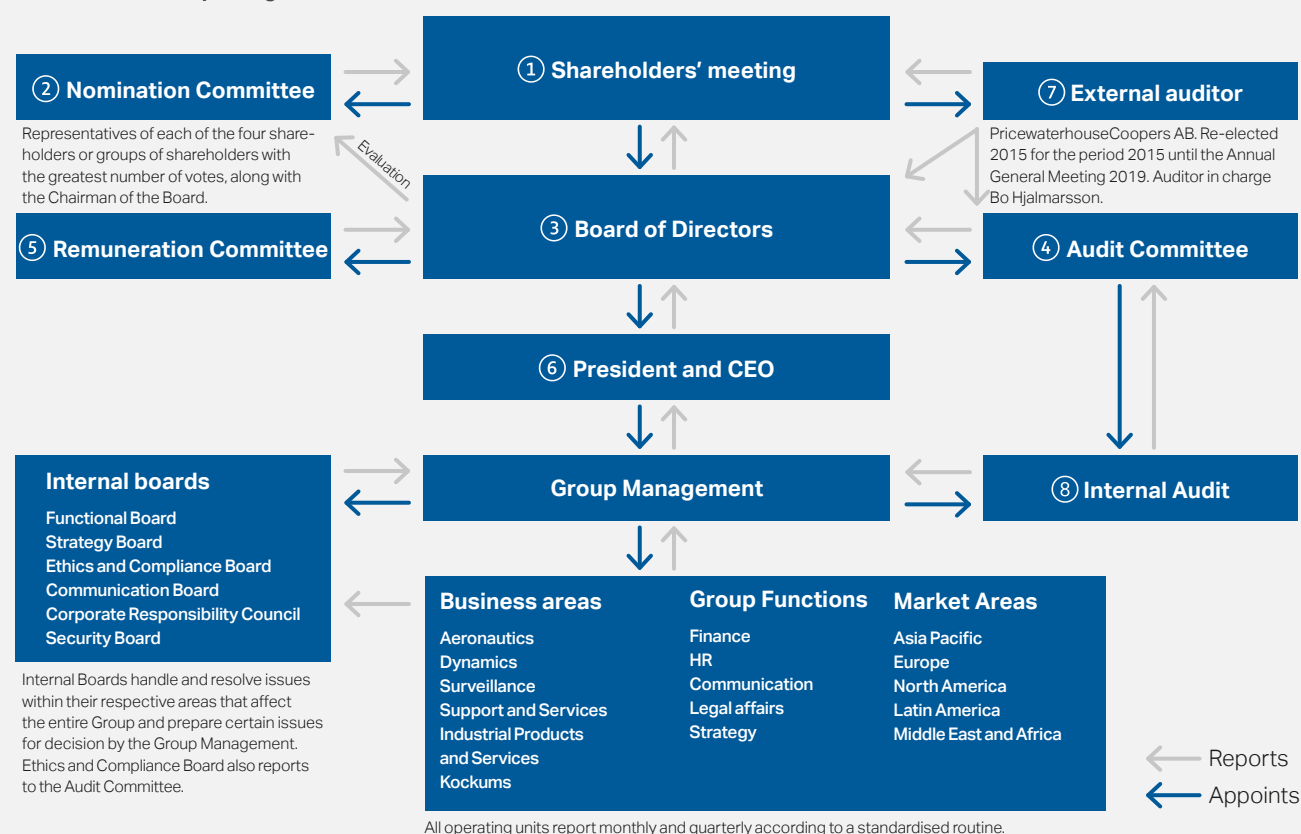
According to the process, the Nomination Committee shall prepare a proposal on the following issues to be presented to the Annual General Meeting for resolution:

- 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 auditor, (if applicable), and
- Fees paid to the company's auditor.

Prior to the Annual General Meeting on 10 April 2018, the Nomination Committee issued a proposal for resolution on the Chairman of the shareholders' meeting, the Board of Directors and the remuneration to the Board and auditor. The Nomination Committee announced that it had applied rule 4.1 of the Code as a diversity policy with respect to the Board. The goal of the policy is that Saab will have a board with an appropriate composition and with satisfactory diversity and breadth in terms of gender, competence, age, experience and background.

Prior to the Annual General Meeting on 11 April 2019, it was announced in a press release on 26 September 2018 that, in addition to Chairman of the Board Marcus Wallenberg, the following shareholder representatives had been appointed to the 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 Försäkring). Petra Hedengran is Chairman of the Nomination Committee.

## Governance and reporting 2018



In the aggregate they represent approximately 54 per cent of the votes in Saab based on the ownership structure as of 31 August 2018. After ownership changes in the fourth quarter of 2018, Olof Jonasson (Första AP-fonden) has served as an adjunct member of the Nomination Committee from mid-December 2018.

The proposals of the Nomination Committee were announced in connection with the notice of the Annual General Meeting 2019.

#### Members of the Nomination Committee for Annual General Meeting 2019

| Member              | Representing                         | % of votes, 31 Aug 2018 | % of capital, 31 Aug 2018 |
|---------------------|--------------------------------------|-------------------------|---------------------------|
| Petra Hedengran     | Investor AB                          | 39.54                   | 30.03                     |
| Peter Wallenberg Jr | Knut and Alice Wallenberg Foundation | 7.59                    | 8.79                      |
| Jan Andersson       | Swedbank Robur Fonder                | 4.20                    | 4.87                      |
| Anders Algotsson    | AFA Försäkring                       | 2.42                    | 2.80                      |
| Marcus Wallenberg   | Chairman of the Board of Saab AB     |                         |                           |

Bert Nordberg, Cecilia Stegö Chilò, Erika Söderberg Johnson, Marcus Wallenberg and Joakim Westh were re-elected. Marcus Wallenberg was elected Chairman of the Board of Directors.

The current composition of the Board is the result of the Nomination Committee's work prior to the Annual General Meeting 2018 applying the diversity policy. The members of the Board of Directors of Saab represents a diversity and breadth in terms of competence, age, experience and background. In the aggregate, the Board combines the competence and experience that are important to Saab's operations and that the Nomination Committee deems are needed to meet Saab's future challenges and needs. Of the Board members elected by the shareholders' meeting, excluding the CEO, 44.4 per cent are women.

At the statutory Board meeting after the Annual General Meeting, Sten Jakobsson was elected Deputy Chairman of the Board. Among Board members, only CEO Håkan Buskhe is employed by the company.

Information on remuneration to the members of the Board as resolved by the AGM 2018 is set forth in note 9.

#### Members of the Board elected by the shareholders' meeting

##### Regulars

|                        |                     |                         |
|------------------------|---------------------|-------------------------|
| Marcus Wallenberg      | Sara Mazur          | Erika Söderberg Johnson |
| Håkan Buskhe           | Daniel Nodhäll      | Joakim Westh            |
| Sten Jakobsson         | Bert Nordberg       |                         |
| Danica Kragic Jensfelt | Cecilia Stegö Chilò |                         |

##### Employee representatives

##### Regulars

Stefan Andersson  
Göran Gustavsson  
Nils Lindskog

##### Deputies

Conny Holm  
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 74–75.

### 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 10 April 2018, Saab's Board of Directors shall consist of ten members elected by the shareholders' meeting with no deputies. In addition, employee organisations appoint three Board members with an equal number of deputies.

At the Annual General Meeting on 10 April 2018, Håkan Buskhe, Sten Jakobsson, Danica Kragic Jensfelt, Sara Mazur, Daniel Nodhäll,

### Independence requirement

The table below sets forth the Board members 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 2018

| Member                  | Elected | Independent of company/management | Independent of major shareholders |
|-------------------------|---------|-----------------------------------|-----------------------------------|
| Marcus Wallenberg       | 1992    | Yes                               | No <sup>1)</sup>                  |
| Håkan Buskhe            | 2011    | No <sup>2)</sup>                  | Yes                               |
| Sten Jakobsson          | 2008    | Yes                               | Yes                               |
| Danica Kragic Jensfelt  | 2017    | Yes                               | Yes                               |
| Sara Mazur              | 2013    | Yes                               | No <sup>3)</sup>                  |
| Daniel Nodhäll          | 2017    | Yes                               | No <sup>4)</sup>                  |
| Bert Nordberg           | 2016    | Yes                               | Yes                               |
| Cecilia Stegö Chilò     | 2010    | Yes                               | Yes                               |
| Erika Söderberg Johnson | 2017    | Yes                               | Yes                               |
| Joakim Westh            | 2010    | Yes                               | Yes                               |

<sup>1)</sup> Member of Investor AB's Board.

<sup>2)</sup> President and CEO of Saab.

<sup>3)</sup> Member of Investor AB's Board.

<sup>4)</sup> Employed by Investor AB.

Accordingly, the company fulfils the Code's requirement that a majority of Board members appointed by the shareholders' meeting are independent of the company and its management, and that at least two are independent of the major shareholders.

### Work of the Board

According to the Board's rules of procedure, seven ordinary meetings shall normally be held each year, in addition to the statutory meeting. The Board can also meet when circumstances demand. During 2018, the Board held one statutory meeting, seven ordinary meetings and four extra meetings, or a total of twelve meetings. All the Board meetings in 2018 were held in Stockholm, with the exception of two held in connection with the Annual General Meeting in April, which was in Linköping. In connection with the June meeting, a visit was also paid to Kockums' operations at the Muskö shipyard.

The Board annually adopts rules of procedure, an instruction on the division of work between the Board and the CEO, 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 CEO 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 the division of labour between the Board and the CEO. The instruction for the CEO sets forth the CEO'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 Bärems, who is not a member of the Board.

The Board of Directors' meetings follow an agenda. Prior to each meeting, Board members receive documentation and supporting material for the issues on the agenda. At each Board meeting the CEO presents a Market and Operations Report. A financial report is also presented at each Board meeting and is addressed in detail prior to the publication of the interim reports and year-end report. The Board regularly considers investments, research and development, organisational issues, management of significant risk areas, and acquisitions and divestments. The Board's annual work includes deciding on the company's business plan and strategy, which in 2018 it addressed in Decem-

ber. The Board meeting in December considers the company's budget for the coming year. The Board then also addressed the performance targets in the company's two performance related share plans. During 2018, the Board especially focused on issues relating to major projects such as Gripen NG to Brazil, Gripen E to Sweden, A26 to Sweden, GlobalEye to the United Arab Emirates and the T-X jet trainer to the U.S. Air Force as well as other significant export and marketing issues. The Board also worked during the year on the MSEK 6,006 rights issue and the Enterprise Risk Management process.

The work in the committees represent 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 the auditor. The Audit Committee's members following the Annual General Meeting 2018 are Joakim Westh (Chairman of the Committee), Daniel Nodhäll and Erika Söderberg Johnson, whereof both Joakim Westh and Erika Söderberg Johnson are independent of the company and its management as well as of the major shareholders. Moreover, all members of the committee have accounting or auditing competence. The General Counsel, Annika Bärems, was Secretary to the Audit Committee in 2018.

The Audit Committee's assignment is set forth in the Board's rules of procedure. The Audit Committee shall, among other things, monitor the company's financial reporting and submit proposals to ensure the integrity of the financial reporting, oversee the performance of the company's internal control, internal audit and risk management in respect of the financial reporting, keep itself informed of the audit of the annual report and consolidated accounts, inform the Board of the results of the audit, review and monitor the auditor's impartiality and independence, assist the Nomination Committee in preparing the proposal for the shareholders' meeting's election of the auditor 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 regulations, including the Code of Conduct, and keep itself informed of material deviations or non-compliance with the company's business ethics regulations, 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 2018, the Audit Committee focused especially on current issues relating to the company's financial position, the rights issue, the financial reporting, execution of major projects, budget, risk management, internal control and issues relating to the company's business ethical rules.

The Audit Committee keeps minutes of its meetings, which are distributed to the other members of the Board. In 2018, 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. The Remuneration Committee's members following the Annual General Meeting 2018 are Sten Jakobsson, Marcus Wallenberg and Bert Nordberg. Sten Jakobsson is the Chairman of the Committee. All



are independent of the company and its management. The General Counsel, Annika Bärems, was Secretary to the committee during 2018. 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, which, following resolution by the Board of Directors, are submitted to the Annual General Meeting. Matters concerning the employment terms, remuneration and other benefits for the CEO 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 2018, the Remuneration Committee focused especially on issues relating to the company's long-term incentive programmes, including the proposed performance targets in the company's two performance related share plans. The Remuneration Committee keeps minutes of its meetings, which are distributed to the other members of the Board. In 2018, the Committee held three meetings.

### Evaluation

The Chairman of the Board annually performs an evaluation of the Board's work and possible improvement areas, in order to develop the forms and effectiveness of its work. The evaluation is made by having

Board members respond to a questionnaire and give their opinions on the Board's work and performance. The results are then 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 preparing its proposal on the composition of the Board.

The Board continuously evaluates the CEO's work by monitoring the company's performance relative to established goals. The Board also evaluates the CEO's work through its members' responses to a questionnaire on the CEO in the areas of performance, organisation, people and leadership. The CEO 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; see page 75. 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 page 78–79.

### Attendance and board remuneration in 2018

| Name                    | Audit Committee | Remuneration Committee | Board meetings attended <sup>1)</sup> | Committee meetings attended <sup>2)</sup> | Board remuneration KSEK <sup>3)</sup> | Audit Committee remuneration KSEK | Remuneration Committee remuneration | Total remuneration KSEK |
|-------------------------|-----------------|------------------------|---------------------------------------|---|---------------------------------------|-----------------------------------|-------------------------------------|-------------------------|
| Marcus Wallenberg       |                 | x                      | 12                                    | 3   | 1,750                                 |                                   | 90                                  | 1,840                   |
| Håkan Buskhe            |                 |                        | 12                                    |   |                                       |                                   |                                     |                         |
| Sten Jakobsson          |                 | x                      | 12                                    | 3   | 675                                   |                                   | 150                                 | 825                     |
| Cecilia Stegö Chilò     |                 |                        | 12                                    |   | 600                                   |                                   |                                     | 600                     |
| Danica Kragic Jensfelt  |                 |                        | 12                                    |   | 600                                   |                                   |                                     | 600                     |
| Sara Mazur              |                 |                        | 12                                    |   | 600                                   |                                   |                                     | 600                     |
| Daniel Nodhäll          | x               |                        | 10                                    | 6   | 600                                   | 150                               |                                     | 750                     |
| Bert Nordberg           |                 | x                      | 12                                    | 3   | 600                                   |                                   | 90                                  | 690                     |
| Erika Söderberg Johnson | x               |                        | 12                                    | 6   | 600                                   | 150                               |                                     | 750                     |
| Joakim Westh            | x               |                        | 12                                    | 6   | 600                                   | 225                               |                                     | 825                     |

<sup>1)</sup> Of a total of 12 meetings in 2018.

<sup>2)</sup> Of a total of 6 meetings of the Audit Committee in 2018 and 3 meetings of the Remuneration Committee in 2018.

<sup>3)</sup> Refers to the remuneration resolved by the AGM 2018 for the period until the AGM 2019. CEO Håkan Buskhe does not receive a remuneration.

## 7 The company's 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 CEO, and carries out the statutory audit of the corporate governance report and sustainability report. The company's Q2 and Q3 interim reports have been reviewed by the auditor as well. The auditor presents an auditors' report to the Annual General Meeting. In the prospectus for the MSEK 6,006 rights issue, the company's auditor issued an audit report on the outlook. On behalf of the Board, the company's auditor has also reviewed whether the performance targets for the Special Projects Incentive 2018 were met.

The shareholders' meeting elects the auditor. PricewaterhouseCoopers AB was re-elected as 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. Other audit assignments: Telefonaktiebolaget LM Ericsson and SAS AB.

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 familiarity with international business.

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

### **Audit fees 2017–2018**

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

PwC performed limited services on behalf of the company in 2018 in addition to its audit assignments by consulting on accounting and tax issues.

### **Auditor's fees for the Group 2017–2018**

| MSEK               | 2018 | 2017 |
|--------------------|------|------|
| Audit assignments: |      |      |
| PwC                | 22   | 20   |
| Other              | 3    | 3    |
| Other assignments: |      |      |
| PwC                | 5    | 3    |

For further information, see note 10.

### **The Board's report on internal control over financial reporting**

The Board of Directors is responsible for internal control over financial reporting pursuant to the Swedish Companies Act and the Swedish Code of Corporate Governance.

The Board assures the quality of the financial accounting through the Audit Committee and CEO. The entire Board reviews the interim reports before they are published. The Audit Committee follows up the internal control over financial reporting on a regular basis. After each meeting of the Audit Committee, a report is submitted to the Board.

The Audit Committee considers not only critical accounting issues 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, elected by the Annual General Meeting, participated in all meetings of the Audit Committee in 2018.

The Board of Directors has met with the auditor to discuss their review of the company for the financial year 2018. The Board 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 over financial reporting*

The internal control system applies the principles of the Committee of Sponsoring Organizations' (COSO) framework and assists the business in achieving its financial goals by monitoring risk exposure in a structured way. Moreover, internal control 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. These Group functions issue guidelines that clarify responsibilities and powers.

Saab has a process for monitoring internal control where roles and responsibilities are defined, control matrixes and key controls included, and reporting clarified.

### *Risk assessment*

Saab's operations are characterised by the development, production and supply of technologically advanced hardware and software for military and civil customers around the world. The business largely consists of large projects that stretch over long periods, often several years. Saab identifies and assesses risks with an impact on the financial reporting within a number of processes such as the annual accounts, investments, project implementation and procurement. In addition to the risk of inaccurate financial reporting, internal processes are also assessed on the basis of the risk of exposure to improprieties.

Group Finance continuously coordinates an overall risk assessment of the financial reporting. The current risk assessment is reviewed by Internal Audit and taken into account in the preparation of the annual internal audit plan, which is established by the Audit Committee.

#### **Control activities**

Key controls are defined within Saab's internal processes and functions to monitor the internal control. There are also general IT key controls. Key controls are performed according to a predefined schedule. The control activities are both manual and automated and include authorisation routines, account reconciliations, process compliance, performance analyses and authorisations. A web-based tool is used to manage and document Saab's key controls.

#### **Information and communication**

Policies, Group directives and manuals are continuously updated, clearly communicated and available through Saab's internal enterprise management system, which is available on the internal web. A web-based tool used to monitor Saab's key controls clearly shows the status and results of performed controls. The results of performed controls are an integral part of Saab's financial closing process and are reported quarterly to the Group Management and the Audit Committee.

#### **Monitoring and evaluation**

- Each manager of a business area/legal entity and each accounting organisation is responsible for the financial information from their unit.
- The Audit Committee decides on the principles for accounting and financial reporting and follows them up.
- A semi-annual self-assessment focused on completed key controls. The self-assessment process also includes assessing whether the material risks in each internal process are managed with existing key controls.
- ⑧ • Saab's Internal Audit reports directly to the Audit Committee and the CFO. Internal Audit follows the internal audit plan adopted by the Audit Committee and performs independent and objective reviews in order to evaluate and increase the efficiency of the internal control. The function also performs an annual review of reporting from the self-assessment process.
- The company's auditor annually reviews the status of Saab's internal control over financial reporting.

# Board of Directors



## Standing from left:

### Bert Nordberg

Member of the Board since 2016  
Member of Saab's Remuneration Committee  
Born 1956  
Engineer  
Shares in Saab: 10,625

### Other board commitments:

Chairman of Vestas Wind Systems A/S and TDC Group A/S; Board member of AB Electrolux, Svenska Cellulosa Aktiebolaget (SCA), Essity Aktiebolag (publ) and Sigma Connectivity AB

### Former employment and positions:

Board member of Skistar AB and Axis AB; Chairman of Imagination Technologies Group Plc. and Sony Mobile Communications AB; Chairman and CEO of Sony Ericsson Communications AB; Various senior positions within the Ericsson group and various positions within Data General Corporation and Digital Equipment Corporation

### Sten Jakobsson

Member of the Board since 2008 and Deputy Chairman since 2010  
Chairman of Saab's Remuneration Committee  
Born 1949  
M.Sc. in Engineering, Royal Institute of Technology (KTH)  
Shares in Saab: 6,875

### Other board commitments:

Board member of Xylem Inc. and Arla Plast AB

### Former employment and positions:

Chairman of Power Wind Partners AB and LKAB; Board member of Stena Metall AB and FLSmidth A/S; 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 and for Asea Cylinda; Production Manager for Asea Low Voltage Division; Asea central staff – Production trainee

### Göran Gustavsson

Member of the Board since 2017 and deputy member 1995–2000 and 2008–2016  
President of the local trade union IF Metall at Saab AB, Linköping  
Born 1953  
Employed by Saab AB since 1972  
Shares in Saab: 2,935

### Former employment and positions:

Deputy board member of Resurstorget Sverige AB

### Nils Lindskog

Member of the Board since 2016 and deputy member 2007–2015  
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: 1,336

### Erika Söderberg Johnson

Member of the Board since 2017  
Member of Saab's Audit Committee  
Chief Financial Officer (CFO), Biotage AB  
Born 1970  
M.Sc. in Economics and Business, Stockholm School of Economics  
Shares in Saab: 250

### Other board commitments:

Board member of Qliro Group AB and Domeij Consulting AB

### Former employment and positions:

CFO of Karo Bio AB, Affibody AB and Global Genomics AB; Investment Banking Advisor at Enskilda, SEB; Board member of Sectra AB and MedCap AB

## 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 Engineering, Stockholms Tekniska Institut (STI)  
Shares in Saab: 1,934

### Stefan Andersson

Member of the Board since 2008  
President of the Local Salaried Employees' union Unionen at Saab Dynamics AB, Linköping  
Born 1974  
B.Sc. Mechanical Engineering, Dalarna University  
Shares in Saab: 2,369

### Marcus Wallenberg

Chairman of the Board since 2006  
Deputy Chairman 1993–2006 and Board member since 1992  
Member of Saab's Remuneration Committee  
Born 1956  
B. Sc. of Foreign Service, Georgetown University  
Lieutenant in Royal Swedish Naval Academy  
Shares in Saab: 125,000

### Other board commitments:

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

### Former employment and positions:

Chairman of AB Electrolux, LKAB and Svenska ICC Service AB; President and CEO of Investor AB; Board member of, amongst others, Stora Enso Oyj, EQT Holdings AB and Hi3G Holding AB



**Standing from left:****Cecilia Stegö Chilö**

Member of the Board since 2010  
Adviser to management of corporations and organisations  
Born 1959  
Studies in political science and economics  
Shares in Saab: 1,875

**Other board commitments:**

Chairman of Gotlands Bryggeri AB; Board member of Spendrups Bryggeri AB, Investment AB Spiltan and Centre for Business History

**Former employment and positions:**

Chairman of Fortum Värme AB (now Stockholm Exergi Holding AB); Board member of AMF Fonder AB, Länsförsäkringar Liv, Linköpings Universitets Holding AB and Marginalen Group AB; CEO of the Free Enterprise Foundation of Sweden and Head of the think tank Timbro; Cabinet member and Head of the Ministry of Culture

**Danica Kragic Jensfelt**

Member of the Board since 2017  
Professor, School of Electrical Engineering and Computer Science, Royal Institute of Technology (KTH)  
Director of the Centre for Autonomous Systems, KTH  
Born 1971  
Docent, Computer Science, KTH  
Ph.D., Computer Science, KTH  
M.Sc., Mechanical Engineering, Technical University of Rijeka, Croatia  
Honorary Doctorate, Lappeenranta University of Technology  
Shares in Saab: 1,250

**Other board commitments:**

Board member of FAM AB and the Institute for Future Studies and the Scientific Advisory Board, Max Planck Institute for Intelligent Systems; Member of the Royal Swedish Academy of Engineering Sciences (IVA), Division of Electrical Engineering and in the Royal Swedish Academy of Sciences (KVA)

**Former employment and positions:**

Deputy Director, School of Computer Science and Communication, KTH; Member of the Young Academy of Sweden; Chairman of STINT, Natural Sciences and Technology, Researcher at Columbia University, Brown University, Johns Hopkins

University and INRIA Rennes;  
Chairman of IEEE RAS Technical Committee on Computer and Robot Vision;  
Board member of Research Policy Committee, KVA

**Daniel Nodhäll**

Member of the Board since 2017  
Member of Saab's Audit Committee  
Head of Listed Core Investments, Investor AB  
Born 1978  
M.Sc. in Economics and Business, Stockholm School of Economics  
Shares in Saab: 2,500

**Other board commitments:**

Chairman of Invav Invest AB, Board member of Husqvarna AB and Navigare AB

**Former employment and positions:**

Board member of Kunskapsskolan Education Sweden AB; Investment Manager, Head of Capital Goods at Investor AB

**Conny Holm**

Deputy board member since 2017 and 1995–2008.  
Board member 2008–2016  
Born 1947  
Upper secondary engineering education  
Shares in Saab: 977

**Other board commitments:**

President of the local trade union IF Metall at Avionics Systems, Jönköping. Board member of Metallica Invest AB

**Former employment and positions:**

Member of County Administrative Board, Jönköping County

**Magnus Gustafsson**

Deputy board member since 2016  
President of the Local Swedish Association of Graduate Engineers at Saab AB in Linköping  
Born 1965  
M.Sc. in Applied Physics and Electrical Engineering, Linköping Institute of Technology  
Shares in Saab: 744

**Seated from left:****Håkan Buskhe**

Member of the Board since 2011  
President and CEO of Saab AB since 2010  
Born 1963  
M.Sc., Licentiate of Engineering, Chalmers University of Technology  
Shares in Saab: 68,425

**Other board commitments:**

Board member of Nefab AB  
Vice Chairman of AeroSpace and Defence Industries Association of Europe (ASD)

**Former employment and positions:**

Board member of Vattenfall AB and of the Association of Swedish Engineering Industries (Teknikföretagen); Chairman of Green Cargo AB; President and CEO of E.ON Nordic AB and E.ON Sverige AB; Executive Vice President of E.ON Sverige AB; Senior Vice President of E.ON Sverige AB; CEO of Land Operations, Schenker AG, Schenker North and Schenker-BTL AB; CEO of Störel, Carlsberg and Coca-Cola Distribution AB; Production Director of Carlsberg Sverige

**Joakim Westh**

Member of the Board since 2010  
Chairman 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: 10,000

**Other board commitments:**

Chairman of Amexci AB  
Board member of CGI Inc., Absolent Group AB and Swedish Match AB

**Former employment and positions:**

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

**Sara Mazur**

Member of the Board since 2013  
Director of Strategic Research, Knut and Alice Wallenberg Foundation  
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: 2,500

**Other board commitments:**

Deputy Chairman of Wallenberg Autonomous Systems and Software Program (WASP); Board member of Investor AB, Combient AB, Nobel Media AB and RISE Research Institutes of Sweden AB; Member of the Royal Swedish Academy of Engineering Sciences (IVA), Division Education and Research

**Former employment and positions:**

Vice President and Head of Ericsson Research, Ericsson AB; Vice President System Management, Business Unit Networks, Ericsson AB; Director Wireless Access Networks Research, Ericsson Research, Ericsson AB; Board member of Chalmers University of Technology AB, RISE SICS North Swedish ICT AB and Integrated Transport Research Lab, KTH; Member of Skolstyrelsen, the Strategic Council of the School of Electrical Engineering at KTH as well as board of Wireless@KTH

**Auditor**

PricewaterhouseCoopers AB

**Bo Hjalmarsson**

Authorised Public Accountant, auditor in charge

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

## Group Management



### Standing from left:

#### **Jonas Hjelm**

Senior Vice President and  
Head of Business Area Aeronautics  
Born 1971  
Employed 2006  
Shares in Saab: 6,822

#### **Magnus Örnberg**

Executive Vice President and  
Chief Financial Officer (CFO)  
Born 1965  
MBA  
Employed 2012  
Shares in Saab: 18,978

### **Ellen Molin**

Senior Vice President and Head of  
Business Area Support and Services  
Born 1973  
MBA  
Employed 2006  
Shares in Saab: 3,503

### **Sebastian Carlsson**

Senior Vice President and Head  
of Group Communication  
Born 1984  
Employed 2012  
Shares in Saab: 627

### **Micael Johansson**

Deputy CEO and Senior Executive  
Vice President  
Born 1960  
B.Sc.  
Employed 1985  
Shares in Saab: 13,325

### Seated from left:

#### **Görgen Johansson**

Senior Vice President and  
Head of Business Area Dynamics  
Born 1964  
MBA  
Employed 2004  
Shares in Saab: 12,081

#### **Christian Hedelin**

Chief Strategy Officer  
Born 1969  
MSc Electronic Engineering  
Employed 2018  
Shares in Saab: 0

**Standing from left:****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: 68,425

**Annika Bärems**

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: 10,757

**Anders Carp**

Senior Vice President and  
Head of Business Area Surveillance  
Born 1971  
Employed 2001  
Shares in Saab: 5,115

**Jessica Öberg**

Senior Vice President and  
Head of Industrial Products and Services  
Born 1972  
Employed 1996  
Shares in Saab: 3,825

**Seated from left:****Lena Eliasson**

Senior Vice President and  
Head of Group Human Resources  
Born 1967  
M.Sc. in Engineering  
Employed 2012  
Shares in Saab: 12,002

**Gunnar Wieslander**

Senior Vice President and  
Head of Business Area Kockums  
Born 1962  
Naval officer  
Employed 2015  
Shares in Saab: 10,158

**The following changes in the Group Management took effect during 2018:**

During the first quarter, Ann-Kristin Adolfsson took over as Head of Saab Ventures and stepped down from Group Management and her role as Chief Strategy Officer. Christian Hedelin took over as the new Chief Strategy Officer in the fourth quarter and joined Saab's Group Management.



## Other information

### **Guidelines on remuneration and other terms of employment for senior executives 2018**

Pursuant to the Swedish Companies Act, the Board of Directors shall propose to the Annual General Meeting remuneration guidelines for the company's senior executives. The Annual General Meeting 2018 adopted the Board's proposed guidelines for senior executives as described below.

The senior executives comprise the Chief Executive Officer (CEO) 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 primarily based 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 2018.

#### **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 share-based incentive programmes.

The CEO 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 help to facilitate the executive's ability to 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 include a company car, travel, 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 CEO 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.

#### **Other terms**

All Group Management executives, including the CEO, may terminate their employment with

a maximum of 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 is 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 may be payable in addition to the normal six-month notice period. The notice period and severance pay in total shall not exceed 24 months.

Severance pay is normally reduced by 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 rendered 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 9**

Note 9 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 programme proposed to the Annual General Meeting 2018**

The Board of Directors proposed that the Annual General Meeting 2018 resolve to adopt long-term incentive programme 2019 (LTI 2019), consisting of Share Matching Plan 2019, Performance Share Plan 2019 and Special Projects Incentive 2019. In addition to LTI 2019, it was proposed that the Annual General Meeting also decide on Special Projects Incentive 2018. 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 2019**

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 2018,



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 approve remuneration guidelines with the same terms and conditions as those adopted by the Annual General Meeting 2018. Against this backdrop, the Board of Directors proposes that the Annual General Meeting 2019 adopt guidelines for remuneration and other terms of employment for senior executives with unchanged terms and conditions.

#### **Incentive programme proposed to the Annual General Meeting 2019**

The Board of Directors proposes that the Annual General Meeting resolve to adopt long-term incentive programme 2020 (LTI 2020), which consists of three parts: Share Matching Plan 2020, Performance Share Plan 2020 and Special Projects Incentive 2020. The terms and conditions and costs of the above-mentioned programmes are presented in the Board'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 over a number of years to offer a long-term incentive programme consisting of two parts: 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 the appreciation of the company's shares.

In April 2017, the Annual General Meeting also resolved to introduce a third programme, Special Projects Incentive, as a complement to the Performance Share Plan. The programmes are now named based on the calendar year, corresponding to the vesting period.

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 2014–2019 are ongoing.

Since 2008, Saab also has a Performance Share Plan for senior executives and key employees. The Performance Share Plan now

covers a maximum of 175 key employees, including the CEO. Participants can save up to 7.5 per cent of their base salary to purchase Series B shares during a twelve-month period, while participating in the Share Matching Plan as well, but only up to a maximum of 5 per cent of base salary. 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 will decide on the performance matching after the end of the one-year performance period. According to the resolution of the 2018 Annual General Meeting, the Performance Share Plan comprises a maximum of 310,000 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 2014–2019 are ongoing.

In 2017, the Annual General Meeting resolved to introduce a new plan, the Special Projects Incentive, as a complement to the Performance Share Plan. The Special Projects Incentive is directed at a maximum of 45 key employees, including the CEO. Participation in the new programme presupposes participa-

tion in the Performance Share Plan or the Share Matching Plan. The programme entitles the employee to allotment of performance shares corresponding to 15–52.5 per cent of the cash base salary for the current financial year depending on group affiliation, provided that the employment remains for three years and that performance targets are reached. Performance shares are allotted after three years based on the achievement during the current financial year of eight equally weighted performance targets related to Saab's special projects within selected product areas. For the CEO and other members of the Group Management, the total allotment of shares in the new programme and the Performance Share Plan together amounts to a maximum of 75 per cent of the cash base salary for the CEO and 60 per cent of the cash base salary for the other members of the Group Management. According to the resolution of the 2018 Annual General Meeting, the plan covers a maximum of 130,000 shares.

The number of matching and performance shares has been restated for affected programmes due to the rights issue.

The Annual General Meeting 2018 also resolved to authorise the Board of Directors to decide on acquisition of a maximum of 1,470,000 Series B shares to secure delivery of shares to participants in Saab's long-term Share Matching Plan, Performance Share Plan and Special Projects Incentive, for subsequent transfers on the stock exchange to cover certain costs associated with LTI 2019 and Special Projects Incentive 2018, mainly social security costs. Repurchases may be made on Nasdaq Stockholm.

Further, the Annual General Meeting 2018 resolved to authorise the Board of Directors to decide on acquisition of Series B shares up to a maximum of 10 per cent of the total number of shares in the company. The purpose of the authorisation is to be able to adjust the company's capital structure and thereby contribute to an increased shareholder value as well as to enable a continuous use of acquired shares in connection with potential acquisitions of companies and for the company's share-related incentive programmes. Repurchases may be made on Nasdaq Stockholm.

In June 2018, the Board of Directors resolved to utilise its authorisation to repurchase not more than 500,000 Series B shares in Saab to secure delivery of shares to participants in Saab's long-term Share Matching Plan, Performance Share Plan and Special Projects Incentive. Series B shares in Saab were repurchased in July and August 2018 for MSEK 203.

# Financial statements and notes

## FINANCIAL STATEMENTS

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# Consolidated income statement

| MSEK   | Note | 2018         | 2017         |
|--|------|--------------|--------------|
| Sales  | 4    | 33,156       | 31,666       |
| Cost of goods sold   |      | -25,392      | -24,123      |
| <b>Gross income</b>  |      | <b>7,764</b> | <b>7,543</b> |
| Other operating income                                     | 6    | 156          | 104          |
| Marketing expenses   |      | -2,644       | -2,430       |
| Administrative expenses                                    |      | -1,466       | -1,493       |
| Research and development costs                             |      | -1,267       | -1,348       |
| Other operating expenses                                   | 6    | -263         | -87          |
| Share in income of associated companies and joint ventures | 19   | -14          | -39          |
| <b>Operating income</b>                                    |      | <b>2,266</b> | <b>2,250</b> |
| Financial income   |      | 193          | 121          |
| Financial expenses   |      | -663         | -272         |
| <b>Net financial items</b>                                 | 12   | <b>-470</b>  | <b>-151</b>  |
| <b>Income before taxes</b>                                 |      | <b>1,796</b> | <b>2,099</b> |
| Taxes  | 14   | -430         | -591         |
| <b>Net income for the year</b>                             |      | <b>1,366</b> | <b>1,508</b> |
| Attributable to:   |      |              |              |
| Parent Company's shareholders                              |      | 1,313        | 1,477        |
| Non-controlling interest                                   |      | 53           | 31           |
| Earnings per share before dilution (SEK)                   | 15   | 11,27        | 12,79        |
| Earnings per share after dilution (SEK)                    | 15   | 11,21        | 12,70        |

## ORDERS

Order bookings amounted to MSEK 27,975 (30,841). During the year, Saab received a large order for Gripen development and operational support in Sweden worth MSEK 1,350. Bookings of medium-sized orders grew strongly, up 44 per cent compared to 2017 to MSEK 13,331 (9,234). Small orders amounted to MSEK 12,057 (10,873).

In 2018, index and price changes had a positive effect on order bookings of MSEK 1,237, compared to MSEK 812 in 2017.

The order backlog at year-end amounted to MSEK 102,184, compared to MSEK 107,233 at the beginning of the year. In total, 67 per cent of the order backlog is attributable to markets outside Sweden.

Order backlog duration:

2019: SEK 28.0 billion

2020: SEK 20.6 billion

2021: SEK 18.1 billion

2022: SEK 13.3 billion

After 2022: SEK 22.2 billion

## SALES GROWTH

| Per cent                  | 2018     | 2017      |
|---------------------------|----------|-----------|
| Organic sales growth      | 4        | 11        |
| Acquisitions              | 1        | –         |
| <b>Total sales growth</b> | <b>5</b> | <b>11</b> |

## SALES PER REGION

| MSEK            | 2018          | 2017          |
|-----------------|---------------|---------------|
| Sweden          | 13,519        | 13,216        |
| Rest of Europe  | 4,768         | 4,496         |
| North America   | 3,155         | 2,778         |
| Latin America   | 3,821         | 2,653         |
| Asia            | 6,148         | 7,041         |
| Africa          | 361           | 449           |
| Australia, etc. | 1,384         | 1,033         |
| <b>Total</b>    | <b>33,156</b> | <b>31,666</b> |

## SALES PER MARKET SEGMENT

| MSEK                   | 2018          | 2017          |
|------------------------|---------------|---------------|
| Air                    | 15,776        | 14,787        |
| Land                   | 5,590         | 6,735         |
| Naval                  | 6,910         | 5,466         |
| Civil Security         | 2,263         | 2,099         |
| Commercial Aeronautics | 1,689         | 1,765         |
| Other                  | 928           | 814           |
| <b>Total</b>           | <b>33,156</b> | <b>31,666</b> |

## INCOME, MARGIN AND PROFITABILITY

The gross margin in 2018 was 23.4 per cent (23.8). Gross income was at a somewhat lower level mainly due to changes in the project mix sales within Kockums and Surveillance.

Total depreciation, amortisation and write-downs amounted to MSEK 916 (839). Depreciation of tangible fixed assets amounted to MSEK 612 (555).

Total R&D expenditures amounted to MSEK 7,562 (7,348), or about 23 per cent (23) of sales. Internally funded R&D expenditures amounted to MSEK 2,223 (2,059), of which MSEK 1,140 (871) was capitalised. Capitalised expenditures are mainly attributable to the development of Gripen E/F for future exports.

Amortisation and write-downs of intangible fixed assets amounted to MSEK 304 (284), of which amorti-

sation and write-downs of capitalised development expenditures amounted to MSEK 184 (160). The share of income in associated companies and joint ventures amounted to MSEK -14 (-39).

Operating income amounted to MSEK 2,266 (2,250) with an operating margin of 6.8 per cent (7.1).

Adjusted for non-recurring items of MSEK 298, operating income amounted to MSEK 2,564 (2,250) with an operating margin of 7.7 per cent (7.1). The operating margin strengthened mainly in Aeronautics, which had a higher activity level within the Gripen programmes and lower costs related to T-X.

The non-recurring items are related to efficiency improvements to increase productivity, the main part of which relates to workforce reductions. The measures were initiated in the third quarter and progressed

## SALES

Sales amounted to MSEK 33,156 (31,666). The increase is related to a high activity level within the major development projects Gripen NG to Brazil and GlobalEye to the United Arab Emirates. In addition, Surveillance had strong growth in C4I solutions and Kockums in surface combatants.

Sales from markets outside Sweden amounted to MSEK 19,637 (18,450), corresponding to 59 per cent (58), of total sales. 85 per cent (84) of sales related to the defence market.

as planned in the fourth quarter. For example, efficiencies were implemented in the Barracuda business unit within Dynamics, and in the business areas Surveillance and Support and Services the product portfolio has been modified. See note 44 for more information.

Current and deferred taxes amounted to MSEK -430 (-591), equivalent to an effective tax rate of 24 per cent (28). The announced corporate tax cut in Sweden led to a lower tax rate due to the restatement of deferred taxes.

The pre-tax return on capital employed was 8.7 per cent (10.5) and the after-tax return on equity was 8.1 per cent (10.9), both measured over a rolling 12-month period.

# Consolidated statement of comprehensive income

| MSEK   | 2018          | 2017         |
|--|---------------|--------------|
| <b>Net income for the year</b>                             | <b>1,366</b>  | <b>1,508</b> |
| Other comprehensive income/loss:                           |               |              |
| Items that will not be reversed in the income statement:   |               |              |
| Revaluation of net pension obligations                     | -1,711        | -190         |
| Tax attributable to revaluation of net pension obligations | 308           | 43           |
| <b>Total</b>   | <b>-1,403</b> | <b>-147</b>  |
| Items that may be reversed in the income statement:        |               |              |
| Translation differences                                    | 173           | -255         |
| Net gain/loss on cash flow hedges:                         |               |              |
| Change in value  | -548          | 106          |
| Reversed through profit or loss                            | 401           | 525          |
| Tax attributable to net gain/loss on cash flow hedges      | 42            | -137         |
| <b>Total</b>   | <b>68</b>     | <b>239</b>   |
| <b>Other comprehensive income/loss for the year</b>        | <b>-1,335</b> | <b>92</b>    |
| <b>Net comprehensive income/loss for the year</b>          | <b>31</b>     | <b>1,600</b> |
| of which Parent Company's shareholders' interest           | -11           | 1,553        |
| of which non-controlling interest                          | 42            | 47           |

Revaluation of net pension obligations has had a pre-tax effect of MSEK -1,711 (-190) on net comprehensive income for the year, see note 32 for more information.

The after-tax effect of net gain/losses of cash flow hedges on net comprehensive income amounted to MSEK -105 (494), see note 36 for more information.

| FINANCIAL NET<br>MSEK             | 2018       | 2017        |
|-----------------------------------|------------|-------------|
| Financial net related to pensions | -67        | -69         |
| Net interest items                | -96        | -100        |
| Currency gains/losses             | -226       | 54          |
| Other net financial items         | -81        | -36         |
| <b>Total</b>                      | <b>470</b> | <b>-151</b> |

The financial net related to pensions is the financial cost for net pension obligations recognised in the balance sheet. See note 32 for more information regarding defined-benefit pension plans.

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

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

and loss. In 2018, net income was negatively affected by changes in the market value of derivatives related to hedged tenders mainly in USD.

Other net financial items consist of unrealised results from the market valuation of short-term investments and derivatives as well as other currency effects, e.g. changes in exchange rates for liquid assets in currencies other than SEK. Derivatives are used to reduce interest rate risk in the investment portfolio, which consists of long-term interest-bearing securities.



# Consolidated statement of financial position

| MSEK  | Note | 31-12-2018    | 31-12-2017    |
|---|------|---------------|---------------|
| <b>ASSETS</b>   |      |               |               |
| Fixed assets:   |      |               |               |
| Intangible fixed assets                                     | 16   | 9,057         | 7,862         |
| Tangible fixed assets                                       | 17   | 6,129         | 5,311         |
| Biological assets   | 18   | 349           | 352           |
| Shares in associated companies and joint ventures           | 19   | 646           | 700           |
| Financial investments                                       | 22   | 27            | 26            |
| Long-term receivables                                       | 24   | 554           | 662           |
| Deferred tax assets   | 14   | 382           | 238           |
| <b>Total fixed assets</b>                                   |      | <b>17,144</b> | <b>15,151</b> |
| Current assets:   |      |               |               |
| Inventories   | 25   | 9,276         | 8,247         |
| Derivatives   | 36   | 1,096         | 1,139         |
| Tax receivables   |      | 67            | 26            |
| Accounts receivable   | 26   | 5,199         | 4,342         |
| Contract assets   | 4    | 10,466        | 8,000         |
| Other receivables   | 24   | 507           | 522           |
| Prepaid expenses and accrued income                         | 27   | 919           | 900           |
| Short-term investments                                      | 22   | 9,003         | 4,469         |
| Liquid assets   | 28   | 2,451         | 2,202         |
| <b>Total current assets</b>                                 |      | <b>38,984</b> | <b>29,847</b> |
| <b>TOTAL ASSETS</b>   |      | <b>56,128</b> | <b>44,998</b> |
| <b>EQUITY AND LIABILITIES</b>                               |      |               |               |
| <b>Equity</b>   | 29   |               |               |
| Capital stock   |      | 2,174         | 1,746         |
| Other capital contributions                                 |      | 6,099         | 543           |
| Other reserves  |      | 72            | -21           |
| Retained earnings   |      | 11,067        | 11,829        |
| <b>Equity attributable to Parent Company's shareholders</b> |      | <b>19,412</b> | <b>14,097</b> |
| <b>Non-controlling interest</b>                             |      | <b>221</b>    | <b>188</b>    |
| <b>Total equity</b>   |      | <b>19,633</b> | <b>14,285</b> |
| <b>Liabilities</b>  |      |               |               |
| Long-term liabilities:                                      |      |               |               |
| Long-term interest-bearing liabilities                      | 30   | 8,196         | 6,235         |
| Other liabilities   | 34   | 190           | 210           |
| Provisions for pensions                                     | 32   | 5,113         | 3,424         |
| Other provisions  | 33   | 1,081         | 1,024         |
| Deferred tax liabilities                                    | 14   | 16            | 274           |
| <b>Total long-term liabilities</b>                          |      | <b>14,596</b> | <b>11,167</b> |
| Current liabilities:  |      |               |               |
| Short-term interest-bearing liabilities                     | 30   | 1,068         | 92            |
| Contract liabilities  | 4    | 8,890         | 9,512         |
| Accounts payable  |      | 4,077         | 2,958         |
| Derivatives   | 36   | 1,234         | 1,093         |
| Tax liabilities   |      | 147           | 120           |
| Other liabilities   | 34   | 770           | 805           |
| Accrued expenses and deferred income                        | 35   | 5,097         | 4,483         |
| Provisions  | 33   | 616           | 483           |
| <b>Total current liabilities</b>                            |      | <b>21,899</b> | <b>19,546</b> |
| <b>Total liabilities</b>                                    |      | <b>36,495</b> | <b>30,713</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>                         |      | <b>56,128</b> | <b>44,998</b> |

For information on the Group's assets pledged and contingent liabilities, see note 37.

# Consolidated statement of financial position

## STATEMENT OF FINANCIAL POSITION

At the end of December 2018, net debt was MSEK 1,460, a decrease of MSEK 374 compared to year-end 2017, when net debt amounted to MSEK 1,834.

Cash flow from operating activities amounted to MSEK -490.

Accounts receivable increased by MSEK 857 during the year as several business areas had larger deliveries late in the year.

Due to the level of completion of large projects, contract assets increased by MSEK 2,466 during the year at the same time that contract liabilities decreased by MSEK 622.

Inventories increased by MSEK 1,029 during the year. The increase mainly relates to future deliveries within Dynamics.

Net provisions for pensions, excluding the special employer's contribution, amounted to MSEK 4,099 as of 31 December 2018, compared to MSEK 2,646 at year-end 2017. The change had a negative effect on net debt of MSEK 1,453. The increase in provisions is

mainly due to a reduction in the discount rate used to calculate the pension obligation to 2.25 per cent from 2.50 per cent during the year and an increase in the inflation assumption to 2.00 per cent from 1.75 per cent. For further information on Saab's defined-benefit pension plans, see note 32.

Tangible fixed assets amounted to MSEK 6,129 at year-end. As of 1 January 2018, investment properties are no longer recognised as a separate item but are included in tangible fixed assets.

Net investments during the year amounted to approximately MSEK 2,796 (2,132).

Investments in tangible fixed assets amounted to MSEK 1,481 (1,093). The increase is mainly related to production capacity.

Investments in intangible fixed assets amounted to MSEK 1,338 (1,064), of which MSEK 1,140 (871) related to capitalised R&D expenditures and MSEK 198 (193) to other intangible fixed assets.

Capitalised development expenditures on the balance sheet increased by MSEK 968. The increase is

mainly related to investments to develop Gripen E/F for future exports.

To secure the delivery of shares to participants in Saab's various share matching plans, the authorisation from the Annual General Meeting to repurchase shares was utilised. During the year, series B shares were repurchased for MSEK 203. In addition, a dividend of MSEK 588 was paid to the parent company's shareholders. As of 31 December 2018, short-term investments and liquid assets amounted to MSEK 11,454, an increase of MSEK 4,783 compared to year-end 2017. Funding of MSEK 3,820 was raised in 2018. For further information on Saab's liabilities to credit institutions, see note 31. A rights issue was carried out in fall 2018. For more information, see page 46.

Capital employed increased by MSEK 9,704 during the year to MSEK 33,003. In addition to the proceeds of the rights issue, the increase is mainly related to the level of completion within airborne surveillance and the Gripen programmes.

## NET LIQUIDITY/DEBT

| MSEK   | Note | 31-12-2018    | 31-12-2017    |
|--|------|---------------|---------------|
| <b>Assets</b>  |      |               |               |
| Liquid assets  | 28   | 2,451         | 2,202         |
| Short-term investments                                 | 22   | 9,033         | 4,469         |
| <b>Total liquid investments</b>                        |      | <b>11,454</b> | <b>6,671</b>  |
| Short-term interest-bearing receivables                | 24   | -             | 14            |
| Long-term interest-bearing receivables                 | 24   | 449           | 454           |
| Long-term receivables attributable to pensions         | 24   | 6             | 40            |
| <b>Total interest-bearing assets</b>                   |      | <b>11,909</b> | <b>7,179</b>  |
| <b>Liabilities</b>                                     |      |               |               |
| Liabilities to credit institutions                     | 30   | 8,759         | 5,798         |
| Liabilities to associated companies and joint ventures | 30   | 43            | 45            |
| Other interest-bearing liabilities                     | 30   | 462           | 484           |
| Provisions for pensions <sup>1)</sup>                  | 32   | 4,105         | 2,686         |
| <b>Total interest-bearing liabilities</b>              |      | <b>13,369</b> | <b>9,013</b>  |
| <b>Net liquidity (+) / debt (-)</b>                    |      | <b>-1,460</b> | <b>-1,834</b> |

<sup>1)</sup> Excluding provisions for pensions attributable to special employers' contribution.

The average net liquidity/debt during 2018 amounted to MSEK -4,674 (-2,193). Net liquidity/debt excluding interest-bearing receivables and net pension obligations amounted to MSEK 2,190 (344) on 31 December 2018.

# Consolidated statement of changes in equity

| MSEK  | Capital stock | Ongoing rights issue | Other capital contributions | Other reserves                 |                     |                     | Retained earnings | Total parent company's shareholders' interest | Non-controlling interest | Total shareholder's equity |
|---|---------------|----------------------|-----------------------------|--------------------------------|---------------------|---------------------|-------------------|---|--------------------------|----------------------------|
|   |               |                      |                             | Net result of cash flow hedges | Translation reserve | Revaluation reserve |                   |   |                          |                            |
| Opening balance, 1 January 2017                     | 1,746         |                      | 543                         | -779                           | 525                 | 11                  | 11,110            | 13,156  | 145                      | 13,301                     |
| Effects of change in accounting principles, IFRS 15 |               |                      |                             |                                |                     |                     | -164              | -164  |                          | -164                       |
| <b>Adjusted opening balance, 1 January 2017</b>     | <b>1,746</b>  |                      | <b>543</b>                  | <b>-779</b>                    | <b>525</b>          | <b>11</b>           | <b>10,946</b>     | <b>12,992</b>                                 | <b>145</b>               | <b>13,137</b>              |
| <b>Net comprehensive income/ loss for the year</b>  |               |                      |                             | 477                            | -255                |                     | 1,331             | 1,553   | 47                       | 1,600                      |
| <b>Transactions with shareholders:</b>              |               |                      |                             |                                |                     |                     |                   |   |                          |                            |
| Share matching plan                                 |               |                      |                             |                                |                     |                     | 111               | 111   |                          | 111                        |
| Dividend  |               |                      |                             |                                |                     |                     | -559              | -559  | -4                       | -563                       |
| <b>Closing balance, 31 December 2017</b>            | <b>1,746</b>  |                      | <b>543</b>                  | <b>-302</b>                    | <b>270</b>          | <b>11</b>           | <b>11,829</b>     | <b>14,097</b>                                 | <b>188</b>               | <b>14,285</b>              |
| Opening balance, 1 January 2018                     | 1,746         |                      | 543                         | -302                           | 270                 | 11                  | 11,829            | 14,097  | 188                      | 14,285                     |
| Effects of change in accounting principles, IFRS 9  |               |                      |                             | 14                             |                     |                     | -18               | -4  |                          | -4                         |
| <b>Adjusted opening balance, 1 January 2018</b>     | <b>1,746</b>  |                      | <b>543</b>                  | <b>-288</b>                    | <b>270</b>          | <b>11</b>           | <b>11,811</b>     | <b>14,093</b>                                 | <b>188</b>               | <b>14,281</b>              |
| <b>Net comprehensive income/ loss for the year</b>  |               |                      |                             | -98                            | 177                 |                     | -90               | -11   | 42                       | 31                         |
| <b>Transactions with shareholders:</b>              |               |                      |                             |                                |                     |                     |                   |   |                          |                            |
| Rights issue  |               | 428                  | 5,578                       |                                |                     |                     |                   | 6,006   |                          | 6,006                      |
| Issue costs   |               |                      | -22                         |                                |                     |                     |                   | -22   |                          | -22                        |
| Repurchase of shares                                |               |                      |                             |                                |                     |                     | -203              | -203  |                          | -203                       |
| Share matching plan                                 |               |                      |                             |                                |                     |                     | 143               | 143   |                          | 143                        |
| Dividend  |               |                      |                             |                                |                     |                     | -588              | -588  | -13                      | -601                       |
| Acquisition and sale of non-controlling interest    |               |                      |                             |                                |                     |                     | -6                | -6  | 4                        | -2                         |
| <b>Closing balance, 31 December 2018</b>            | <b>1,746</b>  | <b>428</b>           | <b>6,099</b>                | <b>-386</b>                    | <b>447</b>          | <b>11</b>           | <b>11,067</b>     | <b>19,412</b>                                 | <b>221</b>               | <b>19,633</b>              |

For a definition of other reserves, see note 29.

# Consolidated statement of cash flows

| MSEK   | Note      | 2018          | 2017          |
|--|-----------|---------------|---------------|
| Operating activities:  |           |               |               |
| Income after financial items   |           | 1,796         | 2,099         |
| Adjustments for items not affecting cash flow                                | 41        | 1,808         | 1,479         |
| Dividend from associated companies and joint ventures                        |           | 39            | 26            |
| Income tax paid  |           | -479          | -272          |
| <b>Cash flow from operating activities before changes in working capital</b> |           | <b>3,164</b>  | <b>3,332</b>  |
| Cash flow from changes in working capital:                                   |           |               |               |
| Contract assets and liabilities  |           | -3,039        | -718          |
| Inventories  |           | -1,057        | -972          |
| Other current receivables  |           | -1,044        | 925           |
| Other current liabilities  |           | 1,965         | 704           |
| Provisions   |           | -479          | -107          |
| <b>Cash flow from operating activities</b>                                   |           | <b>-490</b>   | <b>3,164</b>  |
| Investing activities:  |           |               |               |
| Investments in intangible fixed assets                                       |           | -198          | -193          |
| Capitalised development costs  |           | -1,140        | -871          |
| Investments in tangible fixed assets   |           | -1,481        | -1,093        |
| Sales and disposals of tangible fixed assets                                 |           | 23            | 25            |
| Investments in and sales of short-term investments                           |           | -4,554        | 63            |
| Investments in financial assets  |           | -48           | -30           |
| Sale of financial assets   |           | 62            | 104           |
| Investments in operations  | 41        | 15            | -170          |
| Sale of subsidiaries   | 41        | 33            | -             |
| <b>Cash flow from investing activities</b>                                   |           | <b>-7,288</b> | <b>-2,165</b> |
| Financing activities:  |           |               |               |
| Repayment of loans   |           | -967          | -1,301        |
| Raising of loans   |           | 3,820         | 1,700         |
| Rights issue   |           | 5,967         | -             |
| Repurchase of shares   |           | -203          | -             |
| Dividend paid to Parent Company's shareholders                               |           | -588          | -559          |
| Dividend paid to non-controlling interests                                   |           | -24           | -4            |
| Transactions with non-controlling interests                                  |           | -14           | -             |
| <b>Cash flow from financing activities</b>                                   |           | <b>7,991</b>  | <b>-164</b>   |
| <b>CASH FLOW FOR THE YEAR</b>  | <b>41</b> | <b>213</b>    | <b>835</b>    |
| Liquid assets at beginning of year   |           | 2,202         | 1,402         |
| Exchange rate difference in liquid assets                                    |           | 36            | -35           |
| <b>Liquid assets at year-end</b>   | <b>41</b> | <b>2,451</b>  | <b>2,202</b>  |

## CAPITAL EXPENDITURES

The cash flow effect of capital expenditures in tangible fixed assets amounted to MSEK 1,481 (1,093).

Investments in intangible fixed assets amounted to MSEK 1,338 (1,064), of which MSEK 1,140 (871) was related to capitalised development costs and MSEK 198 (193) to other intangible fixed assets.

## CASH FLOW

Cash flow from operating activities, excluding taxes and other financial items, amounted to MSEK 372 (3,520), see note 41.

Operational cash flow amounted to MSEK -2,424 (1,388). It is defined as cash flow from operating activities excluding taxes and other financial items, as well as acquisitions and divestments of intangible and tangible fixed assets. Cash flow is negative mainly as a result of increased capital employed in major projects and utilisation of previously received advances and milestone payments.

Free cash flow amounted to MSEK -3,195 (852). For more detailed information on cash flow, see note 41.

Saab has an established programme to sell trade receivables in order to strengthen its financial position and increase financial flexibility. The programme has not been utilised since 31 December 2016. Saab's aim is to utilise this programme in situations where greater financial flexibility is needed.



## Parent company income statement

| MSEK  | Note | 2018         | 2017         |
|---|------|--------------|--------------|
| Sales   | 4    | 20,998       | 19,890       |
| Cost of goods sold  |      | -16,287      | -15,480      |
| <b>Gross income</b>   |      | <b>4,711</b> | <b>4,410</b> |
| Marketing expenses  |      | -1,589       | -1,428       |
| Administrative expenses   |      | -876         | -953         |
| Research and development costs                                    |      | -1,757       | -1,701       |
| Other operating income  | 6    | 53           | 49           |
| Other operating expenses  | 6    | -263         | -22          |
| <b>Operating income</b>   |      | <b>279</b>   | <b>355</b>   |
| Result from financial items:                                      | 12   |              |              |
| Result from shares in Group companies                             |      | 941          | 525          |
| Result from shares in associated companies and joint ventures     |      | 51           | 6            |
| Result from other securities and receivables held as fixed assets |      | 144          | 24           |
| Other interest income and similar items                           |      | 125          | 120          |
| Interest expenses and similar items                               |      | -51          | -156         |
| <b>Income after financial items</b>                               |      | <b>1,489</b> | <b>874</b>   |
| Appropriations  | 13   | -114         | -11          |
| <b>Income before taxes</b>  |      | <b>1,375</b> | <b>863</b>   |
| Taxes   | 14   | -300         | -216         |
| <b>Net income for the year</b>                                    |      | <b>1,075</b> | <b>647</b>   |

### 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  | 2018         | 2017       |
|---|--------------|------------|
| <b>Net income for the year</b>                      | <b>1,075</b> | <b>647</b> |
| Other comprehensive income/loss:                    |              |            |
| Items that may be reversed in the income statement: |              |            |
| Translation differences                             | -            | -4         |
| <b>Other comprehensive income/loss for the year</b> | <b>-</b>     | <b>-4</b>  |
| <b>Net comprehensive income/loss for the year</b>   | <b>1,075</b> | <b>643</b> |

# Parent company balance sheet

| MSEK   | Note | 31-12-2018    | 31-12-2017    |
|--|------|---------------|---------------|
| <b>ASSETS</b>  |      |               |               |
| <b>Fixed assets</b>                                      |      |               |               |
| Intangible fixed assets                                  | 16   | 617           | 542           |
| Tangible fixed assets                                    | 17   | 3,709         | 3,228         |
| Financial fixed assets:                                  |      |               |               |
| Shares in Group companies                                | 39   | 6,181         | 6,065         |
| Receivables from Group companies                         | 21   | 68            | 81            |
| Shares in associated companies and joint ventures        | 20   | 366           | 369           |
| Receivables from associated companies and joint ventures | 21   | 391           | 370           |
| Other long-term securities holdings                      | 23   | 25            | 23            |
| Other long-term receivables                              | 24   | 18            | 19            |
| Deferred tax assets                                      | 14   | 148           | 106           |
| <b>Total financial fixed assets</b>                      |      | <b>7,197</b>  | <b>7,033</b>  |
| <b>Total fixed assets</b>                                |      | <b>11,523</b> | <b>10,803</b> |
| <b>Current assets</b>                                    |      |               |               |
| Inventories  | 25   | 6,159         | 5,581         |
| Current receivables:                                     |      |               |               |
| Tax receivables  |      | -             | 15            |
| Accounts receivable                                      | 26   | 2,250         | 1,907         |
| Receivables from Group companies                         |      | 3,540         | 2,248         |
| Receivables from associated companies and joint ventures |      | 12            | 1             |
| Contract assets  |      | 8,548         | 6,734         |
| Other receivables  | 24   | 409           | 397           |
| Prepaid expenses and accrued income                      | 27   | 2,053         | 1,158         |
| <b>Total current receivables</b>                         |      | <b>16,812</b> | <b>12,460</b> |
| Short-term investments                                   |      | 9,000         | 4,459         |
| Cash and bank balances                                   |      | 1,623         | 1,181         |
| <b>Total current assets</b>                              |      | <b>33,594</b> | <b>23,681</b> |
| <b>TOTAL ASSETS</b>                                      |      | <b>45,117</b> | <b>34,484</b> |
| <b>EQUITY AND LIABILITIES</b>                            |      |               |               |
| <b>Equity</b>  |      |               |               |
| 29   |      |               |               |
| Restricted equity:                                       |      |               |               |
| Capital stock  |      | 2,174         | 1,746         |
| Revaluation reserve                                      |      | 669           | 675           |
| Statutory reserve  |      | 543           | 543           |
| Unrestricted equity:                                     |      |               |               |
| Share premium reserve                                    |      | 5,556         | -             |
| Retained earnings  |      | 4,218         | 4,225         |
| Net income for the year                                  |      | 1,075         | 643           |
| <b>Total equity</b>                                      |      | <b>14,235</b> | <b>7,832</b>  |
| <b>Untaxed reserves</b>                                  | 40   | <b>2,405</b>  | <b>2,291</b>  |
| <b>Provisions</b>  |      |               |               |
| Provisions for pensions and similar commitments          | 32   | 242           | 252           |
| Other provisions   | 33   | 1,085         | 837           |
| <b>Total provisions</b>                                  |      | <b>1,327</b>  | <b>1,089</b>  |
| <b>Liabilities</b>                                       |      |               |               |
| Liabilities to credit institutions                       | 31   | 8,758         | 5,798         |
| Liabilities to Group companies                           |      | 6,121         | 5,667         |
| Contract liabilities                                     | 4    | 5,205         | 6,594         |
| Accounts payable   |      | 2,908         | 1,854         |
| Liabilities to associated companies and joint ventures   |      | 43            | 44            |
| Tax liabilities  |      | 53            | -             |
| Other liabilities  | 34   | 607           | 560           |
| Accrued expenses and deferred income                     | 35   | 3,455         | 2,755         |
| <b>Total liabilities</b>                                 |      | <b>27,150</b> | <b>23,272</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>                      |      | <b>45,117</b> | <b>34,484</b> |

## LIQUIDITY, FINANCING, CAPITAL EXPENDITURES AND NUMBER OF EMPLOYEES

The Parent Company's net debt amounted to MSEK 564 at 31 December 2018 compared to MSEK 3,418 at 31 December 2017.

Investments in tangible fixed assets amounted to MSEK 857 (549). Investments in intangible assets amounted to MSEK 187 (170).

At year-end, the Parent Company had 9,672 employees, compared to 9,357 at the beginning of the year.

For information on the Parent Company's assets pledged and contingent liabilities, see note 37.

## Statement of changes in equity for the parent company

| MSEK   | Restricted equity |                      |                     |                   | Unrestricted equity   |                   |                                       | Total equity  |
|--|-------------------|----------------------|---------------------|-------------------|-----------------------|-------------------|---------------------------------------|---------------|
|  | Capital stock     | Ongoing rights issue | Revaluation reserve | Statutory reserve | Share premium reserve | Retained earnings | Net comprehensive income for the year |               |
| Opening balance, 1 January 2017                    | 1,746             |                      | 682                 | 543               |                       | 4,676             |                                       | 7,647         |
| Effects of change in accounting principles, IFRS15 |                   |                      |                     |                   |                       | -8                |                                       | -8            |
| <b>Adjusted opening balance, 1 January 2017</b>    | <b>1,746</b>      |                      | <b>682</b>          | <b>543</b>        |                       | <b>4,668</b>      |                                       | <b>7,639</b>  |
| <b>Items reported directly in equity:</b>          |                   |                      |                     |                   |                       |                   |                                       |               |
| Change in revaluation reserve                      |                   |                      | -7                  |                   |                       | 7                 |                                       | -             |
| <b>Net comprehensive income/loss for the year</b>  |                   |                      |                     |                   |                       |                   | 643                                   | <b>641</b>    |
| <b>Transactions with shareholders:</b>             |                   |                      |                     |                   |                       |                   |                                       |               |
| Dividend   |                   |                      |                     |                   |                       | -559              |                                       | -559          |
| Share matching plan                                |                   |                      |                     |                   |                       | 111               |                                       | 111           |
| <b>Closing balance, 31 December 2017</b>           | <b>1,746</b>      |                      | <b>675</b>          | <b>543</b>        |                       | <b>4,225</b>      | <b>643</b>                            | <b>7,832</b>  |
| Opening balance, 1 January 2018                    | 1,746             |                      | 675                 | 543               |                       | 4,868             |                                       | 7,832         |
| Effects of change in accounting principles, IFRS 9 |                   |                      |                     |                   |                       | -9                |                                       | -9            |
| <b>Adjusted opening balance, 1 January 2018</b>    | <b>1,746</b>      |                      | <b>675</b>          | <b>543</b>        |                       | <b>4,859</b>      |                                       | <b>7,823</b>  |
| <b>Items reported directly in equity:</b>          |                   |                      |                     |                   |                       |                   |                                       |               |
| Change in revaluation reserve                      |                   |                      | -6                  |                   |                       | 6                 |                                       | -             |
| <b>Net comprehensive income/loss for the year</b>  |                   |                      |                     |                   |                       |                   | 1,075                                 | <b>1,075</b>  |
| <b>Transactions with shareholders:</b>             |                   |                      |                     |                   |                       |                   |                                       |               |
| Rights issue                                       |                   | 428                  |                     |                   | 5,578                 |                   |                                       | 6,006         |
| Issue costs  |                   |                      |                     |                   | -22                   |                   |                                       | -22           |
| Repurchase of shares                               |                   |                      |                     |                   |                       | -203              |                                       | -203          |
| Dividend   |                   |                      |                     |                   |                       | -588              |                                       | -588          |
| Share matching plan                                |                   |                      |                     |                   |                       | 143               |                                       | 143           |
| <b>Closing balance, 31 December 2018</b>           | <b>1,746</b>      | <b>428</b>           | <b>669</b>          | <b>543</b>        | <b>5,556</b>          | <b>4,218</b>      | <b>1,075</b>                          | <b>14,235</b> |

## Parent company statement of cash flows

| MSEK   | Note | 2018          | 2017         |
|--|------|---------------|--------------|
| Operating activities   |      |               |              |
| Income after financial items   |      | 1,489         | 874          |
| Adjustments for items not affecting cash flow                                | 41   | 182           | 832          |
| Income tax paid  |      | -265          | -156         |
| <b>Cash flow from operating activities before changes in working capital</b> |      | <b>1,406</b>  | <b>1,550</b> |
| Cash flow from changes in working capital                                    |      |               |              |
| Amounts due from and to customers  |      | -3,078        | -857         |
| Inventories  |      | -601          | -524         |
| Other current receivables  |      | -1,293        | 1,252        |
| Other current liabilities  |      | 1,801         | -153         |
| Provisions   |      | -329          | -116         |
| <b>Cash flow from operating activities</b>                                   |      | <b>-2,084</b> | <b>1,152</b> |
| Investing activities   |      |               |              |
| Shareholders' contributions paid/repaid                                      |      | -114          | 4            |
| Investments in intangible fixed assets                                       |      | -186          | -170         |
| Investments in tangible fixed assets   |      | -858          | -549         |
| Sale of tangible fixed assets  |      | 2             | 15           |
| Sale of and investments in short-term investments                            |      | -4,562        | 55           |
| Investments in financial assets  |      | -77           | -100         |
| Sale of financial assets   |      | 146           | 46           |
| Investments in operations  |      | 4             | -230         |
| Sale of subsidiaries   |      | -             | 16           |
| <b>Cash flow from investing activities</b>                                   |      | <b>-5,645</b> | <b>-913</b>  |
| Financing activities   |      |               |              |
| Change in receivables/liabilities from Group companies                       |      | -537          | -1,052       |
| Raising of loans   |      | 3,820         | 1,700        |
| Repayment of loans   |      | -860          | -1,169       |
| Rights issue   |      | 5,967         | -            |
| Repurchase of shares   |      | -203          | -            |
| Dividend paid to shareholders  |      | -588          | -559         |
| Group contributions and dividends received                                   |      | 582           | 1,371        |
| <b>Cash flow from financing activities</b>                                   |      | <b>8,181</b>  | <b>291</b>   |
| <b>CASH FLOW FOR THE YEAR</b>  |      | <b>442</b>    | <b>530</b>   |
| Liquid assets at beginning of year   |      | 1,181         | 651          |
| <b>Liquid assets at year-end</b>   | 41   | <b>1,623</b>  | <b>1,181</b> |

## 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 six business areas in 2018: Aeronautics, Dynamics, Surveillance, Support and Services, Industrial Products and Services and Kockums. In addition, Corporate comprises Group staff, Group departments, and secondary operations. The operations in each business area are described in note 3.

On 25 February 2019, 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 11 April 2019 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 the 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

The Group applied the new accounting standards IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments for the first time in the financial year 2018. IAS 8 and the transition rules in each standard have been applied for effects from changes in accounting principles.

The transition to IFRS 15 has been fully retroactive and the comparative year 2017 is restated. For a few customer contracts, the method for recognition has been adjusted. The main reason for the change is that a few long-term customer contracts cannot recognise revenue over time due to non-compliance with the right to payment including earnings for work performed. For accounting principles, see note 4.

The transition to IFRS 9 has not had a material effect on the Group's income statement or financial position. Hedge accounting is not affected, but Saab has

transitioned to IFRS 9's hedge accounting, which is an option in the standard. The new rules on classifying financial assets do not entail any changes except that a loan to an associated company according to IFRS 9 is recognised at fair value through profit or loss rather than at amortised cost.

For transition effects in connection with the transition to IFRS 9, see note 45. For accounting principles, see note 36.

### 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 16 Leases | 1 January 2019 (adopted by EU)           |

IFRS 16 Leases will apply as of the financial year beginning 1 January 2019. IFRS 16 is a new standard for recognition of lease agreements that replaces IAS 17 Leases. For more information, see note 46.

None of the other IFRS or IFRIC interpretations that have not yet entered into force are 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.

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.

Note 1, cont.

#### **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 19 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.

#### **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 pre-requisites 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 recognise revenue over time for long-term 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 retro-active effects that affect sales and revenue recognition. Today several of Saab's major projects are still under development phase, which means 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 contract assets and contract liabilities, 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 4 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 the airborne early warning and control system, GlobalEye, and an export version of Gripen. Capitalised development costs amount to MSEK 3,328 (2,360). 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. Depreciation of capitalised development costs is made on a straight-line basis over the period of use, up to a maximum of 10 years. The period of use is reviewed annually, which may result in necessitate impairment. See note 16 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 5,310 (5,177). See note 16 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 10,752 (9,341). 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 32 for further information.

## NOTE 3 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. Saab's operations are divided into six business areas, which are also operating segments:

- Aeronautics
- Dynamics
- Surveillance
- Support and Services
- Industrial Products and Services
- Kockums

The business areas 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 a world-leading manufacturer of innovative aerial systems and is engaged in development of military aviation technology. It also conducts long-term future studies of manned and unmanned aircraft as preparation for new systems 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

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.

#### 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 mainly civilian customers. The wholly owned, independent subsidiary Combitech are included in the business area.

#### Kockums

Kockums develops, delivers, and maintains world-class solutions for naval environments. Its portfolio includes submarines with the Stirling system for air independent propulsion, surface combatants, mine hunting systems and autonomous vessels. Kockums' unique competence is in signature management, impact strength and advanced stealth technology.

#### Significant non-recurring items not affecting cash flow

During 2018, no significant non-recurring items not affecting cash flow were recognised.

#### Information on large customers

In 2018, 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 10,521 (10,695) in 2017.

#### 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 recognise revenue over time in relation to reprocessing. 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 3, cont.

| Group  | Aeronautics   |               | Dynamics      |               | Surveillance  |               | Support and Services |               | Industrial Products and Services |               | Kockums      |              | Corporate   |             | Eliminations  |               | Group          |                |
|--|---------------|---------------|---------------|---------------|---------------|---------------|----------------------|---------------|----------------------------------|---------------|--------------|--------------|-------------|-------------|---------------|---------------|----------------|----------------|
| MSEK   | 2018          | 2017          | 2018          | 2017          | 2018          | 2017          | 2018                 | 2017          | 2018                             | 2017          | 2018         | 2017         | 2018        | 2017        | 2018          | 2017          | 2018           | 2017           |
| External order bookings  | 5,060         | 2,811         | 7,084         | 8,450         | 7,202         | 6,691         | 3,513                | 6,080         | 4,006                            | 4,688         | 1,108        | 2,120        | 2           | -           | -             | -             | 27,975         | 30,841         |
| Internal order bookings  | 201           | 484           | 224           | 165           | 168           | 357           | 122                  | 119           | 1,338                            | 1,154         | 15           | 9            | -           | -           | -2,068        | -2,287        | -              | -              |
| <b>Total</b>   | <b>5,261</b>  | <b>3,295</b>  | <b>7,308</b>  | <b>8,615</b>  | <b>7,370</b>  | <b>7,048</b>  | <b>3,635</b>         | <b>6,199</b>  | <b>5,344</b>                     | <b>5,842</b>  | <b>1,123</b> | <b>2,129</b> | <b>2</b>    | <b>-</b>    | <b>-2,068</b> | <b>-2,287</b> | <b>27,975</b>  | <b>30,841</b>  |
| External order backlog   | 47,316        | 49,940        | 13,477        | 11,379        | 14,532        | 14,420        | 10,634               | 12,470        | 9,694                            | 10,270        | 6,645        | 8,814        | -113        | -61         | -             | -             | 102,184        | 107,233        |
| Internal order backlog   | 43            | 214           | 168           | 218           | 199           | 344           | 56                   | 43            | 1,310                            | 1,427         | 1            | 1            | -           | -           | -1,778        | -2,246        | -              | -              |
| <b>Total</b>   | <b>47,359</b> | <b>50,154</b> | <b>13,645</b> | <b>11,597</b> | <b>14,731</b> | <b>14,764</b> | <b>10,690</b>        | <b>12,513</b> | <b>11,004</b>                    | <b>11,697</b> | <b>6,646</b> | <b>8,815</b> | <b>-113</b> | <b>-61</b>  | <b>-1,778</b> | <b>-2,246</b> | <b>102,184</b> | <b>107,233</b> |
| External sales   | 7,684         | 6,830         | 5,042         | 5,458         | 7,082         | 6,366         | 5,336                | 5,680         | 4,654                            | 4,497         | 3,275        | 2,704        | 83          | 131         | -             | -             | 33,156         | 31,666         |
| Internal sales   | 372           | 437           | 277           | 159           | 315           | 267           | 134                  | 138           | 1,453                            | 1,138         | 16           | 8            | -           | -           | -2,567        | -2,147        | -              | -              |
| <b>Total sales</b>   | <b>8,056</b>  | <b>7,267</b>  | <b>5,319</b>  | <b>5,617</b>  | <b>7,397</b>  | <b>6,633</b>  | <b>5,470</b>         | <b>5,818</b>  | <b>6,107</b>                     | <b>5,635</b>  | <b>3,291</b> | <b>2,712</b> | <b>83</b>   | <b>131</b>  | <b>-2,567</b> | <b>-2,147</b> | <b>33,156</b>  | <b>31,666</b>  |
| Operating income before share in income of associated companies and joint ventures | 695           | 477           | 487           | 645           | 631           | 632           | 685                  | 702           | 203                              | 117           | 160          | 157          | -581        | -441        | -             | -             | 2,280          | 2,289          |
| Share in income of associated companies and joint ventures                         | -15           | 1             | 48            | 35            | -             | -             | -                    | -             | -1                               | -1            | 13           | -            | -59         | -74         | -             | -             | -14            | -39            |
| <b>Operating income</b>  | <b>680</b>    | <b>478</b>    | <b>535</b>    | <b>680</b>    | <b>631</b>    | <b>632</b>    | <b>685</b>           | <b>702</b>    | <b>202</b>                       | <b>116</b>    | <b>173</b>   | <b>157</b>   | <b>-640</b> | <b>-515</b> | <b>-</b>      | <b>-</b>      | <b>2,266</b>   | <b>2,250</b>   |
| Financial income   | 1             | -             | 3             | 4             | 17            | 13            | -                    | 1             | 3                                | -             | 34           | 1            | 266         | 195         | -130          | -93           | 194            | 121            |
| Financial expenses   | -94           | -81           | -55           | -48           | -71           | -58           | -33                  | -32           | -44                              | -30           | -9           | -8           | -488        | -108        | 130           | 93            | -664           | -272           |
| <b>Income before taxes</b>   | <b>587</b>    | <b>397</b>    | <b>483</b>    | <b>636</b>    | <b>577</b>    | <b>587</b>    | <b>652</b>           | <b>671</b>    | <b>161</b>                       | <b>86</b>     | <b>198</b>   | <b>150</b>   | <b>-862</b> | <b>-428</b> | <b>-</b>      | <b>-</b>      | <b>1,796</b>   | <b>2,099</b>   |
| Taxes <sup>1)</sup>  | -142          | -69           | -68           | -104          | -95           | -98           | 4                    | -45           | -58                              | -31           | -35          | -32          | -36         | -212        | -             | -             | -430           | -591           |
| <b>Net income for the year</b>   | <b>445</b>    | <b>328</b>    | <b>415</b>    | <b>532</b>    | <b>482</b>    | <b>489</b>    | <b>656</b>           | <b>626</b>    | <b>103</b>                       | <b>55</b>     | <b>163</b>   | <b>118</b>   | <b>-898</b> | <b>-639</b> | <b>-</b>      | <b>-</b>      | <b>1,366</b>   | <b>1,509</b>   |
| Assets   | 9,879         | 8,556         | 7,152         | 6,213         | 14,763        | 12,033        | 5,103                | 5,402         | 6,338                            | 5,864         | 4,379        | 3,797        | 28,081      | 21,019      | -19,567       | -17,886       | 56,128         | 44,998         |
| Of which shares in associated companies and joint ventures                         | 78            | 86            | 223           | 177           | 4             | 4             | -                    | -             | -                                | 1             | -            | 23           | 341         | 409         | -             | -             | 646            | 700            |
| Liabilities  | 9,084         | 8,122         | 4,978         | 4,128         | 9,115         | 7,220         | 3,071                | 3,552         | 4,539                            | 3,921         | 3,278        | 2,815        | 14,287      | 11,397      | -11,857       | -10,442       | 36,495         | 30,713         |
| Operational cash flow  | -1,096        | 1,264         | -120          | 1,105         | -1,085        | -60           | 369                  | 126           | -351                             | -296          | 251          | 206          | -392        | -957        | -             | -             | -2,424         | 1,388          |
| Capital employed   | 3,110         | 2,191         | 3,774         | 3,232         | 7,781         | 6,103         | 3,307                | 3,222         | 4,515                            | 4,178         | 1,181        | 1,016        | 9,335       | 3,357       | -             | -             | 33,003         | 23,299         |
| Investments  | 917           | 413           | 187           | 155           | 589           | 544           | 121                  | 274           | 67                               | 75            | 65           | 101          | 873         | 595         | -             | -             | 2,819          | 2,157          |
| Depreciation   | 56            | 50            | 75            | 85            | 273           | 293           | 69                   | 19            | 88                               | 97            | 30           | 23           | 325         | 272         | -             | -             | 916            | 839            |

<sup>1)</sup> Current taxes in the Parent Company are reported in Corporate**Geographical areas**

| Group          | Sweden |        | Rest of Europe |       | North America |       | Latin America |       | Asia  |       |
|----------------|--------|--------|----------------|-------|---------------|-------|---------------|-------|-------|-------|
| MSEK           | 2018   | 2017   | 2018           | 2017  | 2018          | 2017  | 2018          | 2017  | 2018  | 2017  |
| External sales | 13,519 | 13,216 | 4,768          | 4,496 | 3,155         | 2,778 | 3,821         | 2,653 | 6,148 | 7,041 |
| as % of sales  | 41     | 42     | 14             | 14    | 10            | 9     | 12            | 8     | 19    | 22    |
| Fixed assets   | 15,450 | 13,527 | 449            | 412   | 495           | 466   | 2             | 4     | 143   | 143   |

| Group          | Africa |      | Australia, etc. |       | Total  |        |
|----------------|--------|------|-----------------|-------|--------|--------|
| MSEK           | 2018   | 2017 | 2018            | 2017  | 2018   | 2017   |
| External sales | 361    | 449  | 1,384           | 1,033 | 33,156 | 31,666 |
| as % of sales  | 1      | 1    | 4               | 3     | 100    | 100    |
| Fixed assets   | 469    | 469  | 136             | 130   | 17,144 | 15,151 |

Note 3, cont.

**Sales by operating segment**

| MSEK                             | Parent Company |               |
|----------------------------------|----------------|---------------|
|                                  | 2018           | 2017          |
| Aeronautics                      | 7,691          | 6,836         |
| Dynamics                         | 1,326          | 1,163         |
| Surveillance                     | 5,305          | 5,107         |
| Support and Services             | 4,800          | 5,447         |
| Industrial Products and Services | 1,876          | 1,337         |
| <b>Total</b>                     | <b>20,998</b>  | <b>19,890</b> |

**Sales by geographical market**

| MSEK            | Parent Company |               |
|-----------------|----------------|---------------|
|                 | 2018           | 2017          |
| Sweden          | 8,707          | 8,785         |
| Rest of Europe  | 2,789          | 2,661         |
| North America   | 1,688          | 1,406         |
| Latin America   | 3,653          | 2,550         |
| Asia            | 3,818          | 3,964         |
| Africa          | 211            | 319           |
| Australia, etc. | 132            | 205           |
| <b>Total</b>    | <b>20,998</b>  | <b>19,890</b> |

**NOT 4 SALES****ACCOUNTING PRINCIPLES****Sales**

The IASB standard IFRS 15 Revenue from Contracts with Customers has been applied as of 1 January 2018. IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 has a uniform model for all revenue recognition based on a contract for the sale of a good or service between two parties. The company then recognises the revenue when it satisfies the obligation to deliver the promised goods or services to the customer, which means that revenue is recognised when the customer obtains control over the good or service and has the ability to use or obtain the benefits from the good or service. The main principles of revenue recognition are based on a five-step model:

1. Identify the contract
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to each obligation
5. Recognise revenue when the obligation is satisfied.

**Long-term customer contracts**

A large part of the Group's operations involves long-term customer contracts for the development and manufacture of complex systems that stretch over several reporting periods. The analysis of these contracts according to the five-step model has mainly meant determining the number of performance obligations (step 2) and when they are fulfilled (step 5), i.e. over time or at a given point in time.

Since Saab's long-term customer contracts involve considerable customisation and integration of goods and services, it usually means that a performance obligation has been identified. A performance obligation is satisfied according to the standard at a given point in time or over time. If a performance obligation is satisfied over time, one of the following criteria must be met: a) the customer must obtain immediate benefits when the obligation is satisfied, b) the company's performance creates or improves an asset that the customer controls, or c) the company's performance does not create an asset with an alternative use to the company and the company has the right to payment for costs incurred to date, including profit, in the event that the customer terminates the contract for reasons other than the company's failure to perform as promised.

Since Saab's long-term customer contracts involve considerable customisation and integration of goods and services and because the cost to adapt the asset and sell it to a new customer would not be insignificant, the conclusion is that the asset is not deemed to have an alternative use. Since the contracts also contain clauses that include the right to payment plus a reasonable profit for costs incurred, it means that the criteria for recognising long-term customer contracts over time are satisfied. Revenue and costs are recognised in the income statement as before in relation to the contract's stage of completion.

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 to satisfy the contract. Of the total revenue, 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 mile-

stones or deliveries. An expected loss is recognised in profit or loss as soon as it is identified.

**Products**

A percentage of Saab's revenue is attributable to products where development, customisation and integration are relatively minor and relates for the most part only to the manufacture of products, as well as the resale of spare parts, for example. Revenue from these contracts is recognised at a given point in time, i.e. normally when control of the good has transferred to the customer in accordance with the terms of the contract.

**Service assignments**

For Saab's service assignments, which include the sale of consulting hours and support services, at a fixed price or on current account, the customer normally obtains the benefits when the obligation is satisfied. Revenue is mainly recognised over time as the assignment is performed according to the contract.

Saab is active in the military defence market as well as the commercial aircraft and security market. In 2018, sales of defence materiel accounted for 85 per cent (84) of Saab's sales. Saab's international sales represent more than half of its total operations and as a rule entail considerable sums that stretch over long periods of time. In 2018, 59 per cent (58) of Saab's sales was to markets outside Sweden.

A large share of Saab's sales comes from a limited number of customers and relatively few contracts. The European market including Sweden is Saab's most important market. The Swedish Defence Materiel Administration (FMV) is Saab's most important customer, accounting for 32 per cent (34) of Saab's sales in 2018.

Saab's operations are distinguished by complex, multi-year development assignments on the cutting edge of technology. In its long-term customer projects, Saab implements and delivers cost-efficient high-tech solutions in accordance with the customer contract. The contract model for major development projects according to which Saab is often engaged in development work is complex and entails risks. Contracts are often signed where the customer orders a product with specifications on its features and which problems it will solve. Saab then commits to deliver in accordance with the specifications and produces the required product or system. Consequently, when contracts are signed, the product in some cases has not been developed and will normally be delivered several years later. Most of the contracts are signed with a fixed-price component. In 2018 Long-term customer contracts accounted for 64 per cent (64) of total sales.

The majority of Saab's sales relates to projects that in most cases are recognised in revenue and income over time. This places high demands on project planning and control as well as monitoring to ensure that at any given time the commitments and estimates of project costs and revenue provide a satisfactory basis for recognition of sales and income. Saab continuously updates cost estimates for long-term customer contracts, which has a retroactive effect, both positive and negative, on sales. The impact of retroactive effects during the year was insignificant in relation to sales. Approximately 80 percent of sales is recognised over time in pace with project completion.

Accounting for long-term customer contracts affects balance sheet items such as contract assets and contract liabilities as well as accounts receivable, for which the customary payment terms are applied. Many of Saab's large contracts with customers are based on a payment model according to which the majority of the payment is not made until or after the product or system has been delivered or partially delivered. Saab has several large customer projects in the development phase. Due to the level of completion of major projects, contract assets increased by MSEK 2 466 during the year at the same time that contract liabilities decreased by MSEK 622. Opening contract liabilities as of 1 January 2018 were practically all recognised in revenue in the financial year.

Provision for guarantees in connection with sold products or services is normally recognised if a reliable calculation of the provision can be made; see note 33 for further information.

The Group has no significant commitments or obligations relating to product returns.

**Future revenue from long-term customer contracts**

The order backlog is expected to be realised and recognised as revenue according to the following table:

**Order backlog duration:**

| MSEK                | 2018           | 2017           |
|---------------------|----------------|----------------|
| Within 1 year       | 27,954         | 25,371         |
| Within 2 years      | 20,647         | 19,995         |
| Within 3 years      | 18,138         | 16,991         |
| Within 4 years      | 13,282         | 17,000         |
| 4 years and forward | 22,163         | 27,876         |
| <b>Total</b>        | <b>102,184</b> | <b>107,233</b> |

Note 4, cont.

|                                     | Aeronautics  |              | Dynamics     |              | Surveillance |              | Support and Services |              | Industrial Products and Services |              | Kockums      |              | Corporate/elimination |            | Group         |               |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------------|--------------|----------------------------------|--------------|--------------|--------------|-----------------------|------------|---------------|---------------|
| MSEK                                | 2018         | 2017         | 2018         | 2017         | 2018         | 2017         | 2018                 | 2017         | 2018                             | 2017         | 2018         | 2017         | 2018                  | 2017       | 2018          | 2017          |
| <b>Sales per customer:</b>          |              |              |              |              |              |              |                      |              |                                  |              |              |              |                       |            |               |               |
| Military customers                  | 7,679        | 6,824        | 4,723        | 5,182        | 7,018        | 6,256        | 4,458                | 4,653        | 886                              | 887          | 3,275        | 2,704        | 80                    | 126        | 28,119        | 26,632        |
| Civilian customers                  | 5            | 6            | 319          | 276          | 64           | 110          | 878                  | 1,027        | 3,768                            | 3,610        | -            | -            | 3                     | 5          | 5,037         | 5,034         |
| <b>Total external sales</b>         | <b>7,684</b> | <b>6,830</b> | <b>5,042</b> | <b>5,458</b> | <b>7,082</b> | <b>6,366</b> | <b>5,336</b>         | <b>5,680</b> | <b>4,654</b>                     | <b>4,497</b> | <b>3,275</b> | <b>2,704</b> | <b>83</b>             | <b>131</b> | <b>33,156</b> | <b>31,666</b> |
| <b>Sales by significant source:</b> |              |              |              |              |              |              |                      |              |                                  |              |              |              |                       |            |               |               |
| Long-term customer contracts        | 6,967        | 6,219        | 1,935        | 2,044        | 4,926        | 4,699        | 2,237                | 2,411        | 2,513                            | 2,329        | 2,512        | 2,375        | 81                    | 131        | 21,171        | 20,208        |
| Services                            | 701          | 602          | 613          | 646          | 1,443        | 1,277        | 2,535                | 2,740        | 1,937                            | 1,817        | 731          | 329          | -                     | -          | 7,960         | 7,411         |
| Products                            | 16           | 9            | 2,494        | 2,768        | 713          | 390          | 564                  | 529          | 204                              | 351          | 32           | -            | 2                     | -          | 4,025         | 4,047         |
| <b>Total external sales</b>         | <b>7,684</b> | <b>6,830</b> | <b>5,042</b> | <b>5,458</b> | <b>7,082</b> | <b>6,366</b> | <b>5,336</b>         | <b>5,680</b> | <b>4,654</b>                     | <b>4,497</b> | <b>3,275</b> | <b>2,704</b> | <b>83</b>             | <b>131</b> | <b>33,156</b> | <b>31,666</b> |
| <b>Sales by domain:</b>             |              |              |              |              |              |              |                      |              |                                  |              |              |              |                       |            |               |               |
| Air                                 | 7,684        | 6,824        | 289          | 341          | 3,757        | 3,255        | 3,624                | 3,941        | 367                              | 338          | -            | -            | 55                    | 88         | 15,776        | 14,787        |
| Land                                | -            | 6            | 3,313        | 3,908        | 1,083        | 1,494        | 808                  | 788          | 386                              | 539          | -            | -            | -                     | -          | 5,590         | 6,735         |
| Naval                               | -            | -            | 1,239        | 1,032        | 2,153        | 1,527        | 207                  | 150          | 8                                | 10           | 3,275        | 2,704        | 28                    | 43         | 6,910         | 5,466         |
| Civil Security                      | -            | -            | 192          | 177          | 42           | 32           | 188                  | 158          | 1,841                            | 1,732        | -            | -            | -                     | -          | 2,263         | 2,099         |
| Commercial Aeronautics              | -            | -            | -            | -            | 1            | -            | 486                  | 643          | 1,202                            | 1,122        | -            | -            | -                     | -          | 1,689         | 1,765         |
| Other                               | -            | -            | 9            | -            | 46           | 58           | 23                   | -            | 850                              | 756          | -            | -            | -                     | -          | 928           | 814           |
| <b>Total external sales</b>         | <b>7,684</b> | <b>6,830</b> | <b>5,042</b> | <b>5,458</b> | <b>7,082</b> | <b>6,366</b> | <b>5,336</b>         | <b>5,680</b> | <b>4,654</b>                     | <b>4,497</b> | <b>3,275</b> | <b>2,704</b> | <b>83</b>             | <b>131</b> | <b>33,156</b> | <b>31,666</b> |
| <b>Sales recognition method:</b>    |              |              |              |              |              |              |                      |              |                                  |              |              |              |                       |            |               |               |
| Over time                           | 7,667        | 6,777        | 2,397        | 1,987        | 6,058        | 5,117        | 4,146                | 4,448        | 2,822                            | 2,689        | 3,222        | 2,657        | 81                    | 131        | 26,393        | 23,806        |
| Point in time                       | 17           | 53           | 2,645        | 3,471        | 1,024        | 1,249        | 1,190                | 1,232        | 1,832                            | 1,808        | 53           | 47           | 2                     | -          | 6,763         | 7,860         |
| <b>Total external sales</b>         | <b>7,684</b> | <b>6,830</b> | <b>5,042</b> | <b>5,458</b> | <b>7,082</b> | <b>6,366</b> | <b>5,336</b>         | <b>5,680</b> | <b>4,654</b>                     | <b>4,497</b> | <b>3,275</b> | <b>2,704</b> | <b>83</b>             | <b>131</b> | <b>33,156</b> | <b>31,666</b> |

**Sales by customer**

|                    | Parent Company |               |
|--------------------|----------------|---------------|
| MSEK               | 2018           | 2017          |
| Military customers | 18,593         | 17,532        |
| Civilian customers | 2,405          | 2,358         |
| <b>Total</b>       | <b>20,998</b>  | <b>19,890</b> |

**Sales by significant source**

|                              | Parent Company |               |
|------------------------------|----------------|---------------|
| MSEK                         | 2018           | 2017          |
| Long-term customer contracts | 15,488         | 14,651        |
| Services                     | 4,361          | 4,293         |
| Products                     | 1,149          | 946           |
| <b>Total</b>                 | <b>20,998</b>  | <b>19,890</b> |

**Sales by domain**

|                        | Parent Company |               |
|------------------------|----------------|---------------|
| MSEK                   | 2018           | 2017          |
| Air                    | 15,374         | 14,409        |
| Land                   | 2,121          | 2,436         |
| Naval                  | 1,251          | 870           |
| Civil Security         | 589            | 457           |
| Commercial Aeronautics | 1,663          | 1,718         |
| <b>Total</b>           | <b>20,998</b>  | <b>19,890</b> |

**Sales recognition method**

|               | Parent Company |               |
|---------------|----------------|---------------|
| MSEK          | 2018           | 2017          |
| Over time     | 17,335         | 15,802        |
| Point in time | 3,663          | 4,088         |
| <b>Total</b>  | <b>20,998</b>  | <b>19,890</b> |

**NOTE 5 OPERATING EXPENSES****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.

Operating expenses classified by the type of cost, excluding other operating income and expenses, are distributed as follows:

|   | Group         |               |
|---|---------------|---------------|
| MSEK                                      | 2018          | 2017          |
| Materials and components                  | 7,535         | 7,148         |
| Purchased services                        | 4,037         | 3,916         |
| Personnel costs                           | 13,524        | 12,604        |
| Depreciation/amortisation and write-downs | 1,039         | 884           |
| Other external costs                      | 4,634         | 4,842         |
| <b>Total</b>                              | <b>30,769</b> | <b>29,394</b> |

Depreciation/amortisation and write-downs include write-downs and reversal of write-downs on inventory.

## NOTE 6 OTHER OPERATING REVENUE AND EXPENSES

### ACCOUNTING PRINCIPLES

#### Other operating revenue and expenses

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.

| MSEK   | Group      |            | Parent Company |           |
|--|------------|------------|----------------|-----------|
|  | 2018       | 2017       | 2018           | 2017      |
| Gain on sale of transfer activity                            | 30         | -          | 30             | -         |
| Exchange rate gains on operating receivables/liabilities     | 29         | -          | 10             | -         |
| Gain from other operating activities                         | 21         | 20         | -              | -         |
| Gain on sale of Group companies                              | 16         | -          | -              | -         |
| Capital gain on realised accumulated translation differences | 12         | 15         | -              | -         |
| Gain on sale of associated companies                         | 11         | -          | -              | -         |
| Government grants  | 4          | 9          | 3              | 7         |
| Insurance compensation                                       | 3          | 17         | 2              | 10        |
| Gain on sale of tangible fixed assets                        | 2          | 6          | 2              | 6         |
| Trading results  | 1          | 8          | -              | 8         |
| Gain from revaluation of earn out liability                  | -          | 7          | -              | -         |
| Other  | 27         | 22         | 6              | 18        |
| <b>Total</b>   | <b>156</b> | <b>104</b> | <b>53</b>      | <b>49</b> |

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 36.

Other operating activities consist of results from subsidiaries that fall outside core operations and net rental income from property rentals.

#### Other operating expenses

| MSEK  | Group       |            | Parent Company |            |
|---|-------------|------------|----------------|------------|
|   | 2018        | 2017       | 2018           | 2017       |
| Restructuring costs   | -200        | -          | -200           | -          |
| Change in value of derivatives and exchange rate losses on operating receivables/ liabilities | -18         | -55        | -              | -9         |
| Loss on sale and disposal of tangible and intangible fixed assets                             | -16         | -22        | -12            | -13        |
| Capital gain on realised accumulated translation differences                                  | -8          | -          | -              | -          |
| Loss from other operating activities  | -3          | -2         | -              | -          |
| Provision environmental reserve <sup>1)</sup>   | -           | -          | -48            | -          |
| Other   | -18         | -8         | -3             | -          |
| <b>Total</b>  | <b>-263</b> | <b>-87</b> | <b>-263</b>    | <b>-22</b> |

<sup>1)</sup> Environmental reserve previously reported in the Group company Lansen Försäkrings AB has been transferred to the Parent Company during 2018.

Other operating activities consist of results from subsidiaries that fall outside core operations.

## NOTE 7 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 mainly to premises, computers and cars.

The Group also has a finance lease on a building and an aircraft, see note 17.

| MSEK                    | Group                  |                         |
|-------------------------|------------------------|-------------------------|
|                         | Premises and buildings | Machinery and equipment |
| <b>Outcome</b>          |                        |                         |
| 2017                    | 344                    | 157                     |
| 2018                    | 411                    | 185                     |
| <b>Contracted</b>       |                        |                         |
| 2019                    | 378                    | 150                     |
| 2020                    | 313                    | 75                      |
| 2021                    | 265                    | 26                      |
| 2022                    | 225                    | 3                       |
| 2023                    | 206                    | 1                       |
| 2024 and forward        | 1,163                  | -                       |
| <b>Total contracted</b> | <b>2,550</b>           | <b>255</b>              |

| MSEK                    | Parent Company         |                         |
|-------------------------|------------------------|-------------------------|
|                         | Premises and buildings | Machinery and equipment |
| <b>Outcome</b>          |                        |                         |
| 2017                    | 250                    | 108                     |
| 2018                    | 280                    | 121                     |
| <b>Contracted</b>       |                        |                         |
| 2019                    | 289                    | 83                      |
| 2020                    | 256                    | 38                      |
| 2021                    | 221                    | 12                      |
| 2022                    | 200                    | 1                       |
| 2023                    | 190                    | -                       |
| 2024 and forward        | 1,129                  | -                       |
| <b>Total contracted</b> | <b>2,285</b>           | <b>134</b>              |



## NOTE 8 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 2018, MSEK 121 (36) has been received. MSEK 99 (34) 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 51 (29) 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 2018, the National Debt Office has paid out a net amount of MSEK 263 (263). The debt as of 31 December 2018 amounted to MSEK 130 (132), which reduces inventory in the financial statements.

No contingent liabilities or contingent assets are reported.

## NOTE 9 EMPLOYEES AND STAFF COSTS

The average number of employees in 2018 amounted to 16,520 (15,935), of whom 77 per cent (78) 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](http://www.saabgroup.com), Investor, Financial Data.

### Average number of employees<sup>1)</sup>

|                               | 2018          | of whom men | 2017          | of whom men |
|-------------------------------|---------------|-------------|---------------|-------------|
| <b>Parent company</b>         |               |             |               |             |
| Sweden                        | 9,016         | 77%         | 8,837         | 78%         |
| Rest of Europe                | 44            | 89%         | 61            | 80%         |
| North America                 | 9             | 100%        | 19            | 68%         |
| Latin America                 | 24            | 83%         | 23            | 83%         |
| Asia                          | 52            | 83%         | 67            | 90%         |
| Africa                        | 44            | 89%         | 49            | 92%         |
| <b>Parent company, total</b>  | <b>9,189</b>  | <b>77%</b>  | <b>9,056</b>  | <b>78%</b>  |
| <b>Group companies</b>        |               |             |               |             |
| Sweden                        | 4,370         | 78%         | 4,075         | 78%         |
| Rest of Europe                | 880           | 81%         | 870           | 81%         |
| North America                 | 703           | 74%         | 653           | 75%         |
| Latin America                 | 33            | 70%         | 24            | 63%         |
| Asia                          | 145           | 78%         | 141           | 78%         |
| Africa                        | 814           | 71%         | 797           | 71%         |
| Australia, etc                | 386           | 82%         | 319           | 82%         |
| <b>Group companies, total</b> | <b>7,331</b>  | <b>77%</b>  | <b>6,879</b>  | <b>77%</b>  |
| <b>Group, total</b>           | <b>16,520</b> | <b>77%</b>  | <b>15,935</b> | <b>78%</b>  |

<sup>1)</sup> 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 | 2018           | 2017 |
| Board of Directors       | 40             | 40   |
| Other senior executives  | 31             | 38   |

### Salaries, other remuneration and social security expenses

|                                      | 2018                            |                          | 2017                            |                          |
|--------------------------------------|---------------------------------|--------------------------|---------------------------------|--------------------------|
| MSEK                                 | Salaries and other remuneration | Social security expenses | Salaries and other remuneration | Social security expenses |
| <b>Parent Company</b>                | 5,218                           | 2,506                    | 4,914                           | 2,482                    |
| of which pension costs <sup>1)</sup> |                                 | 853                      |                                 | 924                      |
| <b>Group companies</b>               | 4,396                           | 1,404                    | 4,055                           | 1,153                    |
| of which pension costs <sup>2)</sup> |                                 | 582                      |                                 | 408                      |
| <b>Group, total</b>                  | <b>9,614</b>                    | <b>3,910</b>             | <b>8,969</b>                    | <b>3,635</b>             |
| of which pension costs <sup>3)</sup> |                                 | 1,435                    |                                 | 1,332                    |

<sup>1)</sup> Of the Parent Company's pension costs, MSEK 9 (14) 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 13 (19), of which MSEK 13 (19) referred to former Board members and President, including deputies and Executive Vice Presidents.

<sup>2)</sup> Adjustment according to different accounting principles regarding defined-benefit plans between Parent Company and Group. See notes 1 and 32 for more information.

<sup>3)</sup> Of the Group's pension costs, MSEK 20 (22) referred to the Group's and Group companies' Boards and Presidents. The Group's outstanding pension obligations for these individuals amounted to MSEK 13 (19), of which MSEK 13 (19) referred to former board members and Presidents.

### Salaries and other remuneration distributed between Board members, President and Executive Vice Presidents and other employees

|                        | 2018   |                 | 2017   |                 |
|------------------------|--|-----------------|--|-----------------|
| MSEK                   | Board, President and Executive Vice Presidents | Other employees | Board, President and Executive Vice Presidents | Other employees |
| <b>Parent Company</b>  | 32   | 5,186           | 31   | 4,883           |
| <b>Group companies</b> | 84   | 4,312           | 70   | 3,985           |
| <b>Group, total</b>    | <b>116</b>                                     | <b>9,498</b>    | <b>101</b>                                     | <b>8,868</b>    |

Of the salaries and remuneration paid to other employees in the Group, MSEK 29 (30) referred to senior executives other than Board members, the President and Executive Vice Presidents.

For information on post-employment benefits, see note 32.

### 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 2018 – April 2019, amount to SEK 6,625,000 (6,180,000), consisting of SEK 1,750,000 (1,550,000) to the Chairman, SEK 675,000 (640,000) to the Deputy Chairman and SEK 600,000 (570,000) 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 2018 – April 2019, committee chairman Joakim Westh also received a fee of SEK 225,000 (225,000) and committee members Erika Söderberg Johnson and Daniel Nodhäll each received a fee of SEK 150,000 (150,000).

For remuneration committee work, during the term April 2018 – April 2019, committee chairman Sten Jakobsson also received a fee of SEK 150,000 (135,000) and committee members Marcus Wallenberg and Bert Nordberg each received a fee of SEK 90,000 (80,000).

Remuneration to Board members and committee members recognised as cost for fiscal year 2018 is shown in the table on page 99.

Note 9, 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 through 2018 and in the Share Matching Plans for 2011–2018. As of May 2017, Håkan Buskhe has participated in Saab's Special Projects Incentive resolved by each Annual General Meeting from 2017 through 2018 as a complement to the Performance Share Plan 2016. In December 2017, the one-year performance period concluded for Saab's Special Projects Incentive 2017. The Board determined that seven of the eight performance targets had been met, resulting in an outcome of 87.5 per cent. Performance shares will be allotted in May 2020. In December 2018, the one-year performance period concluded for Saab's Special Projects Incentive 2018. The Board determined that eight of the eight performance targets had been met, resulting in an outcome of 100 per cent. Performance shares will be allotted in February 2021.

Outstanding matching rights in Saab's Performance Share Plan and Share Matching Plan 2014 amounted to SEK 512,953 (2,462,517) as of 31 December 2018 at estimated outcomes and in Saab's Performance Share Plan and Share Matching Plan 2015 to SEK 3,301,254 (1,882,252) at estimated outcomes. Corresponding figures for Saab's Performance Share Plan and Share Matching Plan 2016 are SEK 1,665,484 (422,275) at estimated outcomes, for Saab's Performance Share Plan and Share Matching Plan 2018 are SEK 654,059 at estimated outcomes and Saab's Special Projects Incentive 2017 are SEK 1,971,485 (1,314,323) and Saab's Special Projects Incentive 2018 are SEK 1,574,625 at estimated outcomes.

During the period 1 January through 31 December 2018, Håkan Buskhe received salary and other benefits totalling SEK 21,852,742 (18,814,165), of which other benefits, including share related plans, amounted to SEK 7,745,450 (5,106,662).

**Pension terms**

The retirement age for the President is 62 years. The President has a defined-contribution pension plan and may decide himself on the payment term, though 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 2018, the cost of Håkan Buskhe's pension, including ITP, was SEK 5,111,922 (4,979,931).

**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 12 individuals (12) at 31 December 2018: the Executive Vice Presidents, the Heads of the Business Areas and the Heads of Group staffs. At 31 December 2018, Group Management was comprised of Håkan Buskhe (President), Micael Johansson, Magnus Örnberg, Görgen Johansson, Anders Carp, Jonas Hjelm, Gunnar Wieslander, Christian Hedelin, Ellen Molin, Annika Båremo, Jessica Öberg, Sebastian Carlsson och 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.

Of the other senior executives, one individual received cash settlements of a non-recurring nature upon recruitment according to a resolution 2018. An amount totalling SEK 850,500 will be paid during a period of 36 months from the start of employment. The payments are made monthly in the form of pension premiums and are conditional upon the recipients not giving notice of termination of employment. SEK 47,250 has been paid during 2018.

As of November 2008, all eligible executives participate in Saab's Performance Share Plans resolved by each Annual General Meeting from 2009 through 2018 as well as the Share Matching Plans 2011–2018.

As of November 2017, all eligible executives participate in Saab's Special Projects Incentive, a complement to the Performance Share Plan, approved by each Annual General Meeting from 2017 through 2018. In December 2017, the one-year performance period concluded for Saab's Special Projects Incentive 2017. The Board determined that seven of the eight performance targets had been met, resulting in an outcome of 87.5 per cent. Performance shares will be allotted in May 2020. In December 2018, the one-year performance period concluded for Saab's Special Projects Incentive 2018. The Board determined that eight of the eight performance targets had been met, resulting in an outcome of 100 per cent. Performance shares will be allotted in February 2021.

Outstanding matching rights in Saab's Performance Share Plan and Share Matching Plan 2014 amounted as of 31 December 2018 to SEK 591,956 (2,882,456) at estimated outcomes, in Saab's Performance Share Plan and Share Matching Plan 2015 to SEK 3,868,426 (2,423,750) at estimated outcomes, in Saab's Performance Share Plan and Share Matching Plan 2016 to SEK 2,743,496 (703,555) at estimated outcomes, in Saab's Performance Share Plan and Share Matching Plan 2018 to SEK 1,333,523 at estimated outcomes and Saab's Special Projects Incentive 2017 to SEK 3,935,661 (2,623,774) and Saab's Special Projects Incentive 2018 to SEK 4,075,205 at estimated outcomes.

In 2018, other senior executives received salaries and other benefits totalling SEK 55,148,280 (50,679,766), of which other benefits, including share related plans, amounted to SEK 16,010,185 (9,739,628).

**Pension terms**

As of 1 January 2005, a pension age of 62 years applies to all other senior executives. However, two persons have a pension age according to existing law and collective agreement.

In addition to ITP, 10 members (10) of the group 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 within the provisions of Swedish income tax law. Moreover, an insurance policy finances the period between the agreed pension age, 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 agreed pension age, 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 2018, pension costs for other senior executives, including ITP and its equivalent, amounted to SEK 14,518,065 (14,748,622). Other senior executives are entitled, or obliged if the company so requests, to retire on pension as of the agreed retirement age of 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 10 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. Executives 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 9, cont.

## Summary of compensation and other benefits during 2018

| SEK                            | Base salary/<br>Board and<br>committee fee | Variable<br>compensation<br>remuneration | Share<br>related<br>plans <sup>3)</sup> | Other<br>benefits <sup>2)</sup> | Pension<br>cost   | Total                   | Outstanding<br>matching rights in<br>share related<br>plans at estimated<br>outcomes <sup>3)</sup> |
|--------------------------------|--|--|---|---------------------------------|-------------------|-------------------------|--|
| Chairman of the Board          |  |  |   |                                 |                   |                         |  |
| Marcus Wallenberg              | 1,787,500                                  | -  | -                                       | -                               | -                 | 1,787,500 <sup>1)</sup> | -  |
| Deputy Chairman                |  |  |   |                                 |                   |                         |  |
| Sten Jakobsson                 | 812,500                                    | -  | -                                       | -                               | -                 | 812,500                 | -  |
| Other Board members            |  |  |   |                                 |                   |                         |  |
| Sara Mazur                     | 592,500                                    | -  | -                                       | -                               | -                 | 592,500 <sup>1)</sup>   | -  |
| Cecilia Stegö Chilò            | 592,500                                    | -  | -                                       | -                               | -                 | 592,500 <sup>1)</sup>   | -  |
| Joakim Westh                   | 817,500                                    | -  | -                                       | -                               | -                 | 817,500 <sup>1)</sup>   | -  |
| Bert Nordberg                  | 680,000                                    | -  | -                                       | -                               | -                 | 680,000 <sup>1)</sup>   | -  |
| Danica Kragic Jensfelt         | 592,500                                    | -  | -                                       | -                               | -                 | 592,500                 | -  |
| Daniel Nodhäll                 | 742,500                                    | -  | -                                       | -                               | -                 | 742,500                 | -  |
| Erika Söderberg Johnson        | 742,500                                    | -  | -                                       | -                               | -                 | 742,500 <sup>1)</sup>   | -  |
| President and CEO Håkan Buskhe | 14,107,292                                 |  | 7,571,858                               | 173,592                         | 5,111,922         | 26,918,251              | 9,679,861  |
| Other senior executives        | 39,090,845                                 | 47,250 <sup>4)</sup>                     | 14,004,527                              | 2,005,658                       | 14,518,065        | 69,567,770              | 16,548,267   |
| <b>Total</b>                   | <b>60,558,137</b>                          | <b>47,250</b>                            | <b>21,576,385</b>                       | <b>2,179,250</b>                | <b>19,629,987</b> | <b>103,846,021</b>      | <b>26,228,128</b>  |

<sup>1)</sup> 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.

<sup>2)</sup> Including compensation for the additional costs incurred due to the benefits.

<sup>3)</sup> Share related plans relate to Share Matching Plans, Performance Share Plans and Special Projects Incentive.

<sup>4)</sup> Including remuneration to one senior executives, which, as agreed, was paid in the form of pension premiums.

Guidelines for remuneration and other benefits for senior executives are described in the administration report.

## Summary of compensation and other benefits during 2017

| SEK                            | Base salary/<br>Board and<br>committee fee | Share<br>related<br>plans <sup>3)</sup> | Other benefits <sup>2)</sup> | Pension<br>cost   | Total                   | Outstanding<br>matching rights in<br>share related<br>plans at estimated<br>outcomes <sup>3)</sup> |
|--------------------------------|--|---|------------------------------|-------------------|-------------------------|--|
| Chairman of the Board          |  |   |                              |                   |                         |  |
| Marcus Wallenberg              | 1,600,000                                  | -                                       | -                            | -                 | 1,600,000 <sup>1)</sup> | -  |
| Deputy Chairman                |  |   |                              |                   |                         |  |
| Sten Jakobsson                 | 753,750                                    | -                                       | -                            | -                 | 753,750                 | -  |
| Other Board members            |  |   |                              |                   |                         |  |
| Sara Mazur                     | 567,500                                    | -                                       | -                            | -                 | 567,500 <sup>1)</sup>   | -  |
| Johan Forssell                 | 173,750                                    | -                                       | -                            | -                 | 173,750                 | -  |
| Per-Arne Sandström             | 190,000                                    | -                                       | -                            | -                 | 190,000 <sup>1)</sup>   | -  |
| Cecilia Stegö Chilò            | 567,500                                    | -                                       | -                            | -                 | 567,500 <sup>1)</sup>   | -  |
| Lena Treschow Torell           | 173,750                                    | -                                       | -                            | -                 | 173,750 <sup>1)</sup>   | -  |
| Joakim Westh                   | 770,000                                    | -                                       | -                            | -                 | 770,000 <sup>1)</sup>   | -  |
| Bert Nordberg                  | 627,500                                    | -                                       | -                            | -                 | 627,500 <sup>1)</sup>   | -  |
| Danica Kragic Jensfelt         | 427,500                                    | -                                       | -                            | -                 | 427,500                 | -  |
| Daniel Nodhäll                 | 540,000                                    | -                                       | -                            | -                 | 540,000                 | -  |
| Erika Söderberg Johnson        | 540,000                                    | -                                       | -                            | -                 | 540,000 <sup>1)</sup>   | -  |
| President and CEO Håkan Buskhe | 13,707,503                                 | 4,970,946                               | 135,716                      | 4,979,931         | 23,794,096              | 6,635,730  |
| Other senior executives        | 40,940,138                                 | 7,918,850                               | 1,820,788                    | 14,748,622        | 65,428,388              | 9,266,537  |
| <b>Total</b>                   | <b>61,578,891</b>                          | <b>12,889,796</b>                       | <b>1,956,494</b>             | <b>19,728,553</b> | <b>96,153,734</b>       | <b>15,902,267</b>  |

<sup>1)</sup> 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.

<sup>2)</sup> Including compensation for the additional costs incurred due to the benefits.

<sup>3)</sup> Share related plans relate to Share Matching Plans, Performance Share Plans and Special Projects Incentive.

Note 9, 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, there is a Performance Share Plan for senior executives and other key employees that entitles them to performance shares, depending on the employee category to which they belong, as well as a Special Projects Incentive, as a complement to the Performance Share Plan. The plans entitle the employee to performance shares depending on group affiliation, provided that they are still employed after three years and that the performance targets were met.

**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 three parts: a Share Matching Plan, a Performance Share Plan and a Special Projects Incentive. The Board considers it important that Saab's employees share a long-term interest in the appreciation of the company's shares. The plans are now designated by calendar year, which corresponds to the savings period. 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 2014–2019 are in place.

Since 2008, Saab also has a Performance Share Plan for senior executives and key employees. The Performance Share Plan covers a maximum of 175 key employees, including the President. Participants can save up to 7.5 per cent of their base salary to purchase Series B shares during a twelve-month period, while participating in the Share Matching Plan as well, but only up to a maximum of 5 per cent of base salary. 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 growth<sup>1)</sup>, EBIT margin<sup>2)</sup> and free cash flow<sup>3)</sup>. 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. According to the Annual General Meeting 2018 the Performance Share Plan comprises a maximum of 310,000 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 2014–2019 are ongoing.

In 2017 the Annual General Meeting decided to introduce a new programme, the Special Projects Incentive, as a complement to the Performance Share Plan. The programme is directed at a maximum of 45 key employees, including the President. Participation in the new programme presupposes participation in the Performance Share Plan or the Share Matching Plan. The programme entitles the employee to allotment of performance shares corresponding to 15–52.5 per cent of the cash base salary for the current financial year depending on group affiliation, provided that the employment remains for three years and that performance targets are reached. Performance shares are allotted after three years based on the achievement during the current financial year of eight equally weighted performance targets related to Saab's special projects within selected product areas. For the President and other members of the Group Management, the total allotment of shares in the new programme and the Performance Share Plan together amounts to a maximum of 75 per cent of the cash base salary for the President and 60 per cent of the cash base salary for the other members of the Group Management. According to the Annual General Meeting 2018 the programme comprises a maximum of 130,000 shares.

Number of matching and performance shares have been restated for the programs in accordance with the rights issue.

<sup>1)</sup> Adjusted for acquisitions and divestments as well as exchange rate differences.

<sup>2)</sup> Adjusted for acquisitions and divestments as well as non-recurring items.

<sup>3)</sup> Adjusted for acquisitions and divestments as well as non-recurring items.

**EVENTS 2018****2014 Share Matching Plan and Performance Share Plan**

In the Share Matching Plan, shares have been matched three times in 2018 and once in February 2019. After the end of the one-year performance period for the Performance Share Plan 2014, on 31 December 2015, it was determined that the targets had partly been achieved and the Board of Directors approved performance matching as follows. Performance matching took place three times in 2018 and once in February 2019.

| Performance Share Plan 2014  | Reported outcome | Outcome performance targets, % | Weighted, % | Allotment, % |
|------------------------------|------------------|--------------------------------|-------------|--------------|
| Organic sales growth         | 11%              | 73                             | 30          | 22           |
| EBIT margin <sup>1)</sup>    | 6.7%             | 60                             | 40          | 24           |
| Free cash flow <sup>2)</sup> | MSEK -807        | -                              | 30          | -            |
| <b>Total allotment</b>       |                  |                                |             | <b>46</b>    |

<sup>1)</sup> 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.

<sup>2)</sup> Previously named operating cash flow. Adjusted for acquisitions and divestments of operations, group and associated companies.

**2015 Share Matching Plan and Performance Share Plan**

In the Share Matching Plan, shares will be matched three times in 2019 and once in February 2020. After the end of the one-year performance period for the Performance Share Plan 2015, on 31 December 2016, it was determined that the targets had partly been achieved and the Board of Directors approved performance matching as follows. Performance matching will take place three times in 2019 and once 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           |
| <b>Total allotment</b>      |                  |                                |             | <b>56</b>    |

**2016 Share Matching Plan and Performance Share Plan**

In the Share Matching Plan, shares will be matched three times in 2020 and once in February 2021. After the end of the one-year performance period for the Performance Share Plan 2016, on 31 December 2017, it was determined that the targets had partly been achieved and the Board of Directors approved performance matching as follows. Performance matching will take place three times in 2020 and once in February 2021.

Note 9, cont.

| Performance Share Plan 2016 | Reported outcome | Outcome performance targets, % | Weighted, % | Allotment, % |
|-----------------------------|------------------|--------------------------------|-------------|--------------|
| Organic sales growth        | 10%              | 58                             | 30          | 17           |
| EBIT margin                 | 6.9%             | -                              | 40          | -            |
| Free cash flow              | MSEK 852         | 100                            | 30          | 30           |
| <b>Total allotment</b>      |                  |                                |             | <b>47</b>    |

**2017 Special Projects Incentive**

After the end of the one-year performance period for the Special Projects Incentive (SPI) 2017, on 31 December 2017, it was determined that seven of the eight performance targets had been met, resulting in an outcome of 87.5 per cent of the aggregate performance targets.

The eight performance targets in SPI 2017 were operating goals and milestones related to the product areas Gripen, AEW&C and submarines. The milestones consisted, for example, of various steps in a development project that were essential to its implementation. The targets were tied to among other things construction and design approvals in the Critical Design Reviews and Test Readiness Reviews. There were also performance targets tied to the physical delivery of key subsystems or maiden flight of a new platform. Due to the nature of the defence industry, further information on the individual performance targets cannot be provided.

Performances have been reviewed by Saab's internal audit and the external auditor, PwC.

The Board of Directors resolved to allot 87.5 per cent of the maximum allotment of performance shares in the plan. The performance shares in SPI 2017 will be delivered in May 2020. A total of 66,687 shares will be allotted in the programme.

**2018 Share Matching Plan, Performance Share Plan and Special Projects Incentive**

In the Share Matching Plan, shares will be matched three times in 2021 and once in February 2022.

After the end of the one-year performance period for the Performance Share Plan 2018, on 31 December 2018, it was determined that the targets had partly been achieved and the Board of Directors approved performance matching as follows. Performance matching will take place three times in 2021 and once in February 2022.

After the end of the one-year performance period for the Special Projects Incentive (SPI) 2018, on 31 December 2018, it was determined that all eight performance targets had been met. The eight performance targets in SPI 2018 were operating goals and milestones related to the product areas Gripen, AEW&C and submarines. The milestones consisted, for example, of various steps in a development project that were essential to its implementation and the long term contracts. The targets were tied to among other things construction and design approvals in the Critical Design Reviews and First Article Acceptance Test. There were also performance targets tied to the physical delivery of key subsystems or maiden flight of a new platform. Due to the nature of the defence industry, further information on the individual performance targets cannot be provided.

Performances have been reviewed by Saab's internal audit and the external auditor, PwC.

The Board of Directors resolved to allot 100 per cent of the maximum allotment of performance shares in the plan. The performance shares in SPI 2018 will be delivered in February 2021.

| Performance Share Plan 2018 | Reported outcome | Outcome performance targets, % | Weighted, % | Allotment, % |
|-----------------------------|------------------|--------------------------------|-------------|--------------|
| Organic sales growth        | 4%               | 68                             | 30          | 20           |
| EBIT margin                 | 7.7              | 77                             | 40          | 31           |
| Free cash flow              | -3,195           | 78                             | 30          | 24           |
| <b>Total allotment</b>      |                  |                                |             | <b>75</b>    |

**2019 Share Matching Plan, Performance Share Plan and Special Projects Incentive**

In April 2018, Saab's Annual General Meeting resolved as in previous years to offer employees the opportunity to participate in a Long-Term Incentive Programme, LTI 2019, consisting of a Share Matching Plan, a Performance Share Plan and a Special Projects Incentive with the same terms as previous programmes. Any performance shares in the Special Project Incentive 2019 will be allotted in February 2022. All the plans started in January 2019 and expire in February 2022. The performance period for the two performance related plans is the calendar year 2019.

**Number of Series B shares purchased and number of participants, Share Matching Plans, 2014–2018**

| Share Matching Plan | Number of shares | Number of participants |
|---------------------|------------------|------------------------|
| 2014                | 448,921          | 4,997                  |
| 2015                | 369,530          | 5,310                  |
| 2016                | 348,290          | 6,501                  |
| 2018                | 356,108          | 6,996                  |

**Number of Series B shares purchased and number of participants, Performance Share Plans, 2014–2018**

| Performance Share Plan | Number of shares | Number of participants |
|------------------------|------------------|------------------------|
| 2014                   | 48,935           | 145                    |
| 2015                   | 41,135           | 151                    |
| 2016                   | 35,168           | 155                    |
| 2018                   | 34,397           | 162                    |

| Share Matching Plan (number of shares in thousands)         | 2014      | 2015       | 2016       | 2018       | Total        |
|---|-----------|------------|------------|------------|--------------|
| Number of matching shares eligible at beginning of the year | 398       | 345        | 281        |            | 1,024        |
| Allotted during the year (purchased shares)                 |           |            | 61         | 356        | 417          |
| Early share matching  | -6        | -8         | -6         | -2         | -22          |
| Ordinary share matching                                     | -320      | -          | -          | -          | -320         |
| Forfeited   | -10       | -15        | -17        | -7         | -49          |
| Restatement due to the rights issue                         | 5         | 29         | 28         | 31         | 93           |
| <b>Number of matching shares eligible at year-end</b>       | <b>67</b> | <b>351</b> | <b>347</b> | <b>378</b> | <b>1,143</b> |
| Number of participants, 31-12-2018                          | 4,034     | 4,574      | 5,806      | 6,697      |              |
| % of total number of employees                              | 24        | 28         | 35         | 41         |              |
| Average remaining maturity, years                           | -         | 0,8        | 1,8        | 2,8        |              |



Note 9, cont.

**Performance Share Plan  
(number of shares in  
thousands)**

|   | 2014     | 2015      | 2016      | 2018      | Total      |
|---|----------|-----------|-----------|-----------|------------|
| Number of matching shares eligible at beginning of the year | 41       | 39        | 29        | -         | 109        |
| Allotted during the year (purchased shares)                 | -        | -         | 6         | 34        | 40         |
| Early share matching  | -1       | -3        | -2        | -         | -6         |
| Ordinary share matching                                     | -34      | -         | -         | -         | -34        |
| Forfeited   | -        | -1        | -1        | -         | -2         |
| Restatement due to the rights issue                         | -        | 3         | 3         | 3         | 9          |
| <b>Number of matching shares eligible at year-end</b>       | <b>6</b> | <b>38</b> | <b>35</b> | <b>37</b> | <b>116</b> |
| Number of participants, 31-12-2018                          | 123      | 142       | 154       | 160       |            |
| Average remaining maturity, years                           | -        | 0.8       | 1.8       | 2.8       |            |

**Total number of shares  
eligible at year-end  
(number of shares in  
thousands)**

|                                     | 2014      | 2015       | 2016       | 2018       | Total        |
|-------------------------------------|-----------|------------|------------|------------|--------------|
| Share Matching Plan                 | 67        | 351        | 347        | 378        | 1,143        |
| Performance Share Plan              | 6         | 38         | 35         | 37         | 116          |
| Less: Shares included in both plans | -6        | -38        | -35        | -37        | -116         |
| <b>Total</b>                        | <b>67</b> | <b>351</b> | <b>347</b> | <b>378</b> | <b>1,143</b> |

**Recognised expense for above-mentioned plans,  
including social security expenses, MSEK**

|                                 | 2018       | 2017       |
|---------------------------------|------------|------------|
| Share Matching Plan 2013        | -          | 34         |
| Share Matching Plan 2014        | 23         | 49         |
| Share Matching Plan 2015        | 47         | 48         |
| Share Matching Plan 2016        | 53         | 20         |
| Share Matching Plan 2018        | 21         | -          |
| Performance Share Plan 2013     | -          | 6          |
| Performance Share Plan 2014     | 6          | 7          |
| Performance Share Plan 2015     | 9          | 9          |
| Performance Share Plan 2016     | 7          | 3          |
| Performance Share Plan 2018     | 3          | -          |
| Special Projects Incentive 2017 | 10         | 7          |
| Special Projects Incentive 2018 | 12         | -          |
| <b>Total</b>                    | <b>191</b> | <b>183</b> |

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 5 (5) in 2018.

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 10 AUDITORS' FEES AND COMPENSATION**

|  | Group     |           | Parent Company |           |
|--|-----------|-----------|----------------|-----------|
| MSEK   | 2018      | 2017      | 2018           | 2017      |
| <b>PwC</b>                                   |           |           |                |           |
| Audit assignments                            | 22        | 20        | 11             | 11        |
| where of PwC Sweden                          | 14        | 14        |                |           |
| Audit work in excess of the audit assignment | 4         | 2         | 4              | 2         |
| where of PwC Sweden                          | 4         | 2         |                |           |
| Other services                               | 1         | 1         | 1              | 1         |
| where of PwC Sweden                          | 1         | 1         |                |           |
| <b>Other audit firms</b>                     |           |           |                |           |
| Audit assignments                            | 3         | 3         | -              | -         |
| <b>Total</b>                                 | <b>30</b> | <b>26</b> | <b>16</b>      | <b>14</b> |
| where of PwC Sweden                          | 19        | 17        |                |           |

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. For 2018, the external auditors' assignment as mandated by law amounted to a negligible sum.

Other services relate to expenses that are not classified as audit assignments, audit work in excess of the audit assignment and tax advice.

**NOTE 11 DEPRECIATION/AMORTISATION  
AND WRITE-DOWNS**

|                                    | Group       |             |
|------------------------------------|-------------|-------------|
| MSEK                               | 2018        | 2017        |
| <b>Depreciation/amortisation</b>   |             |             |
| Capitalised development costs      | -134        | -160        |
| Other intangible fixed assets      | -120        | -124        |
| Operating properties               | -95         | -92         |
| Plant and machinery                | -256        | -240        |
| Equipment, tools and installations | -261        | -223        |
| <b>Total</b>                       | <b>-866</b> | <b>-839</b> |

**Write-downs**

|                               |            |          |
|-------------------------------|------------|----------|
| Capitalised development costs | -50        | -        |
| <b>Total</b>                  | <b>-50</b> | <b>-</b> |

|                                    | Parent Company |             |
|------------------------------------|----------------|-------------|
| MSEK                               | 2018           | 2017        |
| <b>Depreciation/amortisation</b>   |                |             |
| Capitalised development costs      | -              | -56         |
| Goodwill                           | -40            | -40         |
| Other intangible fixed assets      | -72            | -75         |
| Buildings                          | -57            | -57         |
| Plant and machinery                | -146           | -134        |
| Equipment, tools and installations | -163           | -129        |
| <b>Total</b>                       | <b>-478</b>    | <b>-491</b> |

No write-downs were recognised in the parent company during 2018 or 2017.

## NOTE 12 FINANCIAL INCOME AND EXPENSES

| MSEK   | Group       |             |
|--|-------------|-------------|
|  | 2018        | 2017        |
| Interest income on loans receivable  | 55          | 49          |
| Financial income from revaluation and disposal of financial assets and liabilities measured at fair value through profit or loss   | 133         | 64          |
| Other financial income   | 5           | 8           |
| <b>Financial income</b>  | <b>193</b>  | <b>121</b>  |
| Interest expenses on loans and financial liabilities   | -151        | -149        |
| Financial expenses from revaluation and disposal of financial assets and liabilities measured at fair value through profit or loss | -394        | -           |
| Financial expenses related to pensions   | -67         | -69         |
| Other financial expenses   | -51         | -54         |
| <b>Financial expenses</b>  | <b>-663</b> | <b>-272</b> |
| <b>Net financial income and expenses</b>   | <b>-470</b> | <b>-151</b> |

| Parent Company                 | Result from shares in Group companies |            | Result from shares in associated companies/joint ventures |          |
|--------------------------------|---------------------------------------|------------|---|----------|
|                                | 2018                                  | 2017       | 2018  | 2017     |
| <b>MSEK</b>                    |                                       |            |   |          |
| Dividends                      | 88                                    | 73         | -   | -        |
| Group contributions received   | 849                                   | 470        | -   | -        |
| Capital gain on sale of shares | -                                     | -          | 51  | 6        |
| Write-downs                    | -                                     | -13        | -   | -        |
| Other                          | 4                                     | -5         | -   | -        |
| <b>Total</b>                   | <b>941</b>                            | <b>525</b> | <b>51</b>   | <b>6</b> |

| Parent Company   | Result from other securities and receivables held as fixed assets |           | Other interest income and similar profit/loss items |            |
|--|---|-----------|---|------------|
|  | 2018  | 2017      | 2018  | 2017       |
| <b>MSEK</b>  |   |           |   |            |
| Interest income, Group companies                                     | -   | -         | 95  | 82         |
| Other interest income  | -   | -         | 30  | 38         |
| Dividend   | -   | 5         | -   | -          |
| Translation differences  | 11  | 29        | -   | -          |
| Net change in value from revaluation of financial assets/liabilities | 153   | 21        | -   | -          |
| Write-downs of financial assets                                      | -5  | -         | -   | -          |
| Other  | -15   | -31       | -   | -          |
| <b>Total</b>   | <b>144</b>  | <b>24</b> | <b>125</b>  | <b>120</b> |

| Parent Company                     | Interest expenses and similar profit/loss items |             |
|------------------------------------|---|-------------|
|                                    | 2018  | 2017        |
| <b>MSEK</b>                        |   |             |
| Interest expenses, Group companies | -15   | -12         |
| Other interest expenses            | -36   | -144        |
| <b>Total</b>                       | <b>-51</b>                                      | <b>-156</b> |

## NOTE 13 APPROPRIATIONS

| MSEK   | Parent Company |            |
|--|----------------|------------|
|  | 2018           | 2017       |
| Plant and machinery as well as equipment, tools and installations            | -98            | -52        |
| Total difference between tax depreciation and depreciation according to plan | -98            | -52        |
| Tax allocation reserve   | -16            | 41         |
| <b>Total</b>   | <b>-114</b>    | <b>-11</b> |

## NOTE 14 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, for example 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. Adjustment is made for current tax attributable to previous periods.

Deferred tax is calculated according to the balance sheet method based on temporary differences. Temporary differences 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 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 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       |             |
|--|-------------|-------------|
|  | 2018        | 2017        |
| <b>Current tax expense (-)/tax income (+)</b>  |             |             |
| Taxes for the year   | -479        | -412        |
| Adjustment for taxes related to previous years   | 14          | 6           |
| <b>Total</b>   | <b>-465</b> | <b>-406</b> |
| <b>Deferred tax expense (-)/tax income (+)</b>   |             |             |
| Deferred tax related to temporary differences  | 78          | -99         |
| Deferred tax related to value of tax loss carry forwards capitalised during the year                   | 22          | 26          |
| Deferred tax expense due to utilisation of previously capitalised tax value in tax loss carry forwards | -77         | -108        |
| Deferred tax related to previous years   | -5          | -4          |
| Deferred tax related to changed tax rates  | 17          | -           |
| <b>Total</b>   | <b>35</b>   | <b>-185</b> |
| <b>Total recognised tax in the Group</b>   | <b>-430</b> | <b>-591</b> |

The Group's overall deferred tax amounted to MSEK 35 (-185) and current tax expense for the year amounted to MSEK -465 (-406), producing a total recognised tax of MSEK -430 (-591) in the consolidated income statement.

The table "Change in deferred tax in temporary differences and tax loss carry forwards" for the Group, on page 104, specifies how deferred tax affected income.

| MSEK  | Parent Company |             |
|---|----------------|-------------|
|   | 2018           | 2017        |
| <b>Current tax expense (-)/tax income (+)</b>     |                |             |
| Taxes for the year                                | -354           | -224        |
| Adjustment for taxes related to previous years    | 14             | 17          |
| <b>Total</b>                                      | <b>-340</b>    | <b>-207</b> |
| <b>Deferred tax expense (-)/tax income (+)</b>    |                |             |
| Deferred tax related to temporary differences     | 59             | -1          |
| Deferred tax related to changed tax rates         | -19            | -           |
| Deferred tax related to previous years            | -              | -8          |
| <b>Total</b>                                      | <b>40</b>      | <b>-9</b>   |
| <b>Total recognised tax in the Parent Company</b> | <b>-300</b>    | <b>-216</b> |

Note 14, 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 <sup>1)</sup> | Tax loss carry forwards | Other      | Total      | Tax set-off | Deferred tax assets/liabilities, net |
|--|-------------------------|-----------------------|-------------|-------------------------|------------------|-------------------------|-----------------------------------|-------------------------|------------|------------|-------------|--------------------------------------|
| <b>Closing balance 31 Dec 2016</b>         | <b>-409</b>             | <b>-474</b>           | <b>237</b>  | <b>768</b>              | <b>194</b>       | <b>-409</b>             | <b>-299</b>                       | <b>337</b>              | <b>277</b> | <b>222</b> |             | <b>222</b>                           |
| Effects of change in accounting principles |                         |                       |             |                         |                  |                         |                                   |                         | 53         | 53         |             | 53                                   |
| <b>Opening balance 1 Jan 2017</b>          | <b>-409</b>             | <b>-474</b>           | <b>237</b>  | <b>768</b>              | <b>194</b>       | <b>-409</b>             | <b>-299</b>                       | <b>337</b>              | <b>330</b> | <b>275</b> |             | <b>275</b>                           |
| Recognised in profit or loss               | -131                    | -12                   | -9          | 23                      | -9               | 8                       | 79                                | -82                     | -52        | -185       |             | -185                                 |
| Recognised in other comprehensive income   | -                       | -                     | -           | 43                      | -                | -                       | -                                 | -                       | -137       | -94        |             | -94                                  |
| Acquisition/divestment of operations       | -5                      | -4                    | -           | -                       | -                | -1                      | -                                 | -                       | -          | -10        |             | -10                                  |
| Translation differences                    | 3                       | 1                     | -6          | -1                      | -2               | -                       | -                                 | -14                     | -3         | -22        |             | -21                                  |
| <b>Closing balance 31 Dec 2017</b>         | <b>-542</b>             | <b>-489</b>           | <b>222</b>  | <b>833</b>              | <b>183</b>       | <b>-402</b>             | <b>-220</b>                       | <b>241</b>              | <b>138</b> | <b>-36</b> |             | <b>-36</b>                           |
| Of which, deferred tax assets              | 3                       | 13                    | 222         | 833                     | 184              | -                       | -                                 | 241                     | 302        | 1,798      | -1,560      | 238                                  |
| Of which, deferred tax liabilities         | -545                    | -502                  | -           | -                       | -1               | -402                    | -220                              | -                       | -164       | -1,834     | 1,560       | -274                                 |
| Effects of change in accounting principles |                         |                       |             |                         |                  |                         |                                   |                         | 1          | 1          |             | 1                                    |
| <b>Opening balance 1 Jan 2018</b>          | <b>-542</b>             | <b>-489</b>           | <b>222</b>  | <b>833</b>              | <b>183</b>       | <b>-402</b>             | <b>220</b>                        | <b>241</b>              | <b>139</b> | <b>-35</b> |             | <b>-35</b>                           |
| Recognised in profit or loss               | -163                    | -21                   | 37          | 6                       | 43               | -5                      | 113                               | -55                     | 80         | 35         |             | 35                                   |
| Recognised in other comprehensive income   | -                       | -                     | -           | 308                     | -                | -                       | -                                 | -                       | 42         | 350        |             | 350                                  |
| Acquisition/divestment of operations       | -3                      | 3                     | -           | -                       | -                | -                       | -                                 | -                       | -          | -          |             | -                                    |
| Translation differences                    | -3                      | 1                     | 6           | 1                       | 1                | -                       | -                                 | 11                      | -1         | 16         |             | 16                                   |
| <b>Closing balance 31 Dec 2018</b>         | <b>-711</b>             | <b>-506</b>           | <b>265</b>  | <b>1,148</b>            | <b>227</b>       | <b>-407</b>             | <b>-107</b>                       | <b>197</b>              | <b>260</b> | <b>366</b> |             | <b>366</b>                           |
| Of which, deferred tax assets              | 3                       | 9                     | 265         | 1,148                   | 228              | 1                       | -                                 | 197                     | 408        | 2,259      |             | 382                                  |
| Of which, deferred tax liabilities         | -714                    | -515                  | -           | -                       | -1               | -408                    | -107                              | -                       | -148       | -1,893     |             | -16                                  |

<sup>1)</sup> Attributable to Lansen Försäkrings AB.

The Group's total deferred tax income/expense in the 2018 income statement amounted to MSEK 35 (-185). The Group's total deferred tax income/expense in the statement of comprehensive income amounted to MSEK 350 (-94). The closing balance on 31 December 2018, MSEK 366 (-36), consisted of deferred tax assets of MSEK 382 (238) and tax liabilities of MSEK -16 (-274).

The net change in the year's tax loss carry forwards, excluding acquisition/divestment of operations and translation differences, amounted to MSEK -55 (-82), which

is the amount of deferred tax on capitalised tax value in tax loss carry forwards, MSEK 22 (26), and deferred tax expense due to utilisation of previously capitalised tax value in tax loss carry forwards, MSEK 77 (-108).

Other numbers in the "Recognised in profit or loss" row in the table above amounted to MSEK 90 (-103), which is the amount of deferred tax related to temporary differences and deferred tax attributable to previous years.

Note 14, cont.

## Reconciliation of effective tax

| MSEK   | Group        |             |              |             |
|--|--------------|-------------|--------------|-------------|
|  | 2018 (%)     | 2018        | 2017 (%)     | 2017        |
| Income before taxes  | -            | 1,796       | -            | 2,099       |
| Tax according to current tax rate for the Parent Company                 | -22.0        | -395        | -22.0        | -462        |
| Effect of other tax rates for foreign operations                         | 0.2          | 4           | -0.7         | -14         |
| Effect on changed tax rate   | 0.9          | 17          | -3.8         | -80         |
| Non-deductible expenses  | -2.9         | -51         | -2.0         | -43         |
| Tax-exempt income  | 1.7          | 30          | 1.4          | 30          |
| Revaluation of deferred tax assets                                       | -0.4         | -7          | -1.0         | -20         |
| Tax on utilisation of previously non-capitalised tax loss carry forwards | -2.2         | -40         | -            | -           |
| Tax related to previous years  | 0.5          | 9           | 0.1          | 2           |
| Other  | 0.2          | 3           | -0.2         | -4          |
| <b>Reported effective tax</b>  | <b>-24.0</b> | <b>-430</b> | <b>-28.2</b> | <b>-591</b> |

Capital gains/losses from sale of Group companies, associated companies and other shares have affected tax-exempt income by MSEK 31 (0).

Current and deferred taxes amounted to MSEK -430 (-591), equivalent to an effective tax rate of 24 per cent (28). The announced corporate tax cut in Sweden led to a lower tax rate due to the restatement of deferred taxes.

| MSEK   | Parent Company |             |              |             |
|--|----------------|-------------|--------------|-------------|
|  | 2018 (%)       | 2018        | 2017 (%)     | 2017        |
| Income before taxes                                      | -              | 1,375       | -            | 863         |
| Tax according to current tax rate for the Parent Company | -22.0          | -303        | -22.0        | -189        |
| Effect on changed tax rate                               | -1.4           | -19         | -            | -           |
| Tax allocated to foreign operations                      | 0.2            | 3           | -2.0         | -17         |
| Non-deductible expenses                                  | -2.5           | -35         | -5.1         | -44         |
| Tax-exempt income  | 2.9            | 40          | 3.0          | 26          |
| Tax related to previous years                            | 1.0            | 14          | 0.9          | 8           |
| <b>Reported effective tax</b>                            | <b>-21.8</b>   | <b>-300</b> | <b>-25.1</b> | <b>-216</b> |

## Tax items recognised directly against other comprehensive income

| MSEK                    | Group      |            |
|-------------------------|------------|------------|
|                         | 2018       | 2017       |
| Provisions for pensions | 308        | 43         |
| Cash flow hedges        | 42         | -137       |
| <b>Total</b>            | <b>350</b> | <b>-94</b> |

## Expiration of recognised and unrecognised tax loss carry forwards in the Group

| MSEK                                 | Recognised tax loss carry forwards | Unrecognised tax loss carry forwards |
|--------------------------------------|------------------------------------|--------------------------------------|
| Expiration                           |                                    |                                      |
| Unlimited expiration                 | 588                                | 322                                  |
| 2024                                 | 27                                 | -                                    |
| 2031                                 | 106                                | -                                    |
| 2032                                 | 5                                  | -                                    |
| 2034                                 | 146                                | -                                    |
| <b>Total tax loss carry forwards</b> | <b>872</b>                         | <b>322</b>                           |
| <b>Recognised deferred tax asset</b> | <b>197</b>                         | <b>-</b>                             |

Tax loss carry forwards attributable to the US operations can be utilised through 2034, but expire in part as of 2031.

At the close of 2018, the Saab Group's unrecognised tax loss carry forwards amounted to MSEK 322 (153).

| Parent Company MSEK                  | Deferred tax assets 31-12-2018 | Deferred tax liabilities 31-12-2018 | Net        |
|--------------------------------------|--------------------------------|-------------------------------------|------------|
| Tangible fixed assets                | -                              | -209                                | -209       |
| Inventories                          | 98                             | -                                   | 98         |
| Accounts receivable                  | 7                              | -                                   | 7          |
| Provisions for pensions              | 118                            | -                                   | 118        |
| Other provisions                     | 85                             | -                                   | 85         |
| Long-term liabilities                | 2                              | -                                   | 2          |
| Accrued expenses and deferred income | 47                             | -                                   | 47         |
| <b>Tax assets/liabilities, total</b> | <b>357</b>                     | <b>-209</b>                         | <b>148</b> |
| Set-off                              | -209                           | -209                                | -          |
| <b>Tax assets/liabilities, net</b>   | <b>148</b>                     | <b>-</b>                            | <b>148</b> |

| Parent Company MSEK                  | Deferred tax assets 31-12-2017 | Deferred tax liabilities 31-12-2017 | Net        |
|--------------------------------------|--------------------------------|-------------------------------------|------------|
| Tangible fixed assets                | -                              | -218                                | -218       |
| Inventories                          | 98                             | -                                   | 98         |
| Accounts receivable                  | 3                              | -                                   | 3          |
| Provisions for pensions              | 124                            | -                                   | 124        |
| Other provisions                     | 52                             | -                                   | 52         |
| Long-term liabilities                | 2                              | -                                   | 2          |
| Accrued expenses and deferred income | 45                             | -                                   | 45         |
| <b>Tax assets/liabilities, total</b> | <b>324</b>                     | <b>-218</b>                         | <b>106</b> |
| Set-off                              | -218                           | 218                                 | -          |
| <b>Tax assets/liabilities, net</b>   | <b>106</b>                     | <b>-</b>                            | <b>106</b> |

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 | 167   | 85             |
| Deferred tax assets expected to be recovered after one year  | 2,092 | 272            |

## Estimated utilisation dates of recognised deferred tax liabilities

| MSEK   | Group | Parent Company |
|--|-------|----------------|
| Deferred tax liabilities due for payment within one year | 114   | 25             |
| Deferred tax liabilities due for payment after one year  | 1,779 | 184            |

## NOTE 15 EARNINGS PER SHARE

|  | 2018    | 2017    |
|--|---------|---------|
| Net income for the year attributable to Parent Company's shareholders (MSEK) | 1,313   | 1,477   |
| Weighted average number of common shares outstanding:                        |         |         |
| before dilution (thousands)  | 116,468 | 115,445 |
| after dilution (thousands)   | 117,145 | 116,310 |
| Earnings per share, before dilution (SEK)                                    | 11,27   | 12,79   |
| Earnings per share, after dilution (SEK)                                     | 11,21   | 12,70   |

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.

The number of shares outstanding during the period, as in 2017, has been adjusted in accordance with IAS 33, Earnings per share, consistent with the terms of the rights issue.

## NOTE 16 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 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 over a maximum period of 10 years. 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, capitalised development costs 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 |            |
|-------------------------------|--------------|--------------|----------------|------------|
|                               | 31-12-2018   | 31-12-2017   | 31-12-2018     | 31-12-2017 |
| Goodwill                      | 5,310        | 5,177        | 293            | 333        |
| Capitalised development costs | 3,328        | 2,360        | -              | -          |
| Other intangible assets       | 419          | 325          | 324            | 209        |
| <b>Total</b>                  | <b>9,057</b> | <b>7,862</b> | <b>617</b>     | <b>542</b> |

#### Goodwill

| MSEK                                | Group        |              | Parent Company |             |
|-------------------------------------|--------------|--------------|----------------|-------------|
|                                     | 2018         | 2017         | 2018           | 2017        |
| <b>Acquisition value</b>            |              |              |                |             |
| Opening balance, 1 January          | 5,874        | 5,893        | 784            | 784         |
| Business combinations               | 34           | 75           | -              | -           |
| Translation differences             | 99           | -94          | -              | -           |
| <b>Closing balance, 31 December</b> | <b>6,007</b> | <b>5,874</b> | <b>784</b>     | <b>784</b>  |
| <b>Amortisation and write-downs</b> |              |              |                |             |
| Opening balance, 1 January          | -697         | -697         | -451           | -411        |
| Amortisation for the year           | -            | -            | -40            | -40         |
| <b>Closing balance, 31 December</b> | <b>-697</b>  | <b>-697</b>  | <b>-491</b>    | <b>-451</b> |
| <b>Carrying amount, 31 December</b> | <b>5,310</b> | <b>5,177</b> | <b>293</b>     | <b>333</b>  |

Acquisitions through business combinations 2018 relates to C-leanship A/S.

Acquisitions through business combinations 2017 relates to Applied Composites AB, Muskövarvet AB and N. Sundin Dockstavarvet AB.

#### Capitalised development costs

| MSEK                                | Group         |               | Parent Company |               |
|-------------------------------------|---------------|---------------|----------------|---------------|
|                                     | 2018          | 2017          | 2018           | 2017          |
| <b>Acquisition value</b>            |               |               |                |               |
| Opening balance, 1 January          | 7,916         | 7,202         | 2,000          | 2,010         |
| Internally developed assets         | 1,140         | 871           | -              | -             |
| Disposals and reclassifications     | 8             | -140          | -              | -10           |
| Translation differences             | 20            | -17           | -              | -             |
| <b>Closing balance, 31 December</b> | <b>9,084</b>  | <b>7,916</b>  | <b>2,000</b>   | <b>2,000</b>  |
| <b>Amortisation and write-downs</b> |               |               |                |               |
| Opening balance, 1 January          | -5,556        | -5,550        | -2,000         | -1,954        |
| Amortisation for the year           | -134          | -160          | -              | -56           |
| Write-downs for the year            | -50           | -             | -              | -             |
| Disposals and reclassifications     | -             | 140           | -              | 10            |
| Translation differences             | -16           | 14            | -              | -             |
| <b>Closing balance, 31 December</b> | <b>-5,756</b> | <b>-5,556</b> | <b>-2,000</b>  | <b>-2,000</b> |
| <b>Carrying amount, 31 December</b> | <b>3,328</b>  | <b>2,360</b>  | <b>-</b>       | <b>-</b>      |



Note 16, cont.

**Other intangible assets**

| MSEK                                | Group         |               | Parent Company |               |
|-------------------------------------|---------------|---------------|----------------|---------------|
|                                     | 2018          | 2017          | 2018           | 2017          |
| <b>Acquisition value</b>            |               |               |                |               |
| Opening balance, 1 January          | 2,117         | 1,975         | 1,562          | 1,408         |
| Business combinations               | 22            | 19            | -              | -             |
| Investments                         | 198           | 193           | 186            | 170           |
| Disposals and reclassifications     | -77           | -53           | -18            | -16           |
| Translation differences             | 16            | -17           | -              | -             |
| <b>Closing balance, 31 December</b> | <b>2,276</b>  | <b>2,117</b>  | <b>1,730</b>   | <b>1,562</b>  |
| <b>Amortisation and write-downs</b> |               |               |                |               |
| Opening balance, 1 January          | -1,792        | -1,729        | -1,353         | -1,292        |
| Amortisation for the year           | -120          | -124          | -72            | -75           |
| Business combinations               | -8            | -             | -              | -             |
| Disposals and reclassifications     | 77            | 47            | 19             | 14            |
| Translation differences             | -14           | 14            | -              | -             |
| <b>Closing balance, 31 December</b> | <b>-1,857</b> | <b>-1,792</b> | <b>-1,406</b>  | <b>-1,353</b> |
| <b>Carrying amount, 31 December</b> | <b>419</b>    | <b>325</b>    | <b>324</b>     | <b>209</b>    |

Acquisitions through business combinations 2018 relates to C-leanship A/S. Acquisitions through business combinations 2017 relates to Muskövarvet AB and N. Sundin Dockstavarvet AB.

**Amortisation is included in the following lines in the income statement**

| MSEK                           | Group |      | Parent Company |      |
|--------------------------------|-------|------|----------------|------|
|                                | 2018  | 2017 | 2018           | 2017 |
| Cost of goods sold             | 120   | 123  | 112            | 115  |
| Marketing expenses             | -     | 1    | -              | -    |
| Research and development costs | 184   | 160  | -              | 56   |

**Development expenditures**

The total capitalisation largely relates to development projects for the GlobalEye Airborne Early Warning & Control system and an export version of Gripen.

Development expenditures are capitalised only in the consolidated accounts. In legal entities, all development expenditures are expensed. Capitalisation of development expenditures in the Parent Company relates to acquired development expenditures.

**Other intangible fixed assets**

Of the carrying amount, MSEK 419, MSEK 358 is attributable to licenses for operating systems etc and MSEK 61 is attributable to acquired values which relate to expenses incurred for customer relations, trademarks, patents and values in the order backlog.

**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, however, it is considered that there are no significant synergy effects between the business units, impairment testing is therefore 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                             | 31-12-2018   | 31-12-2017   |
|----------------------------------|--------------|--------------|
| Dynamics                         | 674          | 671          |
| Surveillance                     | 3,112        | 3,583        |
| Support and Services             | 330          | 330          |
| Industrial Products and Services | 896          | 330          |
| Kockums                          | 264          | 263          |
| Corporate                        | 34           | -            |
| <b>Total goodwill</b>            | <b>5,310</b> | <b>5,177</b> |

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 the 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.

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 2018 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 17 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.

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 |              |
|---|--------------|--------------|----------------|--------------|
|   | 31-12-2018   | 31-12-2017   | 31-12-2018     | 31-12-2017   |
| Operating properties/buildings and land <sup>1)</sup> | 2,051        | 2,059        | 1,420          | 1,456        |
| Plant and machinery                                   | 1,854        | 1,595        | 925            | 818          |
| Equipment, tools and installations                    | 1,000        | 805          | 648            | 474          |
| Construction in progress                              | 1,224        | 852          | 716            | 480          |
| <b>Total</b>  | <b>6,129</b> | <b>5,311</b> | <b>3,709</b>   | <b>3,228</b> |

<sup>1)</sup> 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 land<sup>1)</sup>

| MSEK                                | Group         |               | Parent Company |               |
|-------------------------------------|---------------|---------------|----------------|---------------|
|                                     | 2018          | 2017          | 2018           | 2017          |
| <b>Acquisition value</b>            |               |               |                |               |
| Opening balance, 1 January          | 5,057         | 4,958         | 2,140          | 2,088         |
| Business combinations               | -             | 55            | -              | -             |
| Investments                         | 123           | 66            | 30             | 41            |
| Reclassifications                   | 6             | -             | -5             | 11            |
| Divestments                         | -40           | -5            | -4             | -             |
| Translation differences             | -1            | -17           | -              | -             |
| <b>Closing balance, 31 December</b> | <b>5,145</b>  | <b>5,057</b>  | <b>2,161</b>   | <b>2,140</b>  |
| <b>Depreciation and write-downs</b> |               |               |                |               |
| Opening balance, 1 January          | -2,998        | -2,874        | -1,581         | -1,518        |
| Depreciation for the year           | -95           | -92           | -57            | -57           |
| Business combinations               | -             | -35           | -              | -             |
| Divestments and Reclassifications   | 8             | 2             | -              | -6            |
| Translation differences             | -9            | 1             | -              | -             |
| <b>Closing balance, 31 December</b> | <b>-3,094</b> | <b>-2,998</b> | <b>-1,638</b>  | <b>-1,581</b> |
| <b>Revaluations</b>                 |               |               |                |               |
| Opening balance, 1 January          | -             | -             | 897            | 897           |
| <b>Closing balance, 31 December</b> | <b>-</b>      | <b>-</b>      | <b>897</b>     | <b>897</b>    |
| <b>Carrying amount, 31 December</b> | <b>2,051</b>  | <b>2,059</b>  | <b>1,420</b>   | <b>1,456</b>  |

<sup>1)</sup> In the Group, the reported amount refers to operating properties. In the Parent Company, the reported amount refers to buildings and land.

Acquisitions through business combinations 2017 relates to Applied Composites AB, Muskövarvet AB and N. Sundin Dockstavarvet AB.

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 72. The property is depreciated on a straight-line basis over its period of use through 2025.

Total future minimum lease fees amount to MSEK 92, of which MSEK 13 is due within one year, MSEK 52 after one year but within five years, and MSEK 27 after five years. The present value of future minimum lease fees is MSEK 81.

Note 17, cont.

**Plant and machinery**

| MSEK                                | Group         |               | Parent Company |               |
|-------------------------------------|---------------|---------------|----------------|---------------|
|                                     | 2018          | 2017          | 2018           | 2017          |
| <b>Acquisition value</b>            |               |               |                |               |
| Opening balance, 1 January          | 5,103         | 4,835         | 2,866          | 2,686         |
| Business combinations               | -             | 66            | -              | -             |
| Investments                         | 516           | 403           | 250            | 295           |
| Reclassifications                   | -13           | -2            | 5              | -11           |
| Divestments                         | -61           | -132          | -43            | -104          |
| Translation differences             | 44            | -67           | -              | -             |
| <b>Closing balance, 31 December</b> | <b>5,589</b>  | <b>5,103</b>  | <b>3,078</b>   | <b>2,866</b>  |
| <b>Depreciation and write-downs</b> |               |               |                |               |
| Opening balance, 1 January          | -3,508        | -3,365        | -2,048         | -1,991        |
| Depreciation for the year           | -256          | -240          | -146           | -134          |
| Business combinations               | -             | -61           | -              | -             |
| Reclassifications                   | 12            | 1             | -              | -             |
| Divestments                         | 58            | 97            | 41             | 77            |
| Translation differences             | -41           | 60            | -              | -             |
| <b>Closing balance, 31 December</b> | <b>-3,735</b> | <b>-3,508</b> | <b>-2,153</b>  | <b>-2,048</b> |
| <b>Carrying amount, 31 December</b> | <b>1,854</b>  | <b>1,595</b>  | <b>925</b>     | <b>818</b>    |

Acquisitions through business combinations 2017 relates to Applied Composites AB and N. Sundin Dockstavarvet AB.

Plant and machinery includes an aircraft that is leased through a finance lease. The finance lease extends through 2020. The carrying amount is MSEK 369. The aircraft is depreciated on a straight-line basis over its period of use.

Total future minimum lease payments amount to MSEK 436, of which MSEK 42 is due within one year and MSEK 395 is due later than one year but within five years.

The present value of the future minimum lease fees amounts to MSEK 381.

**Equipment, tools and installations**

| MSEK                                | Group         |               | Parent Company |              |
|-------------------------------------|---------------|---------------|----------------|--------------|
|                                     | 2018          | 2017          | 2018           | 2017         |
| <b>Acquisition value</b>            |               |               |                |              |
| Opening balance, 1 January          | 2,442         | 2,158         | 1,469          | 1,313        |
| Business combinations               | 20            | 57            | -              | -            |
| Investments                         | 458           | 336           | 342            | 208          |
| Reclassifications                   | 10            | -2            | -1             | -            |
| Divestments                         | -159          | -93           | -63            | -52          |
| Translation differences             | 8             | -14           | -              | -            |
| <b>Closing balance, 31 December</b> | <b>2,779</b>  | <b>2,442</b>  | <b>1,747</b>   | <b>1,469</b> |
| <b>Depreciation and write-downs</b> |               |               |                |              |
| Opening balance, 1 January          | -1,637        | -1,484        | -955           | -917         |
| Depreciation for the year           | -261          | -223          | -163           | -129         |
| Business combinations               | -11           | -27           | -              | -            |
| Divestments                         | 144           | 90            | 59             | 51           |
| Reclassifications                   | -15           | -             | -              | -            |
| Translation differences             | 1             | 7             | -              | -            |
| <b>Closing balance, 31 December</b> | <b>-1,779</b> | <b>-1,637</b> | <b>-1,099</b>  | <b>-995</b>  |
| <b>Carrying amount, 31 December</b> | <b>1,000</b>  | <b>805</b>    | <b>648</b>     | <b>474</b>   |

Acquisitions through business combinations 2018 relates to C-leanship A/S.

Acquisitions through business combinations 2017 relates to Applied Composites AB, Muskövarvet AB and N. Sundin Dockstavarvet AB.

**Construction in progress**

| MSEK                                | Group        |            | Parent Company |            |
|-------------------------------------|--------------|------------|----------------|------------|
|                                     | 2018         | 2017       | 2018           | 2017       |
| <b>Acquisition value</b>            |              |            |                |            |
| Opening balance, 1 January          | 852          | 623        | 480            | 475        |
| Investments                         | 384          | 228        | 236            | 5          |
| Divestments                         | -9           | -          | -              | -          |
| Translation differences             | -3           | 1          | -              | -          |
| <b>Carrying amount, 31 December</b> | <b>1,224</b> | <b>852</b> | <b>716</b>     | <b>480</b> |

Investments in construction in progress refer to a net of new investments and reclassifications to other asset classes.

**Collateral**

On 31 December 2018 property with a carrying amount of MSEK 0 (0) was pledged as collateral for bank loans.

**NOTE 18** 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      |            |
|-------------------------------------|------------|------------|
|                                     | 2018       | 2017       |
| <b>Living forest</b>                |            |            |
| Carrying amount, 1 January          | 352        | 291        |
| Investments                         | -          | 61         |
| Change in fair value                | 13         | 13         |
| Less fair value logging             | -16        | -13        |
| <b>Carrying amount, 31 December</b> | <b>349</b> | <b>352</b> |
| Of which fixed assets               | 349        | 352        |

On 31 December 2018, biological assets consisted of approximately 383,000 m<sup>3</sup>sk of spruce, 740,000 m<sup>3</sup>sk of pine and 91,000 m<sup>3</sup>sk of hardwood. Forest growth is estimated at 45,000 m<sup>3</sup>sk per year. During the year, approximately 43,000 m<sup>3</sup>sk of timber was felled, which had a fair value in the Group, after deduction of selling expenses, of MSEK 16 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 19** 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<br>MSEK                          | Group      |            |
|--|------------|------------|
|  | 2018       | 2017       |
| Carrying amount, 1 January   | 700        | 788        |
| Acquisition of associated companies and joint ventures                   | 18         | 3          |
| Sales of associated companies and joint ventures                         | -50        | -          |
| Share in income of associated companies and joint ventures <sup>1)</sup> | -14        | -39        |
| New share issues/infusion of capital                                     | 10         | 12         |
| Repayment of contributed capital   | -3         | -20        |
| Adjustment against receivable  | 5          | 9          |
| Translation differences and internal gains                               | 19         | -27        |
| Dividends  | -39        | -26        |
| <b>Carrying amount, 31 December</b>                                      | <b>646</b> | <b>700</b> |

<sup>1)</sup> 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 2018, Saab acquired Robowaste AB, an associated company.

Aggregate net income for Saab's associated companies amounted to MSEK -46 (-130) and other comprehensive income/loss to MSEK 47 (-62), producing net comprehensive income/loss of MSEK 1 (-192).

For Saab's joint ventures, net income amounted to MSEK 27 (13) and other comprehensive income/loss to MSEK 12 (-17), producing net comprehensive income/loss of MSEK 39 (-4).

Saab's share in income of associated companies and joint ventures amounts to MSEK -14 (-39). Shares in associated companies and joint ventures as of 31 December 2018 include goodwill of MSEK 114 (141).

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 19, cont.

| 2018, MSEK   | Country      | Sales        | Income     | Assets       | Liabilities  | Equity       | Ownership interest, % <sup>1)</sup> | Share in income of associated companies and joint ventures | Carrying amount, shares in associated companies and joint ventures |
|--|--------------|--------------|------------|--------------|--------------|--------------|-------------------------------------|--|--|
| <b>Associated companies</b>                                  |              |              |            |              |              |              |                                     |  |  |
| Akaer Participações S.A.                                     | Brazil       | 163          | -55        | 469          | 191          | 278          | 28.2                                | -15  | 78   |
| AVIA SATCOM Co., Ltd   | Thailand     | 39           | -          | 453          | 48           | 405          | 25.1                                | -  | 102  |
| FFV Services Private Limited                                 | India        | 48           | 4          | 157          | 21           | 136          | 49.0                                | 2  | 67   |
| S.N. Technologies SA   | Switzerland  | 91           | 23         | 89           | 17           | 72           | 50.0                                | 11   | 36   |
| Taurus Systems GmbH  | Germany      | 348          | 53         | 1,014        | 921          | 93           | 33.0                                | 18   | 31   |
| UMS Skeldar AG   | Switzerland  | 18           | -99        | 534          | 417          | 117          | 47.0                                | -46  | 55   |
| Wah Nobel (Pvt) Ltd  | Pakistan     | 279          | 62         | 351          | 66           | 285          | 27.0                                | 17   | 77   |
| Other associated companies, mainly in the ventures portfolio |              | 591          | -34        | 609          | 388          | 221          |                                     | -15  | 70   |
| <b>Total associated companies</b>                            |              | <b>1,577</b> | <b>-46</b> | <b>3,676</b> | <b>2,069</b> | <b>1,607</b> |                                     | <b>-28</b>   | <b>516</b>   |
| <b>Joint ventures</b>  |              |              |            |              |              |              |                                     |  |  |
| Fortis Marine Solutions Pte Ltd                              | Singapore    | -            | 26         | -            | -            | -            | 49.0                                | 13   | 1  |
| Järfälla-Veddesta Holdings AB                                | Sweden       | -            | -          | 704          | 704          | -            | 35.0                                | -  | -  |
| Saab Grintek Technologies Ltd                                | South Africa | 305          | -          | 108          | 40           | 68           | 70.0                                | -  | 47   |
| Vricon Inc.  | USA          | 184          | 1          | 206          | 41           | 165          | 50.0                                | 1  | 82   |
| <b>Total joint ventures</b>                                  |              | <b>489</b>   | <b>27</b>  | <b>1,018</b> | <b>785</b>   | <b>233</b>   |                                     | <b>14</b>  | <b>130</b>   |
| <b>Total</b>   |              | <b>2,066</b> | <b>-19</b> | <b>4,694</b> | <b>2,854</b> | <b>1,840</b> |                                     | <b>-14</b>   | <b>646</b>   |

<sup>1)</sup> The ownership interest of each holding represents both ownership and voting rights.

| 2017, MSEK   | Country      | Sales        | Income      | Assets       | Liabilities  | Equity       | Ownership interest, % <sup>1)</sup> | Share in income of associated companies and joint ventures | Carrying amount, shares in associated companies and joint ventures |
|--|--------------|--------------|-------------|--------------|--------------|--------------|-------------------------------------|--|--|
| <b>Associated companies</b>                                  |              |              |             |              |              |              |                                     |  |  |
| Akaer Participações S.A.                                     | Brazil       | 115          | -23         | 530          | 197          | 333          | 25.0                                | -6   | 83   |
| AVIA SATCOM Co., Ltd   | Thailand     | 89           | -           | 447          | 70           | 377          | 36.6                                | -  | 138  |
| FFV Services Private Limited                                 | India        | 93           | 41          | 134          | 2            | 132          | 49.0                                | 20   | 65   |
| S.N. Technologies SA   | Switzerland  | 48           | 3           | 53           | 4            | 49           | 50.0                                | 2  | 25   |
| Taurus Systems GmbH  | Germany      | 2,204        | 15          | 1,810        | 1,771        | 39           | 33.0                                | 5  | 13   |
| UMS Skeldar AG   | Switzerland  | 11           | -92         | 314          | 112          | 202          | 47.0                                | -43  | 95   |
| Wah Nobel (Pvt) Ltd  | Pakistan     | 146          | 24          | 263          | 34           | 229          | 27.2                                | 7  | 62   |
| Other associated companies, mainly in the ventures portfolio |              | 523          | -98         | 651          | 457          | 194          |                                     | -30  | 67   |
| <b>Total associated companies</b>                            |              | <b>3,229</b> | <b>-130</b> | <b>4,202</b> | <b>2,647</b> | <b>1,555</b> |                                     | <b>-45</b>   | <b>548</b>   |
| <b>Joint ventures</b>  |              |              |             |              |              |              |                                     |  |  |
| Fortis Marine Solutions Pte Ltd                              | Singapore    | -            | -           | 73           | 25           | 48           | 49.0                                | -  | 24   |
| Gripen International KB                                      | Sweden       | -            | 13          | 5            | -            | 5            | 50.0                                | 6  | 2  |
| Järfälla-Veddesta Holdings AB                                | Sweden       | -            | -           | 705          | 705          | -            | 35.0                                | -  | -  |
| Saab Grintek Technologies Ltd                                | South Africa | 350          | -           | 160          | 87           | 73           | 70.0                                | -  | 51   |
| Vricon Inc.  | USA          | 119          | -           | 263          | 114          | 149          | 50.0                                | -  | 75   |
| <b>Total joint ventures</b>                                  |              | <b>469</b>   | <b>13</b>   | <b>1,206</b> | <b>931</b>   | <b>275</b>   |                                     | <b>6</b>   | <b>152</b>   |
| <b>Total</b>   |              | <b>3,698</b> | <b>-117</b> | <b>5,408</b> | <b>3,578</b> | <b>1,830</b> |                                     | <b>-39</b>   | <b>700</b>   |

<sup>1)</sup> The ownership interest of each holding represents both ownership and voting rights.



## NOTE 20 PARENT COMPANY'S SHARES IN ASSOCIATED COMPANIES AND JOINT VENTURES

| MSEK  | Parent Company |            |
|---|----------------|------------|
|   | 2018           | 2017       |
| <b>Accumulated acquisition value</b>                  |                |            |
| Opening balance, 1 January                            | 369            | 398        |
| Acquisitions  | 24             | 9          |
| Divestments   | -25            | -          |
| Dividends   | -2             | -44        |
| Shares from net income for the year in joint ventures | -              | 6          |
| <b>Closing balance, 31 December</b>                   | <b>366</b>     | <b>369</b> |
| <b>Carrying amount, 31 December</b>                   | <b>366</b>     | <b>369</b> |

Specification of Parent Company's (co-owner's) directly owned holdings of shares in associated companies and joint ventures

| 2018<br>MSEK  | % of votes<br>and capital | Carrying<br>amount |
|---|---------------------------|--------------------|
| <b>Associated companies</b>                           |                           |                    |
| Akaer Participações S.A., Brazil                      | 28.2                      | 113                |
| Kedtech Holding AB, 556945-3748, Stockholm            | 23.0                      | 23                 |
| Skill Scandinavia AB, 5560605478, Linköping           | 33.0                      | 2                  |
| AVIA SATCOM Co Ltd, Thailand                          | 25.1                      | 54                 |
| Aerostructures Assemblies India Pvt Ltd               | 50.0/26.0                 | 6                  |
| UMS Skeldar AG, CHE-113.226.140, Switzerland          | 47.0                      | 56                 |
| Combient AB, 556985-1560, Järfälla                    | 24.9                      | 29                 |
| <b>Joint ventures</b>                                 |                           |                    |
| Vricon Inc., USA                                      | 50.0                      | 83                 |
| Järfälla-Veddesta Holdings AB, 559025-4024, Linköping | 35.0                      | -                  |
| Industrigruppen JAS AB, 556147-5921, Stockholm        | 80.0                      | -                  |
| <b>Total</b>  |                           | <b>366</b>         |

| 2017<br>MSEK  | % of votes<br>and capital | Carrying<br>amount |
|---|---------------------------|--------------------|
| <b>Associated companies</b>                           |                           |                    |
| Akaer Participações S.A., Brazil                      | 25.0                      | 97                 |
| Kedtech Holding AB, 556945-3748, Stockholm            | 23.0                      | 23                 |
| Skill Scandinavia AB, 5560605478, Linköping           | 33.0                      | 2                  |
| AVIA SATCOM Co Ltd, Thailand                          | 36.6                      | 78                 |
| Aerostructures Assemblies India Pvt Ltd               | 50.0/26.0                 | 6                  |
| UMS Skeldar AG, CHE-113.226.140, Switzerland          | 47.0                      | 56                 |
| Combient AB, 556985-1560, Järfälla                    | 24.9                      | 22                 |
| <b>Joint ventures</b>                                 |                           |                    |
| Vricon Inc., USA                                      | 50.0                      | 83                 |
| Järfälla-Veddesta Holdings AB, 559025-4024, Linköping | 35.0                      | -                  |
| Gripen International KB, 969679-8231, Linköping       | 50.0                      | 2                  |
| Industrigruppen JAS AB, 556147-5921, Stockholm        | 80.0                      | -                  |
| <b>Total</b>  |                           | <b>369</b>         |

## NOTE 21 RECEIVABLES FROM GROUP COMPANIES

| Parent Company<br>MSEK               | Long-term receivables<br>from Group companies |           | Long-term receivables<br>from associated<br>companies and<br>joint ventures |            |
|--------------------------------------|---|-----------|---|------------|
|                                      | 2018  | 2017      | 2018  | 2017       |
| <b>Accumulated acquisition value</b> |   |           |   |            |
| Opening balance, 1 January           | 81  | 50        | 370   | 311        |
| Adjusted opening balance IFRS 9      | -   | -         | -6  | -          |
| Settled receivables                  | -24   | -         | -60   | -          |
| Additional receivables               | 11  | 31        | 76  | 67         |
| Translation differences              | -   | -         | 11  | -8         |
| <b>Closing balance, 31 December</b>  | <b>68</b>                                     | <b>81</b> | <b>391</b>  | <b>370</b> |

## NOTE 22 FINANCIAL INVESTMENTS

| MSEK  | Group        |              |
|---|--------------|--------------|
|   | 31-12-2018   | 31-12-2017   |
| <b>Financial investments held as fixed assets</b>               |              |              |
| Financial assets measured at fair value through profit or loss: |              |              |
| Shares and participations                                       | 27           | 26           |
| <b>Total</b>  | <b>27</b>    | <b>26</b>    |
| <b>Short-term investments held as current assets</b>            |              |              |
| Financial assets measured at fair value through profit or loss: |              |              |
| Interest-bearing securities                                     | 9,003        | 4,469        |
| <b>Total</b>  | <b>9,003</b> | <b>4,469</b> |

## NOTE 23 OTHER LONG-TERM SECURITIES HOLDINGS

| MSEK                                 | Parent Company |            |
|--------------------------------------|----------------|------------|
|                                      | 2018           | 2017       |
| <b>Accumulated acquisition value</b> |                |            |
| Opening balance, 1 January           | 40             | 40         |
| Acquisitions                         | 3              | -          |
| Divestments                          | -1             | -          |
| <b>Closing balance, 31 December</b>  | <b>42</b>      | <b>40</b>  |
| <b>Accumulated write-downs</b>       |                |            |
| Opening balance, 1 January           | -17            | -17        |
| <b>Closing balance, 31 December</b>  | <b>-17</b>     | <b>-17</b> |
| <b>Carrying amount, 31 December</b>  | <b>25</b>      | <b>23</b>  |

Acquisition in 2018 refers to AMEXCI AB.  
Divestment in 2018 refers to liquidation of PortWise AB.

## NOTE 24 LONG-TERM RECEIVABLES AND OTHER RECEIVABLES

| MSEK  | Group      |            |
|---|------------|------------|
|   | 31-12-2018 | 31-12-2017 |
| <b>Long-term receivables held as fixed assets</b>       |            |            |
| Receivables from associated companies, interest-bearing | 226        | 172        |
| Receivables from joint ventures, interest-bearing       | 223        | 282        |
| Receivables attributable to pensions, interest-bearing  | 6          | 40         |
| Other non interest-bearing receivables                  | 99         | 168        |
| <b>Total</b>  | <b>554</b> | <b>662</b> |

| MSEK                               | Parent Company |            |
|------------------------------------|----------------|------------|
|                                    | 31-12-2018     | 31-12-2017 |
| <b>Other long-term receivables</b> |                |            |
| Non interest-bearing receivables   | 18             | 19         |
| <b>Total</b>                       | <b>18</b>      | <b>19</b>  |

| MSEK  | Parent Company |            |
|---|----------------|------------|
|   | 31-12-2018     | 31-12-2017 |
| <b>Other receivables held as current assets</b> |                |            |
| Non interest-bearing receivables                | 409            | 397        |
| <b>Total</b>                                    | <b>409</b>     | <b>397</b> |

| MSEK                                 | Parent Company |           |
|--------------------------------------|----------------|-----------|
|                                      | 2018           | 2017      |
| <b>Long-term receivables</b>         |                |           |
| <b>Accumulated acquisition value</b> |                |           |
| Opening balance, 1 January           | 19             | 7         |
| Additional receivables               | -              | 15        |
| Settled receivables                  | -1             | -3        |
| <b>Closing balance, 31 December</b>  | <b>18</b>      | <b>19</b> |

## NOTE 25 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        |              |
|-------------------------------------|--------------|--------------|
|                                     | 31-12-2018   | 31-12-2017   |
| Raw materials and consumables       | 3,778        | 3,249        |
| Work in progress                    | 4,346        | 3,806        |
| Finished goods and goods for resale | 1,152        | 1,192        |
| <b>Total</b>                        | <b>9,276</b> | <b>8,247</b> |

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 2018, the National Debt Office has paid out MSEK 263 (263). The debt as of 31 December 2018 amounted to MSEK 130 (132), which reduced inventory in the financial statements.

The Group's cost of goods sold includes inventory write-downs of MSEK 169 (82). The reversal of previous write-downs amounted to MSEK 46 (38).

| MSEK                                | Parent Company |              |
|-------------------------------------|----------------|--------------|
|                                     | 31-12-2018     | 31-12-2017   |
| Raw materials and consumables       | 2,146          | 1,987        |
| Work in progress                    | 3,052          | 2,573        |
| Finished goods and goods for resale | 913            | 949          |
| Advance payments to suppliers       | 48             | 72           |
| <b>Total</b>                        | <b>6,159</b>   | <b>5,581</b> |

Cost of goods sold for the Parent Company includes inventory write-downs of MSEK 159 (82) after the reversal of previous write-downs of MSEK 44 (34).

## NOTE 26 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.

Starting 1 January 2018, the Group applies IFRS 9's revised principles for provisions and write-downs of credit losses. The previously applied model, which was based on incurred credit losses, has been replaced by a model based on expected credit losses.

Impairment losses on accounts receivable from defence-related operations are tested based on expected credit losses due to defaults within the coming twelve months. These tests are done individually by counterparty.

Impairment losses on accounts receivable from commercial operations are tested based on a probability-weighted outcome for expected credit losses. The calculation is based on incurred customer losses in the last ten financial years, from which a worst-case scenario, default scenario and best-case scenario have been calculated. The default scenario has been calculated using the average of established credit customer losses during these ten years. The other two scenarios have been calculated based on historical information as well as forward-looking information such as future confidence and economic forecasts. Each scenario has been assigned a probability, where the default scenario is weighted 80 per cent in the calculation and the other two scenarios 10 per cent each.

Contract assets recognised in the balance sheet for work to be billed have essentially the same risk characteristics as work already billed for the same type of contract. The Group therefore applies the same assessment for expected credit losses in contract assets as for account receivables.

Impairment of accounts receivable is 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 accounts receivable are reduced by the proceeds received.

The Group's outstanding accounts receivable amounted to MSEK 5,199 (4,342) as of 31 December 2018. Saab has an established programme to sell trade receivables to strengthen its financial position and increase financial flexibility. The programme has not been utilised since 31 December 2016. Saab's aim is to utilise this programme in situations where greater financial flexibility is needed.

Defence-related sales accounted for 85 per cent (84) 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 58 per cent (54) 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 41 (27) as of 31 December 2018, corresponding to 0.8 per cent (0.6) of total accounts receivable.

Accounts receivable in the Parent Company amounted to MSEK 2,250 (1,907). During the year, receivables were written down by MSEK 17 (7). Reversals of previous write-downs amounted to MSEK 3 (0).

### Write-downs of accounts receivable

| MSEK                              | Group      |            |
|-----------------------------------|------------|------------|
|                                   | 2018       | 2017       |
| Write-downs, 1 January            | -27        | -14        |
| Write-downs for calculated losses | -23        | -14        |
| Reversal of previous write-downs  | 9          | 1          |
| Actual credit losses              | -          | -          |
| Translation differences           | -          | -          |
| <b>Write-downs, 31 December</b>   | <b>-41</b> | <b>-27</b> |

### Age analysis of the Group's overdue receivables

| MSEK                               | Group        |              |
|------------------------------------|--------------|--------------|
|                                    | 31-12-2018   | 31-12-2017   |
| <30 days                           | 772          | 366          |
| 30 to 90 days                      | 107          | 198          |
| 91 to 180 days                     | 80           | 110          |
| >181 days                          | 462          | 407          |
| <b>Accounts receivable overdue</b> | <b>1,421</b> | <b>1,081</b> |
| Accounts receivable not overdue    | 3,778        | 3,261        |
| <b>Total accounts receivable</b>   | <b>5,199</b> | <b>4,342</b> |

## NOTE 27 PREPAID EXPENSES AND ACCRUED INCOME

| MSEK   | Group      |            | Parent Company |              |
|--|------------|------------|----------------|--------------|
|  | 31-12-2018 | 31-12-2017 | 31-12-2018     | 31-12-2017   |
| Prepaid expenses   | 802        | 585        | 708            | 468          |
| Capitalised changes in value related to forward contract rollovers | -          | -          | 1,149          | 543          |
| Other accrued income   | 117        | 315        | 196            | 147          |
| <b>Total</b>   | <b>919</b> | <b>900</b> | <b>2,053</b>   | <b>1,158</b> |

Prepaid expenses primarily relate to pension premiums, rents, licenses and insurance.

## NOTE 28 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        |              |
|---|--------------|--------------|
|   | 31-12-2018   | 31-12-2017   |
| Cash and bank balances                                    | 1,300        | 1,463        |
| Bank deposits   | 1,151        | 739          |
| <b>Total according to statement of financial position</b> | <b>2,451</b> | <b>2,202</b> |
| <b>Total according to statement of cash flows</b>         | <b>2,451</b> | <b>2,202</b> |

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 43 (42) at year-end. With regard to the Group's other loan facilities, refer to notes 31 and 36.

## NOTE 29 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 2018 | Number of shares   | Number of shares, % | Number of votes, % |
|--|--------------------|---------------------|--------------------|
| Series A shares                        | 2,383,903          | 1.8%                | 15.4%              |
| Series B shares                        | 131,098,977        | 98.2%               | 84.6%              |
| <b>Total</b>                           | <b>133,482,880</b> | <b>100.0%</b>       | <b>100.0%</b>      |

| Outstanding shares at 31 December 2017 | Number of shares   | Number of shares, % | Number of votes, % |
|--|--------------------|---------------------|--------------------|
| Series A shares                        | 1,907,123          | 1.8%                | 15.4%              |
| Series B shares                        | 104,916,659        | 98.2%               | 84.6%              |
| <b>Total</b>                           | <b>106,823,782</b> | <b>100.0%</b>       | <b>100.0%</b>      |

| Change in number of outstanding shares 2018        | Series A         | Series B           | Total              |
|--|------------------|--------------------|--------------------|
| Number of outstanding shares at 1 January          | 1,907,123        | 104,916,659        | 106,823,782        |
| Repurchase of shares                               | -                | -500,000           | -500,000           |
| Early share matching                               | -                | 23,140             | 23,140             |
| Ordinary share matching                            | -                | 440,455            | 440,455            |
| Rights issue                                       | 476,780          | 26,218,723         | 26,695,503         |
| <b>Number of outstanding shares at 31 December</b> | <b>2,383,903</b> | <b>131,098,977</b> | <b>133,482,880</b> |

In 2018, 500,000 Series B shares were repurchased on the market to secure Saab's Share Matching Plans and Performance Share Plans. During the year, 463,595 shares were matched in Saab's Share Matching Plan. Transferred shares correspond to 0.3 per cent of the share capital. The completed rights issue during the year has increased total number of shares with 26,695,503 shares allocated to 476,780 series A shares and 26,218,723 series B shares.

A total of 2,363,299 shares are held in treasury.

Note 29, cont.

The dividend to shareholders amounted to MSEK 588 (559), or SEK 5.50 (5.25) per share.

#### Proposed disposition of earnings 2018

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                                     | 4,216,961,639         |
| Share premium reserve                                 | 5,557,130,127         |
| Net income for the year                               | 1,075,469,016         |
| <b>Total</b>  | <b>10,849,560,782</b> |
| be disposed as follows:                               |                       |
| To the shareholders, a dividend of SEK 4.50 per share | 600,672,960           |
| To share premium reserve                              | 5,557,130,127         |
| Funds to be carried forward                           | 4,691,757,695         |
| <b>Total</b>  | <b>10,849,560,782</b> |

#### 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 447 (270). Of the translation reserve MSEK 5 (15) 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 in 2018.

#### 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

##### Share premium reserve

Amounts exceeding the quota value per share received in connection with the rights issue. The amount is available for distribution to the shareholders.

##### 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 30 INTEREST-BEARING LIABILITIES

| MSEK   | Group        |              |
|--|--------------|--------------|
|  | 31-12-2018   | 31-12-2017   |
| <b>Long-term liabilities</b>                           |              |              |
| Liabilities to credit institutions                     | 7,773        | 5,798        |
| Other interest-bearing liabilities                     | 423          | 437          |
| <b>Total</b>   | <b>8,196</b> | <b>6,235</b> |
| <b>Current liabilities</b>                             |              |              |
| Liabilities to credit institutions                     | 986          | -            |
| Liabilities to associated companies and joint ventures | 43           | 45           |
| Other interest-bearing liabilities                     | 39           | 47           |
| <b>Total</b>   | <b>1,068</b> | <b>92</b>    |
| <b>Total interest-bearing liabilities</b>              | <b>9,264</b> | <b>6,327</b> |

#### Terms and repayment schedules

Collateral for bank loans amounts to MSEK 0 (0). Of the long-term liabilities, MSEK 6,270 (5,684) falls due between one and five years of the closing day and MSEK 1,926 (551) 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 36.

The fair value of MTNs and Schuldschein loans exceeds book value by MSEK 173 (85). Saab otherwise considers that there is no significant difference between book and fair value.

## NOTE 31 LIABILITIES TO CREDIT INSTITUTIONS

| MSEK  | Parent company |              |
|---|----------------|--------------|
|   | 31-12-2018     | 31-12-2017   |
| <b>Current liabilities</b>  |                |              |
| Overdraft facilities: Available credit/limit                          | 30             | 28           |
| Short-term portion of bank loans: Unutilised portion                  | -30            | -28          |
| <b>Utilised credit amount</b>   | <b>-</b>       | <b>-</b>     |
| Credit facilities: Commercial paper                                   | 5,000          | 5,000        |
| Unutilised portion of commercial paper                                | -5,000         | -5,000       |
| <b>Utilised credit amount</b>   | <b>-</b>       | <b>-</b>     |
| Credit facility: Medium Term Notes (MTN)                              | 986            | -            |
| <b>Total</b>  | <b>986</b>     | <b>-</b>     |
| <b>Long-term liabilities</b>  |                |              |
| Credit facilities: Available credit/limit (revolving credit facility) | 6,000          | 6,000        |
| Unutilised portion of revolving credit facility                       | -6,000         | -6,000       |
| <b>Utilised credit amount</b>   | <b>-</b>       | <b>-</b>     |
| Credit facility: Medium Term Notes (MTN)                              | 6,745          | 4,812        |
| Credit facility: Schuldschein (SSD)                                   | 1,027          | 985          |
| Premium/Discount  | -              | 1            |
| <b>Total</b>  | <b>7,772</b>   | <b>5,798</b> |
| <b>Total liabilities to credit institutions</b>                       | <b>8,758</b>   | <b>5,798</b> |

Since 2009, Saab has a Medium Term Note programme (MTN) to enable the issuance of long-term loans on the capital market. During the first quarter 2018, the MTN programme was increased from MSEK 6,000 to MSEK 10,000.

Under the terms of this programme, Saab has issued fixed rate bonds as well as Floating Rate Notes (FRN). After partly repurchased two loans and at the same time issued two new loans in September 2018, no new activities has been made. During December loans where maturing to an amount of MSEK 210. As a result, outstanding loans under the MTN programme totalled MSEK 7,731. In December 2015, Saab signed Schuldschein loan agreements amounting to MEUR 100.

## NOTE 32 POST-EMPLOYMENT BENEFITS

The Saab Group's post-employment benefits refer 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 92 per cent (92) 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 6,051 (6,098) as of 31 December 2018, compared to an obligation of MSEK 9,939 (8,572), calculated according to IAS 19, which means that the solvency margin amounted to 61 per cent (71).

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 2018, Alecta's surplus in the form of the collective funding ratio was 161 per cent (154).

#### 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 2018 amounted to MSEK 1 (0).

#### 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

| 31-12-2018  | Group        |          |             |              |
|---|--------------|----------|-------------|--------------|
| MSEK  | Sweden       | USA      | Switzerland | Total        |
| <b>Wholly or partially funded obligations</b>   |              |          |             |              |
| Present value of defined-benefit obligations  | 10,195       | 327      | 230         | 10,752       |
| Fair value of assets under management   | -6,098       | -319     | -236        | -6,653       |
| <b>Present value of net obligation</b>  | <b>4,097</b> | <b>8</b> | <b>-6</b>   | <b>4,099</b> |
| Share funded  | 60%          | 98%      | 103%        | 62%          |
| Average duration of pension obligation  | 19           | 14       | 16          |              |
| <b>The net amount and the special employer's contribution is reported in the following items in the statement of financial position</b> |              |          |             |              |
| Provisions for pensions (excluding special employer's contribution)   | 4,097        | 8        | -           | 4,105        |
| Provisions for pensions (related to special employer's contribution)  | 1,008        | -        | -           | 1,008        |
| Long-term receivables   | -            | -        | 6           | 6            |

| 31-12-2017  | Group        |            |             |              |
|---|--------------|------------|-------------|--------------|
| MSEK  | Sweden       | USA        | Switzerland | Total        |
| <b>Wholly or partially funded obligations</b>   |              |            |             |              |
| Present value of defined-benefit obligations  | 8,830        | 320        | 191         | 9,341        |
| Fair value of assets under management   | -6,144       | -354       | -197        | -6,695       |
| <b>Present value of net obligation</b>  | <b>2,686</b> | <b>-34</b> | <b>-6</b>   | <b>2,646</b> |
| Share funded  | 70%          | 111%       | 103%        | 72%          |
| Average duration of pension obligation  | 18           | 14         | 16          |              |
| <b>The net amount and the special employer's contribution is reported in the following items in the statement of financial position</b> |              |            |             |              |
| Provisions for pensions (excluding special employer's contribution)   | 2,686        | -          | -           | 2,686        |
| Provisions for pensions (related to special employer's contribution)  | 738          | -          | -           | 738          |
| Long-term receivables   | -            | 34         | 6           | 40           |



Note 32, cont.

**Cost reported in the income statement**

| 2018<br>MSEK   | Group      |           |             |              |
|--|------------|-----------|-------------|--------------|
|  | Sweden     | USA       | Switzerland | Total        |
| Current service costs  | 266        | 14        | 6           | 286          |
| Net interest expense   | 68         | -1        | -           | 67           |
| <b>Cost of defined-benefit plans in the income statement</b> | <b>334</b> | <b>13</b> | <b>6</b>    | <b>353</b>   |
| Cost of defined-contribution plans                           |            |           |             | 830          |
| Special employer's contribution                              |            |           |             | 252          |
| <b>Total cost of post-employment benefits</b>                |            |           |             | <b>1,435</b> |

| 2017<br>MSEK   | Group      |           |             |              |
|--|------------|-----------|-------------|--------------|
|  | Sweden     | USA       | Switzerland | Total        |
| Current service costs  | 259        | 14        | 6           | 279          |
| Net interest expense   | 71         | -2        | -           | 69           |
| <b>Cost of defined-benefit plans in the income statement</b> | <b>330</b> | <b>12</b> | <b>6</b>    | <b>348</b>   |
| Cost of defined-contribution plans                           |            |           |             | 725          |
| Special employer's contribution                              |            |           |             | 259          |
| <b>Total cost of post-employment benefits</b>                |            |           |             | <b>1,332</b> |

**Items included in the statement of cash flow**

| 2018<br>MSEK                               | Group       |           |             |             |
|--|-------------|-----------|-------------|-------------|
|  | Sweden      | USA       | Switzerland | Total       |
| Deposits to pension fund and other funding | -122        | -1        | -5          | -128        |
| Payments                                   | -271        | -53       | 9           | -315        |
| Withdrawals                                | 120         | 53        | -9          | 164         |
| <b>Total impact on cash flow</b>           | <b>-273</b> | <b>-1</b> | <b>-5</b>   | <b>-279</b> |

| 2017<br>MSEK                               | Group       |          |             |             |
|--|-------------|----------|-------------|-------------|
|  | Sweden      | USA      | Switzerland | Total       |
| Deposits to pension fund and other funding | -3          | -        | -7          | -10         |
| Payments                                   | -274        | -5       | -5          | -284        |
| Withdrawals                                | -           | 5        | 5           | 10          |
| <b>Total impact on cash flow</b>           | <b>-277</b> | <b>-</b> | <b>-7</b>   | <b>-284</b> |

Estimated payments during 2019 amount to approximately MSEK 315.

Actuarial gains and losses are reported in other comprehensive income. Actuarial losses related to pensions amounted to MSEK 1 383 in 2018 primarily due to the following.

The return on assets under management was lower than expected, which produced an actuarial loss of MSEK 221.

The actuarial loss on pension obligations amounted to MSEK 1,162, of which MSEK 908 related to 25 basis points lower discount rate and 25 basis points higher inflation assumptions. Remaining actuarial loss of MSEK 254 relate to experience adjustments. Changes in demographic assumptions have not had a significant effect. The actuarial loss related to special employer's contribution amounted to MSEK 328 in 2018.

**Changes in net obligation for defined-benefit plans reported in the statement of financial position**

| MSEK   | Group        |              |
|--|--------------|--------------|
|  | 2018         | 2017         |
| Net obligation for defined-benefit plans, 1 January          | 2,646        | 2,424        |
| Compensation paid  | -315         | -284         |
| Deposits to pension fund and other funding                   | -128         | -10          |
| Cost reported in the income statement                        | 353          | 348          |
| Income (-) /cost (+) reported in other comprehensive income  | 1,383        | 152          |
| Settlement/translation differences                           | -4           | 6            |
| Withdrawals from pension funds                               | 164          | 10           |
| <b>Net obligation for defined-benefit plans, 31 December</b> | <b>4,099</b> | <b>2,646</b> |

**Change in pension obligation**

| MSEK                            | Group         |              |
|---------------------------------|---------------|--------------|
|                                 | 2018          | 2017         |
| Fair value, 1 January           | 9,341         | 8,608        |
| Benefits vested during the year | 285           | 278          |
| Benefits vested previous years  | -             | -            |
| Interest expense                | 233           | 237          |
| Pension disbursements           | -315          | -284         |
| Settlement                      | 1             | -8           |
| Actuarial gain (-)/loss (+)     | 1,162         | 552          |
| Translation differences         | 45            | -42          |
| <b>Fair value, 31 December</b>  | <b>10,752</b> | <b>9,341</b> |

**Change in assets under management**

| MSEK                           | Group        |              |
|--------------------------------|--------------|--------------|
|                                | 2018         | 2017         |
| Fair value, 1 January          | 6,695        | 6,184        |
| Financial income               | 167          | 170          |
| Withdrawals                    | -164         | -10          |
| Settlement                     | -            | -12          |
| Contributions                  | 128          | 10           |
| Actuarial gain (+)/loss (-)    | -221         | 400          |
| Translation differences        | 48           | -47          |
| <b>Fair value, 31 December</b> | <b>6,653</b> | <b>6,695</b> |

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%    | -483                 |
|               | -0.25%   | 518                  |
| Inflation     | 0.25%    | 502                  |
|               | -0.25%   | -470                 |
| Salaries      | 0.25%    | 111                  |
|               | -0.25%   | -106                 |
| Life span     | + 1 year | 436                  |

Note 32, cont.

**Return on assets under management**

| MSEK   | Group       |            |
|--|-------------|------------|
|  | 2018        | 2017       |
| Actual return on assets under management                             | -54         | 570        |
| Financial income on assets under management                          | -167        | -170       |
| <b>Actuarial result from assets under management during the year</b> | <b>-221</b> | <b>400</b> |

**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. Treasury Operations 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      |                                     |            |                                     |
|-------------------------|------------|-------------------------------------|------------|-------------------------------------|
|                         | 2018       | of which listed on an active market | 2017       | of which listed on an active market |
| Interest-bearing assets | 37         | 100                                 | 39         | 100                                 |
| Share-related assets    | 33         | 100                                 | 36         | 100                                 |
| Hedge funds             | 11         | -                                   | 9          | -                                   |
| Property                | 19         | -                                   | 14         | -                                   |
| Liquid assets           | -          | -                                   | 2          | -                                   |
| <b>Total assets</b>     | <b>100</b> | <b>70</b>                           | <b>100</b> | <b>75</b>                           |

**Assumptions for defined-benefit obligations**

| Per cent   | Group |      |      |      |      |
|--|-------|------|------|------|------|
|  | 2018  | 2017 | 2016 | 2015 | 2014 |
| <b>Significant actuarial assumptions as of closing day (expressed as weighted averages)<sup>1)</sup></b> |       |      |      |      |      |
| Discount rate, 31 December   | 2.25  | 2.50 | 2.75 | 3.25 | 2.50 |
| Future salary increase   | 3.00  | 2.75 | 2.75 | 2.75 | 2.50 |
| Future increase in pensions  | 2.00  | 1.75 | 1.75 | 1.75 | 1.50 |
| Employee turnover  | 3.00  | 3.00 | 3.00 | 3.00 | 3.00 |

<sup>1)</sup> 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 has been based on Swedish covered mortgage bonds (AAA), taking into account the duration of all cash flows.

A nominal government bond whose duration corresponds to the average duration of the pension obligation is used as a basis. A premium is then added equal to the difference between the interest rate on a mortgage bond and a nominal government bond with similar maturities. The same discount rate has been used for all future disbursements.

**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 2 per cent, rendering a future salary increase of 3 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 2018, the assumption is 2 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  | 31-12-2018 | 31-12-2017 |
|---|------------|------------|
| Pension obligations ITP 2                         | 4,455      | 4,278      |
| Less funds secured in pension fund                | -4,455     | -4,278     |
| <b>Total ITP 2 and the book reserve method</b>    | <b>-</b>   | <b>-</b>   |
| Other pensions                                    | 97         | 91         |
| Other provisions for pensions                     | 145        | 161        |
| <b>Total</b>                                      | <b>242</b> | <b>252</b> |
| Of which credit guarantees in PRI Pensionsgaranti | 38         | 44         |

| MSEK  | 2018 | 2017 |
|---|------|------|
| Amount related to pension obligations ITP 2 expected to be settled within 12 months | 197  | 190  |

**NOTE 33 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.

**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.

**Onerous contracts**

A provision for an onerous contract is recognised when anticipated benefits are less than the unavoidable costs to fulfill 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.

Note 33, cont.

**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.

**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.

|  | Group        |              |
|--|--------------|--------------|
| MSEK   | 31-12-2018   | 31-12-2017   |
| <b>Provisions that are long-term liabilities</b> |              |              |
| Incremental costs for industrial cooperations    | 567          | 497          |
| Onerous contracts                                | 39           | 81           |
| Guarantees                                       | 56           | 60           |
| Expenditures for restructuring measures          | 42           | 9            |
| Other  | 377          | 377          |
| <b>Total</b>                                     | <b>1,081</b> | <b>1,024</b> |

|  |            |            |
|--|------------|------------|
| <b>Provisions that are current liabilities</b> |            |            |
| Incremental costs for industrial cooperations  | 15         | 10         |
| Onerous contracts                              | 168        | 183        |
| Guarantees                                     | 97         | 114        |
| Expenditures for restructuring measures        | 146        | 18         |
| Other  | 190        | 158        |
| <b>Total</b>                                   | <b>616</b> | <b>483</b> |

|   | Parent Company |            |
|---|----------------|------------|
| MSEK  | 31-12-2018     | 31-12-2017 |
| Incremental costs for industrial cooperations | 567            | 497        |
| Onerous contracts                             | 92             | 133        |
| Guarantees                                    | 76             | 89         |
| Expenditures for restructuring measures       | 186            | 20         |
| Other   | 164            | 98         |
| <b>Total</b>                                  | <b>1,085</b>   | <b>837</b> |

**Incremental costs for industrial cooperations**

| MSEK                                     | Group      | Parent Company |
|--|------------|----------------|
| Opening balance, 1 January 2018          | 507        | 497            |
| Provisions allocated during the year     | 201        | 196            |
| Amount utilised during the year          | -126       | -126           |
| <b>Closing balance, 31 December 2018</b> | <b>582</b> | <b>567</b>     |

**Onerous contracts**

| MSEK                                     | Group      | Parent Company |
|--|------------|----------------|
| Opening balance, 1 January 2018          | 264        | 133            |
| Provisions allocated during the year     | 189        | 88             |
| Amount utilised during the year          | -217       | -134           |
| Reversal of unutilised amount            | 4          | 5              |
| Reclassification                         | -34        | -              |
| Translation differences and other        | 1          | -              |
| <b>Closing balance, 31 December 2018</b> | <b>207</b> | <b>92</b>      |

**Guarantees**

| MSEK                                     | Group      | Parent Company |
|--|------------|----------------|
| Opening balance, 1 January 2018          | 174        | 89             |
| Provisions allocated during the year     | 58         | 18             |
| Amount utilised during the year          | -67        | -25            |
| Reversal of unutilised amount            | -4         | -2             |
| Reclassification                         | -8         | -4             |
| <b>Closing balance, 31 December 2018</b> | <b>153</b> | <b>76</b>      |

**Expenditures for restructuring measures**

| MSEK                                     | Group      | Parent Company |
|--|------------|----------------|
| Opening balance, 1 January 2018          | 27         | 20             |
| Provisions allocated during the year     | 248        | 248            |
| Amount utilised during the year          | -82        | -82            |
| Reversal of unutilised amount            | -4         | -              |
| Reclassification                         | -1         | -              |
| <b>Closing balance, 31 December 2018</b> | <b>188</b> | <b>186</b>     |

**Other provisions**

| MSEK                                     | Group      | Parent Company |
|--|------------|----------------|
| Opening balance, 1 January 2018          | 540        | 98             |
| Provisions allocated during the year     | 118        | 6              |
| Amount utilised during the year          | -122       | -15            |
| Reversal of unutilised amount            | -3         | -1             |
| Reclassification                         | 38         | 76             |
| Translation differences and other        | -4         | -              |
| <b>Closing balance, 31 December 2018</b> | <b>567</b> | <b>164</b>     |

**Total provisions**

| MSEK                                     | Group        | Parent Company |
|--|--------------|----------------|
| Opening balance, 1 January 2018          | 1,512        | 837            |
| Provisions allocated during the year     | 814          | 556            |
| Amount utilised during the year          | -614         | -382           |
| Reversal of unutilised amount            | -7           | 2              |
| Reclassification                         | -5           | 72             |
| Translation differences and other        | -3           | -              |
| <b>Closing balance, 31 December 2018</b> | <b>1,697</b> | <b>1,085</b>   |

**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.

Provision for incremental costs for industrial cooperations relates to costs to meet future obligations for industrial cooperations in accordance with these contracts. The expenditure is expected to occur during the term of the projects but also after the delivery of goods and services under the contracts in accordance with the contract and the regulation for industrial cooperation.

**Restructuring**

Structural costs primarily relate to costs to adapt resources and transformation costs. The expenditure is expected to occur 2019.

**Onerous contracts**

Provisions for onerous contracts on the closing day relate to certain military projects.

The provisions are utilised in pace with the project's completion.

**Other provisions**

Other provisions primarily relate to provisions for remaining costs in projects, for environmental commitments as well as for royalty.

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 34** OTHER LIABILITIES

| MSEK  | Group      |            |
|---|------------|------------|
|   | 31-12-2018 | 31-12-2017 |
| <b>Other long-term liabilities</b>  |            |            |
| Liabilities to previous owners and minority owners                          | 83         | 123        |
| Liabilities related to employees  | 50         | 52         |
| Other   | 57         | 35         |
| <b>Total</b>  | <b>190</b> | <b>210</b> |
| Of which liabilities due for payment more than five years after closing day | 112        | 159        |
| <b>Other current liabilities</b>  |            |            |
| Value-added tax   | 271        | 316        |
| Employee withholding taxes  | 274        | 265        |
| Liabilities to associated companies and joint ventures                      | 4          | 20         |
| Other   | 221        | 204        |
| <b>Total</b>  | <b>770</b> | <b>805</b> |

| MSEK  | Parent Company |            |
|---|----------------|------------|
|   | 31-12-2018     | 31-12-2017 |
| Value-added tax   | 83             | 181        |
| Employee withholding taxes  | 169            | 161        |
| Other   | 355            | 218        |
| <b>Total</b>  | <b>607</b>     | <b>560</b> |
| Of which liabilities due for payment more than five years after closing day | 13             | 13         |

Saab considers that there is no significant difference between book and fair value.

**NOTE 35** ACCRUED EXPENSES AND DEFERRED INCOME

| MSEK   | Group        |              | Parent Company |              |
|--|--------------|--------------|----------------|--------------|
|  | 31-12-2018   | 31-12-2017   | 31-12-2018     | 31-12-2017   |
| <b>Accrued expenses</b>  |              |              |                |              |
| Accrued project costs  | 2,049        | 1,459        | 1,127          | 527          |
| Vacation pay liability   | 1,160        | 1,126        | 780            | 760          |
| Social security expenses   | 749          | 775          | 604            | 614          |
| Expected invoices  | 436          | 407          | 275            | 263          |
| Personnel liabilities  | 286          | 301          | 178            | 206          |
| Royalties and commissions  | 26           | 31           | 21             | 27           |
| Claims reserve   | 17           | 90           | -              | 1            |
| Other  | 159          | 128          | 67             | 61           |
| <b>Total accrued expenses</b>                                      | <b>4,882</b> | <b>4,317</b> | <b>3,052</b>   | <b>2,459</b> |
| <b>Deferred income</b>   |              |              |                |              |
| Capitalised changes in value related to forward contract rollovers | -            | -            | 326            | 231          |
| Other  | 215          | 166          | 77             | 65           |
| <b>Total deferred income</b>                                       | <b>215</b>   | <b>166</b>   | <b>403</b>     | <b>296</b>   |
| <b>Total</b>   | <b>5,097</b> | <b>4,483</b> | <b>3,455</b>   | <b>2,755</b> |

Saab considers that there is no significant difference between book and fair value.

**NOTE 36** 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 and to a limited extent trading. Risks are managed through various portfolios and are 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 limited 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 amortised cost:**

Financial assets in this category are assets that are held to collect contractual cash flows that consist of principal and interest, such as liquid assets, accounts receivable, loans receivable, other receivables and contract assets in accordance with IFRS 15.

Interest income is recognised as financial interest income by applying the effective interest method. Gains and losses that arise upon derecognition from the balance sheet are recognised directly in profit or loss together with FX effects.

Financial liabilities in this category refer to interest-bearing liabilities, accounts payable and other liabilities that are initially recognised at fair value, which corre-

Note 36, cont.

sponds to the amount received after deducting transaction costs. After acquisition, the liabilities are measured at amortised cost according to the effective interest method.

**Financial assets and liabilities at fair value through other comprehensive income:**

Financial assets in this category are assets that result in payments related only to principal and interest on the outstanding principal and where the financial asset is held under a business model whose purpose is achieved both by holding financial assets to collect contractual cash flows and selling financial assets. These assets are subsequently measured at fair value with changes in fair value recognised in other comprehensive income (OCI), except effective interest, impairments and their reversal as well as exchange rate gains and losses, which are presented in profit or loss. When the asset is derecognised from the balance sheet, accumulated gains and losses in OCI are reclassified to profit or loss.

**Financial assets and liabilities at fair value through profit or loss:**

Assets that do not satisfy the requirements to be recognised at amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. Gains or losses on assets and liabilities at fair value through profit or loss that are not included in a hedging relationship are netted in profit or loss in the period the gain or loss arises. Derivatives included in a hedging relationship are recognised in other comprehensive income for the portion determined to be an effective hedge. Equity instruments such as shares and participations are measured continuously at fair value with changes in value recognised in profit or loss.

**Impairment of financial assets:**

Accounts receivable and contract assets are tested for impairment on each closing date using a model based on expected credit losses. Impairment losses are recognised in profit or loss. Derecognition from the balance sheet occurs when there is no longer a reasonable expectation of collecting payment. See also note 26.

**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.

**Previous accounting principle and transition to IFRS 9**

Saab has applied the IASB standard IFRS 9 Financial instruments for the first time in the fiscal year 2018. IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities and introduces new rules on hedge accounting and impairment of financial receivables, and replaces the majority of the guidance in IAS 39.

The transition to IFRS 9 has not had a material effect on the Group's income statement or financial position. Hedge accounting is not affected, but Saab is transitioning to IFRS 9's hedge accounting, which is an option in the standard. The new rules for classifying financial assets do not entail any changes other than that a loan to an associated company according to IFRS 9 is recognised at fair value through profit and loss rather than at amortised cost. The loan amounted to MSEK 26 as of 1 January 2018. The effect on the opening equity balance in 2018 was MSEK -4, which is attributable to impairment of receivables from associated companies and joint ventures. For more information, see note 45.

For the Parent Company, Saab AB, the opening equity balance in 2018 was affected by MSEK -8, attributable to impairment of receivables from subsidiaries, associated companies and joint ventures.

**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 accounts payable, loans payable, derivatives with negative market values, certain accrued expenses and other liabilities.

**Classification and categorisation of financial assets and liabilities <sup>2)</sup>**

|  | Carrying amount |               |
|--|-----------------|---------------|
|  | 31-12-2018      | 31-12-2017    |
| <b>Financial assets</b>                                      |                 |               |
| Valued at amortised cost <sup>4)</sup> :                     |                 |               |
| Accounts receivable, contract assets and other receivables   | 16,254          | 13,133        |
| Liquid assets  | 2,451           | 2,202         |
| Long-term receivables  | 548             | 481           |
| Valued at fair value through profit and loss <sup>3)</sup> : |                 |               |
| Short-term investments                                       | 9,003           | 4,469         |
| Derivatives for trading                                      | 148             | 109           |
| Financial investments  | 27              | 26            |
| Derivatives identified as hedges                             | 948             | 1,030         |
| <b>Total financial assets</b>                                | <b>29,379</b>   | <b>21,450</b> |
| <b>Financial liabilities</b>                                 |                 |               |
| Valued at amortised cost:                                    |                 |               |
| Interest-bearing liabilities <sup>1)</sup>                   | 9,264           | 6,327         |
| Other liabilities <sup>4)</sup>                              | 8,626           | 6,934         |
| Valued at fair value through profit and loss <sup>3)</sup> : |                 |               |
| Derivatives for trading                                      | 74              | 86            |
| Derivatives identified as hedges                             | 1,160           | 1,007         |
| <b>Total financial liabilities</b>                           | <b>19,124</b>   | <b>14,354</b> |
|  | <b>9,437</b>    | <b>6,412</b>  |

<sup>1)</sup> Fair value

<sup>2)</sup> Derivatives 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 947.

<sup>3)</sup> The impact of credit risk on these instruments is considered low given the limits in the current investment policy.

<sup>4)</sup> Carrying amount, in Saab's assessment, essentially corresponds to fair value.

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



Note 36, cont.

**Level 2**

According to accepted valuation models based on observable market data from Reuters Datascope:

- **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.
- **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 2018, the Group had the following financial assets and liabilities at fair value:

**Assets at fair value**

| MSEK                                  | 2018          | Level 1      | Level 2      | Level 3   |
|---------------------------------------|---------------|--------------|--------------|-----------|
| Bonds and interest-bearing securities | 9,003         | 9,003        | -            | -         |
| Forward exchange contracts            | 961           | -            | 961          | -         |
| Currency options                      | 4             | -            | 4            | -         |
| Cross currency basis swaps            | 97            | -            | 97           | -         |
| Electricity derivatives               | 34            | 34           | -            | -         |
| Shares and participations             | 27            | -            | -            | 27        |
| <b>Total</b>                          | <b>10,126</b> | <b>9,037</b> | <b>1,062</b> | <b>27</b> |

**Liabilities at fair value**

| MSEK                       | 2018         | Level 1  | Level 2      | Level 3  |
|----------------------------|--------------|----------|--------------|----------|
| Forward exchange contracts | 1,151        | -        | 1,151        | -        |
| Currency options           | 4            | -        | 4            | -        |
| Interest rate swaps        | 79           | -        | 79           | -        |
| <b>Total</b>               | <b>1,234</b> | <b>-</b> | <b>1,234</b> | <b>-</b> |

**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 <sup>1)</sup> |      | Options <sup>2)</sup> |      | Total hedge |      |
|----------------------|---------------------------------|------|-----------------------|------|-------------|------|
|                      | 2018                            | 2017 | 2018                  | 2017 | 2018        | 2017 |
| USD                  | -39                             | -45  | -30                   | -172 | -69         | -217 |
| EUR                  | 39                              | -74  | -55                   | -105 | -94         | -179 |
| GBP                  | 4                               | -3   | -                     | -    | 4           | -3   |
| DKK                  | -26                             | -    | -                     | -    | -26         | -    |
| ZAR                  | 40                              | -    | -                     | -    | 40          | -    |

<sup>1)</sup> Also including sold call- and put options.

<sup>2)</sup> Net of bought call- and put options.

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 2018, about MSEK 35, expressed as VaR, was allocated to the tender portfolio, and at year-end VaR amounted to MSEK 4.4 (17). 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 2018 was MSEK -266 (54).

**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 5,237 (4,951) at year-end; see the following table.

**Net assets translated to SEK**

| MSEK             | 31-12-2018   | 31-12-2017   |
|------------------|--------------|--------------|
| USD              | 2,015        | 2,057        |
| EUR              | 862          | 778          |
| AUD              | 775          | 651          |
| ZAR              | 475          | 392          |
| GBP              | 334          | 307          |
| DKK              | 138          | 78           |
| BRL              | 142          | 142          |
| Other currencies | 496          | 546          |
| <b>Total</b>     | <b>5,237</b> | <b>4,951</b> |

The effect on net assets as of 31 December 2018 of a change in exchange rates of +/- 10 per cent would be a change in value of MSEK 524.

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 2018, countries outside Sweden accounted for 59 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 102.2 billion (107.2) are SEK, USD, EUR and GBP. Of the total order backlog, 66 per cent (2) 56 is in fixed prices with or without indexing, while the remaining 34 per cent (44) 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 IFRS 9 is applied to derivatives that hedge the transaction exposure. The hedge is effective when the hedging relationship is included and periodically evaluated to ensure that the criteria for effectiveness are still met. The factors that are examined to ensure the effectiveness are currency, timing of payment flows and amount. If the flow generated by the hedging instrument matches the flow from the hedged item in currency, timing and amount, the hedging relationship is considered effective. Until maturity, value changes in effective are recognised in other comprehensive income and recognised separately in the hedge reserve in equity. Value changes in ineffective hedges are recognised in profit or loss. The ineffectiveness can arise if the timing and/or amount of the planned/projected flow changes. Since portions of the portfolio extend over long periods, effects from forward points could also be a source of ineffectiveness. Hedging relationships are arranged such that adjustments are made continuously to avoid this effect. Inefficiency affecting net income for the year amounted to MSEK 0 (0).

The market value of existing hedges of the order backlog and framework agreements amounted to MSEK -167 (73). Currency sensitivity, i.e. the effect of a change in exchange rates of +/- 10 per cent, would affect the market value of derivatives as of 31 December 2018 by +/- MSEK 619 (223). The inefficiency in the cash flow hedges that affected net income for the year amounted to MSEK 0 (0).

Note 36, 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        |
| 2019                    | -118        | 218        | 100       | -108        | 71         | -37         | -432          | 503          | 71         |
| 2020                    | -139        | 64         | -75       | -73         | 29         | -44         | -334          | 755          | 421        |
| 2021                    | -3          | 24         | 21        | -51         | 7          | -44         | -387          | 786          | 399        |
| 2022                    | -1          | 23         | 22        | -42         | 8          | -34         | -146          | 112          | -34        |
| 2023                    | -1          | 12         | 11        | -39         | 7          | -32         | -99           | 24           | -75        |
| 2024 and forward        | -           | 20         | 20        | -7          | 10         | 3           | -             | -            | -          |
| <b>Total flows 2018</b> | <b>-262</b> | <b>361</b> | <b>99</b> | <b>-320</b> | <b>132</b> | <b>-188</b> | <b>-1,398</b> | <b>2,180</b> | <b>782</b> |
| <b>Total flows 2017</b> | <b>-276</b> | <b>294</b> | <b>18</b> | <b>-246</b> | <b>103</b> | <b>-143</b> | <b>-1,457</b> | <b>1,886</b> | <b>429</b> |

### 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 2018 |               |             | 2017           |             |
|---|----------|----------------|-----------------|---------------|-------------|----------------|-------------|
| Million   | Currency | Local currency | Asset SEK       | Liability SEK | Net         | Local Currency | Net         |
| Maturity up to 1 year                             | EUR      | -205           | 49              | 69            | -20         | -249           | -36         |
|   | GBP      | 42             | 23              | 34            | -11         | -20            | 12          |
|   | USD      | -323           | 325             | 370           | -45         | -687           | -99         |
|   | Other    |                | 19              | 37            | -18         |                | -8          |
| <b>Subtotal</b>                                   |          |                | <b>416</b>      | <b>510</b>    | <b>-94</b>  |                | <b>-131</b> |
| Maturity 1 to 3 years                             | EUR      | 51             | 94              | 45            | 49          | 59             | 8           |
|   | GBP      | 82             | 19              | 55            | -36         | 66             | -18         |
|   | USD      | -798           | 331             | 412           | -81         | -105           | 229         |
|   | Other    |                | 13              | 4             | 9           |                | 10          |
| <b>Subtotal</b>                                   |          |                | <b>457</b>      | <b>516</b>    | <b>-59</b>  |                | <b>229</b>  |
| Maturity 3 to 5 years                             | EUR      | -34            | 2               | 14            | -12         | -9             | -4          |
|   | GBP      | 65             | 1               | 89            | -88         | 55             | -86         |
|   | USD      | 120            | 89              | 18            | 71          | -96            | 96          |
|   | Other    |                | -               | 1             | -1          |                | -           |
| <b>Subtotal</b>                                   |          |                | <b>92</b>       | <b>122</b>    | <b>-30</b>  |                | <b>6</b>    |
| Maturity over 5 years                             | EUR      | -20            | -               | 5             | -5          |                | -           |
|   | GBP      | 5              | -               | 2             | -2          | 20             | -34         |
|   | USD      | -              | -               | -             | -           | 82             | -21         |
| <b>Subtotal</b>                                   |          |                | <b>-</b>        | <b>7</b>      | <b>-7</b>   |                | <b>-55</b>  |
| <b>Currency derivatives, total<sup>1)2)</sup></b> |          |                | <b>965</b>      | <b>1,155</b>  | <b>-190</b> |                | <b>49</b>   |

<sup>1)</sup> Retained premiums on open currency contracts amount to MSEK -3 (-19).

<sup>2)</sup> Of which derivatives used as cash flow hedge MSEK 67 (-1).

### The Parent Company's outstanding derivatives

| Currency derivatives                              |          |                | Fair value 2018 |               |             | 2017           |            |
|---|----------|----------------|-----------------|---------------|-------------|----------------|------------|
| Million   | Currency | Local currency | Asset SEK       | Liability SEK | Net         | Local Currency | Net        |
|   | EUR      | -62            | 175             | 145           | 30          | -122           | -16        |
|   | GBP      | 188            | 47              | 208           | -161        | 656            | 121        |
|   | USD      | -777           | 748             | 760           | -12         | 102            | -136       |
|   | Other    |                | 32              | 44            | -12         |                | -2         |
| <b>Currency derivatives, Parent Company total</b> |          |                | <b>1,002</b>    | <b>1,157</b>  | <b>-155</b> |                | <b>-33</b> |

### 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 4,000, adjusted for loans with maturity dates within 12 months but never less than 10 per cent of sales (total sales).

In addition Treasury closely monitor all guarantees issued by banks and calculate a risk weighted amount to be held in liquid assets.

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 30. 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                           |  | Facility      | Utilised     | Available     |
|---|--|---------------|--------------|---------------|
| MSEK                                      |  |               |              |               |
| Revolving credit facility (maturity 2022) |  | 6,000         | -            | 6,000         |
| Overdraft facility (maturity 2019)        |  | 43            | -            | 43            |
| <b>Total confirmed credit facilities</b>  |  | <b>6,043</b>  | <b>-</b>     | <b>6,043</b>  |
| Commercial paper                          |  | 5,000         | -            | 5,000         |
| Medium Term Notes (MTN)                   |  | 10,000        | 7,731        | 2,269         |
| <b>Total loan programmes</b>              |  | <b>15,000</b> | <b>7,731</b> | <b>7,269</b>  |
| <b>Total loan facilities</b>              |  | <b>21,043</b> | <b>7,731</b> | <b>13,312</b> |

Note 36, cont.

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 10,000 (6,000). As of 31 December 2018, MSEK 0 (0) in commercial paper and MSEK 7,731 (4,812) 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 1,425, of which MSEK 0 (0) was utilised at 31 December 2018. 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. As of 31 December 2018 this amounted to 43 months.

As part of the effort to minimize refinancing risk, MTN loans with maturity in December 2018 has been repurchased at a nominal amount of MSEK 691 and replaced with new MTN loans maturing in 2021 at a nominal amount of MSEK 950 and loans maturing in 2023 at a nominal amount of MSEK 120.

### 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 (12-48). As of year-end, the loan portfolio's duration was 31 months (31).

The interest rates on long-term floating-rate funding are primarily hedged at fixed rates through interest rate swaps. Outstanding interest rate swaps cover approximately 83 per cent of outstanding floating-rate loans as of 31 December 2018. Cash flow hedging is applied in the financial statements. The effectiveness of a hedge is evaluated when the hedging relationship is included and periodically evaluated to ensure that the relationship meets the requirement. The factors that are evaluated to ensure effectiveness are the timing of payment flows and amount of interest payments as well as the nominal amount of the hedging instrument and the hedged item. If the nominal amount of the hedging instrument does not exceed the nominal amount of the hedged item and the flows generated by the hedging instrument do not exceed the flows from the hedged item in timing and amount, the hedging relationship is considered effective. Until maturity, value changes in effective hedges are recognised in other comprehensive income and recognised separately, in the hedge reserve in equity. The value change is recognised in the financial net when it is transferred to profit or loss. Value changes in ineffective hedges are recognised in profit or loss. Inefficiency affecting net income for the year amounted to MSEK 0 (0). An increase or decrease in market interest rates of +/- 0.10 per cent would affect financial income by +/- 1 MSEK and other comprehensive income by +/- 23 MSEK based on the loan portfolio as of 31 December 2018.

### Financing (refers to utilised credit facilities)

| MSEK (Nom)          |                              | Of which effect                    |                 |
|---------------------|------------------------------|------------------------------------|-----------------|
| Maturities          | Fixed interest <sup>1)</sup> | from derivative agreements entered | Tied-up capital |
| 1 year              | 3,493                        | -4,161                             | 986             |
| 2 years             | 1,025                        | 425                                | 1,275           |
| 3 years             | 400                          | 400                                | 2,091           |
| 4 years             | 1,700                        | 1,350                              | 1,746           |
| 5 years and forward | 2,039                        | 1,900                              | 2,559           |
| <b>Total</b>        | <b>8,657</b>                 |                                    | <b>8,657</b>    |

<sup>1)</sup> 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 (3-24). As of year-end, the duration was 3 months (10). An increase in market interest rates of 0.10 per cent would affect financial income by -3 MSEK. A corresponding decrease in market interest rates of 0.10 per cent would positively affect financial income by 3 MSEK based on the investment portfolio as of 31 December 2018.

### Investments in interest-bearing securities and bank deposits

| MSEK (Nom)          | Fixed interest <sup>1)</sup> | Tied-up capital |
|---------------------|------------------------------|-----------------|
| Maturities          |                              |                 |
| 1 year              | 10,126                       | 6,866           |
| 2 years             | -300                         | 200             |
| 3 years             | 100                          | 1,310           |
| 4 years             | 120                          | 420             |
| 5 years and forward | 300                          | 1,550           |
| <b>Total</b>        | <b>10,346</b>                | <b>10,346</b>   |

<sup>1)</sup> 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 USD 84 (271) at year-end.

### Interest rate derivatives

The table below shows the Group's outstanding interest rate derivatives.

| Interest rate derivatives                          |                   |                | Fair value 2018 |               |            | 2017           |            |
|--|-------------------|----------------|-----------------|---------------|------------|----------------|------------|
| Million  | Currency          | Local currency | Asset SEK       | Liability SEK | Net        | Local Currency | Net        |
| Maturity up to 1 year                              | SEK               | 1,475          | -               | 15            | -15        | 150            | -3         |
| <b>Subtotal</b>                                    |                   | -              | -               | <b>15</b>     | <b>-15</b> |                | <b>-3</b>  |
| Maturity 1 to 3 years                              | SEK               | 1,125          | -               | 14            | -14        | 2,200          | -46        |
|  | EUR <sup>2)</sup> | 80             | 80              | -             | 80         | 85             | 48         |
| <b>Subtotal</b>                                    |                   | -              | <b>80</b>       | <b>14</b>     | <b>66</b>  |                | <b>2</b>   |
| Maturity 3 to 5 years                              | SEK               | 1,750          | -               | 13            | -13        | 1,750          | -12        |
|  | EUR <sup>2)</sup> | 20             | 17              | -             | 17         | 15             | 3          |
| <b>Subtotal</b>                                    |                   | -              | <b>17</b>       | <b>13</b>     | <b>4</b>   |                | <b>-9</b>  |
| Maturity over 5 years                              | SEK               | 1,500          | -               | 36            | -36        | -              | -          |
| <b>Subtotal</b>                                    |                   | -              | -               | <b>36</b>     | <b>-36</b> |                | <b>-</b>   |
| <b>Interest derivatives, total <sup>1)3)</sup></b> |                   | -              | <b>97</b>       | <b>78</b>     | <b>19</b>  |                | <b>-10</b> |

<sup>1)</sup> Market value includes accrued interest of MSEK -20 (-6).

<sup>2)</sup> Refers to cross currency basis swaps (CCY).

<sup>3)</sup> Of which derivatives used for cash flow hedges MSEK -57 (-53).

### Commodity price risk

Commodity price risk refers to the risk that Saab will be negatively affected by changes in commodity prices. Purchasing costs for raw materials are managed primarily through contract clauses with customers and suppliers. Electricity costs are managed through hedging instruments. Electricity derivatives are managed through a discretionary management mandate. The market value of electricity derivatives at year-end was MSEK 34 (7). Hedge accounting is applied to electricity derivatives. Projected electricity consumption is hedged using a model where 100 per cent of the coming quarter's consumption is hedged; the hedge ratio then drops on a straight-line basis to 0 per cent in quarter 13. The effectiveness of the hedge is periodically evaluated to ensure that the relationship meets the requirement. To ensure that the hedge is effective, an evaluation is made to determine that the hedged volume per quarter does not exceed the projected volume. Value changes in derivatives that exceed the projected volume in a quarter are recognised in profit or loss. Inefficiency affecting net income for the year amounted to MSEK 0 (0).

Note 36, cont.

**The Group's outstanding electricity derivatives**

| Electricity derivatives                            | Fair value 2018 |            |                | 2017      |          |
|--|-----------------|------------|----------------|-----------|----------|
|  | Mega-watt       | Asset MSEK | Liability MSEK | Mega-watt | Net      |
| Maturity up to 1 year                              | 13              | 25         | -              | 25        | 12       |
| <b>Subtotal</b>                                    |                 | <b>25</b>  | <b>-</b>       | <b>25</b> | <b>4</b> |
| Maturity 1 to 3 years                              | 10              | 9          | -              | 9         | 10       |
| <b>Subtotal</b>                                    |                 | <b>9</b>   | <b>-</b>       | <b>9</b>  | <b>3</b> |
| <b>Electricity derivatives, total<sup>1)</sup></b> |                 | <b>34</b>  | <b>-</b>       | <b>34</b> | <b>7</b> |

<sup>1)</sup> Of which derivatives used for cash flow hedges MSEK 34 (7).**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 2018, the Group had paid advances to suppliers of MSEK 42 (44).

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 26.

**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. Consequently, the risk of credit losses is considered low and there was no need for credit reserves at year-end.

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. Saab has only CSA contract with a counterparty that gives Saab a unilateral right to collateral.

**Market value of financial assets and liabilities subject to netting arrangements**

| 2018<br>MSEK              | Gross<br>amount | Set-off  | Net<br>amount in<br>balance<br>sheet | Master<br>netting<br>arrange-<br>ments | Collateral<br>received/<br>assets<br>pledged | Net<br>amount |
|---------------------------|-----------------|----------|--------------------------------------|--|--|---------------|
|                           |                 |          |                                      |  |  |               |
| Currency derivatives      | 965             | -        | 965                                  | -947                                   | -  | 18            |
| Interest rate derivatives | -               | -        | -                                    | -                                      | -  | -             |
| CCY <sup>1)</sup>         | 97              | -        | 97                                   | -                                      | -  | 97            |
| Electricity derivatives   | 34              | -        | 34                                   | -                                      | -  | 34            |
| <b>Assets</b>             | <b>1,096</b>    | <b>-</b> | <b>1,096</b>                         | <b>-947</b>                            | <b>-</b>                                     | <b>149</b>    |
| Currency derivatives      | 1,155           | -        | 1,155                                | -947                                   | -  | 208           |
| Interest rate derivatives | 79              | -        | 79                                   | -                                      | -  | 79            |
| CCY <sup>1)</sup>         | -               | -        | -                                    | -                                      | -  | -             |
| Electricity derivatives   | -               | -        | -                                    | -                                      | -  | -             |
| <b>Liabilities</b>        | <b>1,234</b>    | <b>-</b> | <b>1,234</b>                         | <b>-947</b>                            | <b>-</b>                                     | <b>287</b>    |

<sup>1)</sup> Cross currency basis swaps.

| 2017<br>MSEK              | Gross<br>amount | Set-off  | Net<br>amount in<br>balance<br>sheet | Master<br>netting<br>arrange-<br>ments | Collateral<br>received/<br>assets<br>pledged | Net<br>amount |
|---------------------------|-----------------|----------|--------------------------------------|--|--|---------------|
| Currency derivatives      | 1,081           | -        | 1,081                                | -853                                   | -4   | 224           |
| Interest rate derivatives | -               | -        | -                                    | -                                      | -  | -             |
| CCY <sup>1)</sup>         | 51              | -        | 51                                   | -                                      | -  | 51            |
| Electricity derivatives   | 7               | -        | 7                                    | -                                      | -  | 7             |
| <b>Assets</b>             | <b>1,139</b>    | <b>-</b> | <b>1,139</b>                         | <b>-853</b>                            | <b>-4</b>                                    | <b>282</b>    |
| Currency derivatives      | 1,032           | -        | 1,032                                | -853                                   | -  | 179           |
| Interest rate derivatives | 61              | -        | 61                                   | -                                      | -  | 61            |
| CCY <sup>1)</sup>         | -               | -        | -                                    | -                                      | -  | -             |
| Electricity derivatives   | -               | -        | -                                    | -                                      | -  | -             |
| <b>Liabilities</b>        | <b>1,093</b>    | <b>-</b> | <b>1,093</b>                         | <b>-853</b>                            | <b>-</b>                                     | <b>240</b>    |

<sup>1)</sup> Cross currency basis swaps.

The exposure as of 31 December 2018 amounted to MSEK 10,881 (5,855), whereof lending to banks, mortgage institutions, companies and the Swedish government amounted to MSEK 10,562 (5,462). The exposure is calculated using the market value of assets and derivatives with each counterparty.

**Hedge reserve**

The hedge reserve before tax amounted to MSEK -461 (-379), of which the unrealised value of derivatives was MSEK 44 (-46) and the realised effects arising from rollovers of derivatives was MSEK -505 (-333).

The change in the hedge reserve in 2018 of MSEK 17 consists of a reversal to profit or loss of MSEK 401, change in the value of existing derivatives of MSEK -26, the market value of hedges obtained during the year of MSEK -248, and change that arose due to derivative rollovers of MSEK -226. 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).

**Effects in the hedge reserve per derivative**

| 2018<br>MSEK   | Currency<br>derivatives | Interest rate<br>derivatives | Electricity<br>derivatives |
|--|-------------------------|------------------------------|----------------------------|
| Recognised amount in hedge reserve                         | 67                      | -57                          | 34                         |
| Nominal amount   | 7,283                   | 5,550                        | 23 Megawatt                |
| Maturity date  | 2019-2027               | 2019-2025                    | 2019-2021                  |
| Hedge ratio  | 1:1                     | 1:1                          | 1:1                        |
| Change in value of outstanding derivatives since 1 January | 68                      | -4                           | 26                         |
| Change in value of hedged asset to determine effectiveness | -68                     | 4                            | -26                        |

**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 2018, MSEK 2 was allocated to trading, expressed as VaR. The mandate has not been utilised during the year.

**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 that corresponds annual financial cost of pension liability to PRI Pensionsgaranti. Investment guidelines indicate asset allocation as follows 0-40 per cent equities, 0-15 per cent alternative assets, 25-100 per cent interest-bearing products and 0-20 per cent real estate. 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, 54 per cent (53) was invested in interest-bearing assets and property, of which 19 (14) per cent consist of property related investments, the remaining 46 per cent (47) in equities- and alternative investments. The market value of the fund's assets as of 31 December 2018 was MSEK 6,051 (6,098) and the annual return was -1 per cent (9). In 2018, the fund was capitalised by MSEK 120 (0) and MSEK 120 (0) in refunds was paid. The table below shows the solvency margin for the pension fund.

| MSEK   | 31-12-2018 | 31-12-2017 | 31-12-2016 | 31-12-2015 |
|--|------------|------------|------------|------------|
| Fair value of assets under management                      | 6,051      | 6,098      | 5,579      | 5,316      |
| Present value of defined-benefit obligations <sup>1)</sup> | 9,916      | 8,554      | 7,811      | 7,006      |
| Solvency margin  | 61%        | 71%        | 71%        | 76%        |
| Pension obligation according to PRI                        | 5,776      | 5,522      | 5,369      | 5,237      |
| Solvency margin  | 105%       | 110%       | 104%       | 102%       |

<sup>1)</sup> Refers to the pension obligation that the assets under management are designed to cover.

## NOTE 37 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 |              |
|--|------------|------------|----------------|--------------|
|  | 31-12-2018 | 31-12-2017 | 31-12-2018     | 31-12-2017   |
| <b>Contingent liabilities</b>                            |            |            |                |              |
| Guarantees to insurance company, PRI Pensionsgaranti     | 116        | 111        | 116            | 111          |
| Guarantees for Group companies' commitments to customers | -          | -          | 4,655          | 4,285        |
| Sureties for joint ventures                              | 8          | 8          | -              | -            |
| Sureties for associated companies                        | 11         | 11         | 386            | 292          |
| <b>Total</b>   | <b>135</b> | <b>130</b> | <b>5,157</b>   | <b>4,688</b> |

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                           | 31-12-2018    | Per cent of total | 31-12-2017    | Per cent of total |
|--------------------------------|---------------|-------------------|---------------|-------------------|
| <b>Bank Guarantees:</b>        |               |                   |               |                   |
| On demand                      | 18,181        | 99                | 18,714        | 99                |
| Award                          | 173           | 1                 | 168           | 1                 |
| <b>Bank Guarantees total</b>   | <b>18,354</b> | <b>100</b>        | <b>18,882</b> | <b>100</b>        |
| <b>Type of Bank Guarantee:</b> |               |                   |               |                   |
| Advance Payment                | 9,614         | 52                | 10,299        | 54                |
| Performance                    | 7,872         | 43                | 7,897         | 42                |
| Others                         | 868           | 5                 | 686           | 4                 |
| <b>Bank Guarantees total</b>   | <b>18,354</b> | <b>100</b>        | <b>18,882</b> | <b>100</b>        |

In the ordinary course of business, Saab AB issue Parent Company guarantees to subsidiaries and joint ventures on a case by case basis. These guarantees may cover all or part of the relevant subsidiary's or joint venture's general obligations, or be a defined amounts for a specific purpose.

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 38 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 9.

Of the Parent Company's sales, 7 (6) per cent referred to sales to Group companies, while 21 (20) 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 47 (114) and MSEK 136 (113), respectively. For information on receivables from and liabilities to associated companies and joint ventures, see notes 24 and 34.

## NOTE 39 GROUP COMPANIES

### Significant Group company holdings

| Group company                     | Group company's registered office, country | Ownership share, per cent |      |
|-----------------------------------|--|---------------------------|------|
|                                   |  | 2018                      | 2017 |
| Combitech AB                      | Växjö, Sweden                              | 100                       | 100  |
| Combitech Oy                      | Finland                                    | 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 Seaeye Ltd                   | UK   | 100                       | 100  |
| Saab Sensis Corporation           | USA  | 100                       | 100  |
| Saab Technologies B.V.            | The Netherlands                            | 100                       | 100  |

Total ownership of non-controlling interests amounted to MSEK 221 (188).

No non-controlling interests are considered material.

| MSEK                                   | Parent Company |                |
|--|----------------|----------------|
|  | 2018           | 2017           |
| <b>Accumulated acquisition value</b>   |                |                |
| Opening balance, 1 January             | 18,718         | 18,501         |
| New issues/shareholders' contributions | 121            | -              |
| Acquisitions                           | -              | 250            |
| Adjusted purchase price                | -5             | -              |
| Repaid shareholders' contributions     | -              | -5             |
| Sales and liquidations                 | -              | -28            |
| <b>Closing balance, 31 December</b>    | <b>18,834</b>  | <b>18,718</b>  |
| <b>Accumulated write-downs</b>         |                |                |
| Opening balance, 1 January             | -12,653        | -12,653        |
| Write-downs for the year               | -              | -13            |
| Sales and liquidations                 | -              | 13             |
| <b>Closing balance, 31 December</b>    | <b>-12,653</b> | <b>-12,653</b> |
| <b>Carrying amount, 31 December</b>    | <b>6,181</b>   | <b>6,065</b>   |

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 39, cont.

## Specification of Parent Company's holdings of shares in Group companies

| 31-12-2018<br>Group company/Corp. ID no./Registered office            | No. of shares | Share,<br>per cent | Carrying amount,<br>MSEK |
|---|---------------|--------------------|--------------------------|
| Celsius AB, 556194-4652, Linköping, Sweden                            | 5,000         | 100                | 144                      |
| Celsius Invest AB, 556164-6588, Stockholm, Sweden                     | 1,720,000     | 100                | 158                      |
| Combitech AB, 556218-6790, Växjö, Sweden                              | 100,000       | 100                | 1,064                    |
| EMC Services Elmiljöteknik AB, 556315-6636, Mölndal, Sweden           | 2,000         | 100                | 3                        |
| Fastighets AB Linköping Malmén 27, 556354-6349, Linköping, Sweden     | 20,000        | 100                | 4                        |
| Fastighets AB Stensholm-Huskvarna, 556030-2746, Jönköping, Sweden     | 150,000       | 100                | 42                       |
| Fastighets AB Tannefors 1:114, 559043-3206, Linköping, Sweden         | 500           | 100                | 6                        |
| FFV Ordnance AB, 556414-8194, Karlskoga, Sweden                       | 100,000       | 100                | 10                       |
| Lansen Försäkrings AB, 516401-8656, Linköping, Sweden                 | 500,000       | 100                | 51                       |
| Muskövarvet AB, 556675-3496, Haninge, Sweden                          | 1,002         | 100                | 61                       |
| N. Sundin Dockstavarvet AB, 556193-6138, Kramfors, Sweden             | 5,100         | 100                | 85                       |
| Nordic Defence Industries A/S, Denmark                                | -             | 100                | 22                       |
| Saab Aircraft Leasing Holdings AB, 556124-3170, Linköping, Sweden     | 30,000        | 100                | 4                        |
| Saab Airport AB, 556366-8333, Linköping, Sweden                       | 5,000         | 100                | 3                        |
| Saab Applied Composites AB, 556326-2988, Linköping                    | 10,000        | 100                | 82                       |
| Saab Asia Pacific Co. Ltd, Thailand                                   | -             | 100                | 12                       |
| Saab Barracuda AB, 556045-7391, Västervik, Sweden                     | 200,000       | 100                | 101                      |
| Saab Canada Inc., Canada  | -             | 100                | 1                        |
| Saab Czech s.r.o., Czech Republic                                     | -             | 100                | 25                       |
| Saab Danmark A/S, Denmark   | -             | 100                | 103                      |
| Saab Digital Air Traffic Solutions AB, 559060-0747, Linköping, Sweden | 295           | 59                 | 35                       |
| Saab Dynamics AB, 556264-6074, Karlskoga, Sweden                      | 500,000       | 100                | 357                      |
| Saab France S.A.S, France   | -             | 100                | -                        |
| Saab India Technologies Private Limited, India                        | -             | 100                | -                        |
| Saab International AB, 556267-8994, Stockholm, Sweden                 | 50,000        | 100                | 14                       |
| Saab Kenya Ltd, Kenya   | -             | 100                | -                        |
| Saab Kockums AB, 556205-5623, Malmö, Sweden                           | 500,000       | 100                | 340                      |
| SAAB LTD, United Arab Emirates  | -             | 100                | -                        |
| Saab Medav Technologies GmbH, Germany                                 | -             | 100                | 317                      |
| Saab Microwave Systems AB, 556028-1627, Mölndal, Sweden               | 300,000       | 100                | 49                       |
| Saab North America, Inc., USA   | -             | 100                | 2,043                    |
| Saab Seaeye Holdings Ltd, UK  | -             | 100                | 194                      |
| Saab South Africa (Pty) Ltd, South Africa                             | -             | 100                | 443                      |
| Saab Surveillance Systems AB, 556577-4600, Järfälla, Sweden           | 1,000         | 100                | -                        |
| Saab Technologies B.V., The Netherlands                               | -             | 100                | 295                      |
| Saab Technologies BVBA, Belgium                                       | -             | 100                | 29                       |
| Saab Technologies Ltd., Canada  | -             | 100                | 18                       |
| Saab Technologies s.r.o., Czech Republic                              | -             | 100                | -                        |
| Saab Technologies Norway AS, Norway                                   | -             | 100                | 3                        |
| Saab Technologies UK Limited, UK                                      | -             | 100                | -                        |
| Saab Training Systems GmbH, Germany                                   | -             | 100                | 3                        |
| Saab Transpondertech AB, 556535-9790, Linköping, Sweden               | 1,000         | 100                | -                        |
| Saab Ventures AB, 556757-5211, Linköping, Sweden                      | 1,000         | 100                | -                        |
| Dormant companies etc.  | -             | -                  | 60                       |
| <b>Carrying amount at year-end</b>                                    |               |                    | <b>6,181</b>             |

**NOTE 40** UNTAXED RESERVES

| MSEK  | Parent Company |              |
|---|----------------|--------------|
|   | 2018           | 2017         |
| <b>Tax allocation reserve:</b>                    |                |              |
| Opening balance, 1 January                        | 1,809          | 1,850        |
| Provision for the year                            | 530            | 309          |
| Reversal for the year                             | -514           | -350         |
| <b>Closing balance, 31 December</b>               | <b>1,825</b>   | <b>1,809</b> |
| <b>Accumulated accelerated/under depreciation</b> |                |              |
| Buildings and land:                               |                |              |
| Opening balance, 1 January                        | -2             | -2           |
| Accelerated/under depreciation for the year       | -              | -            |
| <b>Closing balance, 31 December</b>               | <b>-2</b>      | <b>-2</b>    |
| Machinery and equipment:                          |                |              |
| Opening balance, 1 January                        | 484            | 432          |
| Accelerated depreciation for the year             | 98             | 52           |
| <b>Closing balance, 31 December</b>               | <b>582</b>     | <b>484</b>   |
| <b>Total untaxed reserves, 31 December</b>        | <b>2,405</b>   | <b>2,291</b> |

**NOTE 41** 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         |               |
|---|---------------|---------------|
|   | 2018          | 2017          |
| <b>Cash flow from operating activities before changes in working capital, excluding taxes and other financial items</b> | <b>4,026</b>  | <b>3,688</b>  |
| <b>Cash flow from changes in working capital:</b>   |               |               |
| Contract assets and liabilities   | -3,039        | -718          |
| Inventories   | -1,057        | -972          |
| Other current receivables   | -1,044        | 925           |
| Other current liabilities   | 1,965         | 704           |
| Provisions  | -479          | -107          |
| <b>Change in working capital</b>  | <b>-3,654</b> | <b>-168</b>   |
| <b>Cash flow from operating activities, excluding taxes and other financial items</b>                                   | <b>372</b>    | <b>3,520</b>  |
| <b>Investing activities:</b>  |               |               |
| Investments in intangible fixed assets  | -1,338        | -1,064        |
| Investments in tangible fixed assets  | -1,481        | -1,093        |
| Sales and disposals of tangible fixed assets  | 23            | 25            |
| <b>Cash flow from investing activities<sup>1)</sup></b>   | <b>-2,796</b> | <b>-2,132</b> |
| <b>Operational cash flow</b>  | <b>-2,424</b> | <b>1,388</b>  |
| Taxes and other financial items   | -862          | -356          |
| Sale of and investments in financial assets   | 43            | -10           |
| Investments in operations   | 15            | -170          |
| Sale of subsidiaries  | 33            | -             |
| <b>Free cash flow</b>   | <b>-3,195</b> | <b>852</b>    |

<sup>1)</sup> 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   | 2018       | 2017       |
|--|------------|------------|
| Free cash flow                                     | -3,195     | 852        |
| Investing activities – interest-bearing:           |            |            |
| Short-term investments                             | -4,554     | 63         |
| Other financial investments and receivables        | -29        | 84         |
| Financing activities:                              |            |            |
| Repayment of loans                                 | -967       | -1,301     |
| Raising of loans                                   | 3,820      | 1,700      |
| Rights issue                                       | 5,967      | -          |
| Repurchase of shares                               | -203       | -          |
| Dividend paid to the Parent Company's shareholders | -588       | -559       |
| Dividend paid to non-controlling interest          | -24        | -4         |
| Transactions with non-controlling interest         | -14        | -          |
| <b>Cash flow for the year</b>                      | <b>213</b> | <b>835</b> |

**SUPPLEMENTAL INFORMATION ON STATEMENT OF CASH FLOWS****Liquid assets**

| MSEK   | Group        |              |
|--|--------------|--------------|
|  | 31-12-2018   | 31-12-2017   |
| <b>The following components are included in liquid assets:</b> |              |              |
| Cash and bank balances   | 1,300        | 1,463        |
| Bank deposits  | 1,151        | 739          |
| <b>Total according to the statement of financial position</b>  | <b>2,451</b> | <b>2,202</b> |
| <b>Total according to statement of cash flows</b>              | <b>2,451</b> | <b>2,202</b> |

| MSEK   | Parent Company |              |
|--|----------------|--------------|
|  | 31-12-2018     | 31-12-2017   |
| <b>The following components are included in liquid assets:</b> |                |              |
| Cash and bank balances   | 472            | 442          |
| Bank deposits  | 1,151          | 739          |
| <b>Total according to balance sheet</b>                        | <b>1,623</b>   | <b>1,181</b> |
| <b>Total according to statement of cash flows</b>              | <b>1,623</b>   | <b>1,181</b> |

**Interest paid and dividends received**

| MSEK               | Group      |            | Parent Company |              |
|--------------------|------------|------------|----------------|--------------|
|                    | 2018       | 2017       | 2018           | 2017         |
| Dividends received | 39         | 26         | 111            | 1,090        |
| Interest received  | 38         | 40         | 34             | 141          |
| Interest paid      | -122       | -145       | -146           | -159         |
| <b>Total</b>       | <b>-45</b> | <b>-79</b> | <b>-1</b>      | <b>1,072</b> |

**Adjustments for items not affecting cash flow**

| MSEK  | Group        |              | Parent Company |            |
|---|--------------|--------------|----------------|------------|
|   | 2018         | 2017         | 2018           | 2017       |
| Depreciation and amortisation   | 866          | 839          | 478            | 491        |
| Capital gains/losses from sales of Group companies, associated companies and other shares | -27          | -            | -              | -          |
| Provisions  | 673          | 378          | 565            | 283        |
| Write-downs   | 50           | -            | -              | 13         |
| Share of profits in associated companies and joint ventures                               | 14           | 39           | -              | -          |
| Dividends and Group contributions from/to Group companies                                 | -            | -            | -936           | -78        |
| Other   | 232          | 223          | 75             | 123        |
| <b>Total</b>  | <b>1,808</b> | <b>1,479</b> | <b>182</b>     | <b>832</b> |

Note 41, cont.

**Reconciliation of cash flows arising from liabilities in financing activities**

| Interest-bearing liabilities, MSEK                     | 31-12-2017   | Cash flows <sup>1)</sup> | Non-cash changes |                           | 31-12-2018   |
|--|--------------|--------------------------|------------------|---------------------------|--------------|
|  |              |                          | Acquisitions     | Foreign exchange movement |              |
| Liabilities to credit institutions                     | 5,798        | 2,919                    | -                | 42                        | 8,759        |
| Liabilities to associated companies and joint ventures | 45           | -2                       | -                | -                         | 43           |
| Other interest-bearing liabilities                     | 484          | -64                      | 1                | 41                        | 462          |
| <b>Total interest-bearing liabilities</b>              | <b>6,327</b> | <b>2,853</b>             | <b>1</b>         | <b>83</b>                 | <b>9,264</b> |

<sup>1)</sup> These amounts refer to cash flows arising from liabilities in Financing activities in the Consolidated statement of cash flows.

**Investments in operations**

| MSEK   | Group      |            |
|--|------------|------------|
|  | 2018       | 2017       |
| <b>Acquired assets and liabilities</b>                                 |            |            |
| Intangible fixed assets  | 51         | 94         |
| Tangible fixed assets  | 9          | 57         |
| Inventories  | -          | 70         |
| Current receivables  | 18         | 86         |
| Liquid assets  | 11         | 42         |
| <b>Total assets</b>  | <b>89</b>  | <b>349</b> |
| Long-term liabilities  | -          | 24         |
| Provisions   | -          | 5          |
| Deferred tax liability   | 5          | 11         |
| Interest-bearing liabilities   | 1          | 10         |
| Current liabilities  | 36         | 67         |
| <b>Total liabilities</b>   | <b>42</b>  | <b>117</b> |
| Purchase price paid  | -          | 212        |
| Adjusted purchase price  | -4         | -          |
| Less: Liquid assets in acquired operations                             | -11        | -42        |
| <b>Effect on the Group's liquid assets (positive (-)/negative (+))</b> | <b>-15</b> | <b>170</b> |

Acquisitions in 2018 refers mainly to C-Leanship A/S and its subsidiaries C-Leanship Singapore Pte.Ltd by conversion of convertible loan to shares. Acquisitions in 2017 relate to Applied Composites AB, N. Sundin Dockstavarvet AB and Muskövarvet AB.

**Sale of subsidiaries**

| MSEK                                       | Group     |          |
|--|-----------|----------|
|  | 2018      | 2017     |
| <b>Divested assets and liabilities</b>     |           |          |
| Tangible fixed assets                      | 23        | -        |
| Inventories                                | 1         | -        |
| Current receivables                        | 5         | -        |
| Liquid assets                              | 5         | -        |
| <b>Total assets</b>                        | <b>34</b> | <b>-</b> |
| Deferred tax liability                     | 4         | -        |
| Current liabilities                        | 4         | -        |
| <b>Total liabilities</b>                   | <b>8</b>  | <b>-</b> |
| Sales price                                | 38        | -        |
| <b>Purchase price received</b>             | <b>38</b> | <b>-</b> |
| Less: Liquid assets in divested operations | -5        | -        |
| <b>Effect on the Group's liquid assets</b> | <b>33</b> | <b>-</b> |

Divestments in 2018 mainly relate to the property company Kockums i Karlskrona Kontor AB. No divestments were made in 2017.

**NOTE 42 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, Olof Palmes gata 17, 5th floor, SE-111 22 Stockholm, Sweden.

The consolidated accounts for 2018 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 43 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, emissions of metals into waterways, the generation of industrial wastes and noise disturbing local surroundings. The manufacturing operations predominantly entail operations subject to licensing. The environmental permit for the operations in Tannefors was imposed by the Land and Environmental Court in early 2019.

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 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 2018.

**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 Land and Environmental Court in early 2019 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.

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. A process regarding a new environmental license for the operations in Saab Dynamics AB is underway. Saab Bofors Test Center AB also runs operations subject to licensing in the municipalities of Degerfors, Lindesberg, and Härjedalen. Applied Composites AB runs operations subject to licensing in the municipalities of Linköping (Malmslätt). 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 2018.

**Operations subject to notification requirements**

Saab AB has operations in Arboga, Docksta, Huskvarna, Jönköping, Ljungbyhed, Linköping (Malmslätt), Muskö, Nyköping and Östersund, which are subject to notification requirements pursuant to the Environment Code. The permit in Arboga still apply and was granted in 1993. The permit in Linköping (Malmslätt) was abolished in 2018 on Saab's initiative.

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 very limited.

## NOTE 44 NON-RECURRING ITEMS

The non-recurring items are related to identified efficiency improvements to increase productivity and are reported in the income statement per function as shown below.

| MSEK                           | 2018        | 2017     |
|--------------------------------|-------------|----------|
| Cost of goods sold             | -41         | -        |
| Administrative expenses        | -3          | -        |
| Research and development costs | -54         | -        |
| Other operating expenses       | -200        | -        |
| <b>Total</b>                   | <b>-298</b> | <b>-</b> |

## NOTE 45 NEW ACCOUNTING PRINCIPLES 2018

### NEW ACCOUNTING PRINCIPLES

#### IFRS 15 Revenue from Contracts with Customers

Saab has applied the IASB standard IFRS 15 Revenue from Contracts with Customers for the first time in the fiscal year 2018 to replace IAS 18 Revenue and IAS 11 Construction Contracts. The transition has been made applying the full retroactive approach, because of which the comparative year 2017 is restated. For a few customer contracts, the revenue recognition method has been adjusted. The main reason for the change is that a few long-term customer contracts cannot recognise revenue over time because they fail to meet the criteria for right to payment for performance completed to date. The effect on the Group's income statement and financial position in connection with the transition to IFRS 15 is indicated in the following tables. For a description of accounting principles, see note 4.

#### IFRS 9 Financial instruments

Saab has applied the IASB standard IFRS 9 Financial instruments for the first time in the fiscal year 2018. IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities and introduces new rules on hedge accounting and impairment of financial receivables, and replaces the majority of the guidance in IAS 39.

The transition to IFRS 9 has not had a material effect on the Group's income statement or financial position. Hedge accounting is not affected, but Saab is transitioning to IFRS 9's hedge accounting, which is an option in the standard. The new rules for classifying financial assets do not entail any changes other than that a loan to an associated company according to IFRS 9 is recognised at fair value through profit and loss rather than at amortised cost.

The effect on the Group's income statement and financial position in connection with the transition to IFRS 9 is indicated in the following tables. For a description of accounting principles, see note 36.

Shown below are the effects in 2017 of the application of IFRS 15.

The opening balance in 2018 has been restated in accordance with IFRS 9 and IFRS 15.

### YEAR-END 2017 AND OPENING BALANCE 2018

|   | 31-12-2017<br>Actual | Adjustment<br>IFRS 15 | 31-12-2017<br>Restated | Adjustment<br>IFRS 9 | 01-01-2018<br>Restated |
|---|----------------------|-----------------------|------------------------|----------------------|------------------------|
| <b>Statement of financial position, MSEK</b>                      |                      |                       |                        |                      |                        |
| <b>ASSETS</b>   |                      |                       |                        |                      |                        |
| Fixed assets  | 14,459               | -                     | 14,459                 | -                    | 14,459                 |
| Long-term receivables on associated companies and joint ventures  | 454                  | -                     | 454                    | -5                   | 449                    |
| Deferred tax assets   | 211                  | 27                    | 238                    | 1                    | 239                    |
| <b>Total fixed assets</b>   | <b>15,124</b>        | <b>27</b>             | <b>15,151</b>          | <b>-4</b>            | <b>15,147</b>          |
| Inventories   | 7,743                | 504                   | 8,247                  | -                    | 8,247                  |
| Amounts due from customers --> Contract assets                    | 7,917                | 83                    | 8,000                  | -                    | 8,000                  |
| Accounts receivable, derivatives and other short-term receivables | 6,029                | -                     | 6,029                  | -                    | 6,029                  |
| Prepaid expenses and accrued income                               | 1,193                | -293                  | 900                    | -                    | 900                    |
| Liquid assets and short-term investments                          | 6,671                | -                     | 6,671                  | -                    | 6,671                  |
| <b>Total current assets</b>                                       | <b>29,553</b>        | <b>294</b>            | <b>29,847</b>          | <b>-</b>             | <b>29,847</b>          |
| <b>TOTAL ASSETS</b>   | <b>44,677</b>        | <b>321</b>            | <b>44,998</b>          | <b>-4</b>            | <b>44,994</b>          |
| <b>EQUITY AND LIABILITIES</b>                                     |                      |                       |                        |                      |                        |
| <b>Equity</b>   |                      |                       |                        |                      |                        |
| Parent Company's shareholders' interest                           | 14,189               | -92                   | 14,093                 | -4                   | 14,093                 |
| Non-controlling interest  | 188                  | -                     | 188                    | -                    | 188                    |
| <b>Total equity</b>   | <b>14,377</b>        | <b>-92</b>            | <b>14,285</b>          | <b>-4</b>            | <b>14,281</b>          |
| <b>Liabilities</b>  |                      |                       |                        |                      |                        |
| Long-term liabilities   | 11,167               | -                     | 11,167                 | -                    | 11,167                 |
| Amounts due to customers --> Contract liabilities                 | 9,094                | 418                   | 9,512                  | -                    | 9,512                  |
| Other short-term liabilities and provisions                       | 10,039               | -5                    | 10,034                 | -                    | 10,034                 |
| <b>Total liabilities</b>  | <b>30,300</b>        | <b>413</b>            | <b>30,713</b>          | <b>-</b>             | <b>30,713</b>          |
| <b>TOTAL EQUITY AND LIABILITIES</b>                               | <b>44,677</b>        | <b>321</b>            | <b>44,994</b>          | <b>-4</b>            | <b>44,944</b>          |

Note 45, cont.

## YEAR-END 2017

| Income statement, MSEK                  | Jan-Dec<br>Actual | Adjustment<br>IFRS 15 | Jan-Dec<br>Restated |
|---|-------------------|-----------------------|---------------------|
| Sales                                   | 31,394            | 272                   | 31,666              |
| Cost of goods sold                      | -23,946           | -177                  | -24,123             |
| <b>Gross income</b>                     | <b>7,448</b>      | <b>95</b>             | <b>7,543</b>        |
| Gross margin, %                         | 23.7              |                       | 23.8                |
| Operating expenses                      | -5,293            | -                     | -5,293              |
| <b>Operating income</b>                 | <b>2,155</b>      | <b>95</b>             | <b>2,250</b>        |
| Operating margin, %                     | 6.9               |                       | 7.1                 |
| <b>Net financial items</b>              | <b>-151</b>       | <b>-</b>              | <b>-151</b>         |
| <b>Income before taxes</b>              | <b>2,004</b>      | <b>95</b>             | <b>2,099</b>        |
| Taxes                                   | -566              | -25                   | -591                |
| <b>Net income for the year</b>          | <b>1,438</b>      | <b>70</b>             | <b>1,508</b>        |
| Attributable to:                        |                   |                       |                     |
| Parent Company's shareholders' interest | 1,407             | 70                    | 1,477               |
| non-controlling interest                | 31                | -                     | 31                  |
| Earnings per share before dilution, SEK | 12.19             | 0.60                  | 12.79               |
| Earnings per share after dilution, SEK  | 12.10             | 0.60                  | 12.70               |

## OPENING BALANCE 2017

| Statement of financial position, MSEK                             | 01-01-2017<br>Actual | Adjustment<br>IFRS 15 | 01-01-2017<br>Restated |
|---|----------------------|-----------------------|------------------------|
| <b>ASSETS</b>   |                      |                       |                        |
| Fixed assets  | 13,687               | -                     | 13,687                 |
| Deferred tax assets   | 252                  | 53                    | 305                    |
| <b>Total fixed assets</b>   | <b>13,939</b>        | <b>53</b>             | <b>13,992</b>          |
| Inventories   | 6,660                | 526                   | 7,186                  |
| Amounts due from customers -> Contract assets                     | 6,222                | -277                  | 5,995                  |
| Accounts receivable, derivatives and other short-term receivables | 7,411                | -                     | 7,411                  |
| Prepaid expenses and accrued income                               | 1,035                | -163                  | 872                    |
| Liquid assets and short-term investments                          | 5,944                | -                     | 5,944                  |
| <b>Total current assets</b>                                       | <b>27,272</b>        | <b>136</b>            | <b>27,408</b>          |
| <b>TOTAL ASSETS</b>   | <b>41,211</b>        | <b>189</b>            | <b>41,400</b>          |
| <b>EQUITY AND LIABILITIES</b>                                     |                      |                       |                        |
| <b>Equity</b>   |                      |                       |                        |
| Parent Company's shareholders' interest                           | 13,156               | -164                  | 12,992                 |
| Non-controlling interest  | 145                  | -                     | 145                    |
| <b>Total equity</b>   | <b>13,301</b>        | <b>-164</b>           | <b>13,137</b>          |
| <b>Liabilities</b>  |                      |                       |                        |
| Long-term liabilities   | 9,736                | -                     | 9,736                  |
| Amounts due to customers -> Contract liabilities                  | 7,884                | 355                   | 8,239                  |
| Other short-term liabilities and provisions                       | 10,290               | -2                    | 10,288                 |
| <b>Total liabilities</b>  | <b>27,910</b>        | <b>353</b>            | <b>28,263</b>          |
| <b>TOTAL EQUITY AND LIABILITIES</b>                               | <b>41,211</b>        | <b>189</b>            | <b>41,400</b>          |



## NOTE 46 NEW ACCOUNTING PRINCIPLES 2019

### New accounting principles

The IASB standard IFRS 16 Leases is applied as of 2019. IFRS 16 is a new standard for reporting leases and replaces IAS 17 Leasing. In brief, the new standard means for the lessee that the current classification of operating and finance leases disappears and is replaced by a model where assets and liabilities for all leases are recognised in the balance sheet.

The Group's obligations as a lessee mainly involve premises and buildings. Leases are normally signed for fixed periods over several years, but may include an extension option, as described in more detail below.

The terms are negotiated separately for each lease and contain a large number of contractual terms. The leases do not contain any special terms or restrictions whereby the contracts could be terminated if the terms are not met, but the leased assets may not be used as collateral for loans.

Leases are recognised as right-of-use assets and a corresponding liability on the day the leased asset is available for use by the Group. Each lease payment is divided between amortisation of the liability and financial cost. The financial cost is divided over the term of the lease so that each reporting period is charged with an amount corresponding to a fixed interest rate for the liability recognised in each period. The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's period of use and the lease term.

Lease liabilities are initially recognised at the present value of future lease payments, which includes fixed fees, variable lease fees linked to an index or a price, the guaranteed residual value expected to be paid to the lessor, the redemption price for any eventual purchase options and any eventual penalties to terminate the lease. The lease payments are discounted by the implicit interest if the rate can be determined, or otherwise by the marginal lending rate. Right-of-use assets have been measured at the lease liability's value, with adjustments for prepaid or accrued lease fees attributable to the contract as of 31 December 2018.

Right-of-use assets and lease liabilities will be presented as separate items in the balance sheet.

Lease payments for short-term leases and leases of low-value assets are expensed on a straight-line basis in the income statement. Short-term leases are leases of 12 months or less.

Options to extend and terminate leases are included in a number of the Group's leases on premises and buildings. The terms are used to maximise flexibility in managing the contracts. When determining the lease's term, available information that provides an economic incentive to exercise an extension, or not to exercise an option to terminate a lease, is taken into account. Options to extend a lease are included only in the lease term if it is reasonable to assume that the lease will be extended (or not terminated).

Interest costs on lease liabilities are presented as financial costs in the income statement.

Cash flows for leases are classified and presented as follows:

- The lease liability's amortisation is included in financing activities.
- Interest payments are included in cash flow from operating activities.
- Payments for short-term leases and payments for leases for which the underlying asset is of low value that are not included in the valuation of the lease liability presented in operating activities.

The Parent Company will not recognise leases in the balance sheet and instead will continue to recognise lease fees as costs on a straight-line basis over the lease term in accordance with the exemption from IFRS 16 in RFR 2 Reporting by Legal Entities.

### Transition effects due to IFRS 16

As of 1 January 2019, Saab will apply the new standard to all leases where the Group is the lessee with the exception of the leases described below. The Group has no significant leases as a lessor.

Saab intends to apply the simplified transition approach and will not restate comparative amounts. The Group intends to apply the exemptions in the standard for short-term leases as well as leases where the underlying asset is of low value, i.e. leases where the term is not more than 12 months as well as leases where the

underlying asset is of low value will not apply the new accounting principle and instead be recognised in the same way as before as a cost on a straight-line basis over the lease term.

IFRS 16 has been applied to all leases previously classified as operating leases. In accordance with the practical expedients in IFRS 16 p.C3b, the Group has not assessed any lease components in contracts that were not already classified as leases according to IAS 17 and IFRIC 4.

Right-of-use assets for leases recognised in the balance sheet will be measured initially, as of 1 January 2019, at an amount corresponding to the lease liability with adjustments for prepaid or accrued lease fees attributable to the contract as of 31 December 2018. The lease liability has been calculated by discounting remaining future contractual lease fees by the Group's weighted marginal loan rate as of 1 January 2019.

Finance leases on aircraft and properties that were already classified as tangible fixed assets have been reclassified to right-of-use assets in the balance sheet.

The transition to IFRS 16 will not affect future financial reports in terms of reporting, performance indicators or alternative performance indicators for the Group's operating segments. Adjustments in accordance with IFRS 16 will be made at an overarching Group level.

See the following table for expected effects on the financial position owing to the transition to IFRS 16.

| Statement of financial position<br>MSEK | 2018-12-31<br>Outcome | Adjustment<br>IFRS 16 | 2019-01-01<br>Restated |
|---|-----------------------|-----------------------|------------------------|
| <b>ASSETS</b>                           |                       |                       |                        |
| Tangible fixed assets                   | 6,129                 | -441                  | 5,688                  |
| Right-of-use assets                     | -                     | 2,725                 | 2,725                  |
| Other fixed assets                      | 11,015                | -                     | 11,015                 |
| <b>Total fixed assets</b>               | <b>17,144</b>         | <b>2,284</b>          | <b>19,428</b>          |
| Other receivables                       | 507                   | 44                    | 551                    |
| Prepaid expenses and accrued income     | 919                   | -63                   | 856                    |
| Other current assets                    | 37,558                | -                     | 37,558                 |
| <b>Total current assets</b>             | <b>38,984</b>         | <b>-19</b>            | <b>38,965</b>          |
| <b>TOTAL ASSETS</b>                     | <b>56,128</b>         | <b>2,265</b>          | <b>58,393</b>          |
| <b>EQUITY AND LIABILITIES</b>           |                       |                       |                        |
| Parent Company's shareholders' interest | 19,412                | -                     | 19,412                 |
| Non-controlling interest s              | 221                   | -                     | 221                    |
| <b>Total equity</b>                     | <b>19,633</b>         | <b>-</b>              | <b>19,633</b>          |
| Long-term interest-bearing liabilities  | 8,196                 | -421                  | 7,775                  |
| Long-term lease liabilities             | -                     | 2,296                 | 2,296                  |
| Other provisions                        | 1,081                 | 32                    | 1,113                  |
| Other long-term liabilities             | 5,319                 | -                     | 5,319                  |
| <b>Total long-term liabilities</b>      | <b>14,596</b>         | <b>1,907</b>          | <b>16,503</b>          |
| Short-term interest-bearing liabilities | 1,068                 | -41                   | 1,027                  |
| Short-term lease liabilities            | -                     | 399                   | 399                    |
| Other short-term liabilities            | 20,831                | -                     | 20,831                 |
| <b>Total short-term liabilities</b>     | <b>21,899</b>         | <b>358</b>            | <b>22,257</b>          |
| <b>Total liabilities</b>                | <b>36,495</b>         | <b>2,265</b>          | <b>38,760</b>          |
| <b>TOTAL EQUITY AND LIABILITIES</b>     | <b>56,128</b>         | <b>2,265</b>          | <b>58,393</b>          |

## NOTE 47 EXCHANGE RATES USED IN FINANCIAL STATEMENTS

| Land           |     |     | Year-end rate |        | Average rate |        |
|----------------|-----|-----|---------------|--------|--------------|--------|
|                |     |     | 2018          | 2017   | 2018         | 2017   |
| Australia      | AUD | 1   | 6.32          | 6.42   | 6.49         | 6.54   |
| Brazil         | BRL | 1   | 2.32          | 2.49   | 2.39         | 2.68   |
| Denmark        | DKK | 100 | 137.60        | 132.29 | 137.62       | 129.49 |
| Euro           | EUR | 1   | 10.28         | 9.85   | 10.26        | 9.63   |
| India          | INR | 100 | 12.82         | 12.86  | 12.71        | 13.13  |
| Canada         | CAD | 1   | 6.59          | 6.56   | 6.71         | 6.58   |
| Norway         | NOK | 100 | 102.45        | 100.11 | 106.87       | 103.30 |
| Switzerland    | CHF | 1   | 9.10          | 8.43   | 8.88         | 8.67   |
| UK             | GBP | 1   | 11.35         | 11.10  | 11.59        | 10.99  |
| South Africa   | ZAR | 100 | 62.13         | 66.96  | 65.87        | 64.14  |
| Czech Republic | CZK | 100 | 39.81         | 38.49  | 39.99        | 36.61  |
| USA            | USD | 1   | 8.97          | 8.23   | 8.69         | 8.54   |

## NOTE 48 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](http://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 investments** Acquisitions and divestments of intangible and tangible fixed assets.

**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.

**Non-recurring items** Non-recurring items of profit with a significant impact on the results and which are important for understanding the underlying business development.

**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.

**R&D expenditures** 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. Total research and development expenses also include the part of Saab's research and development that is conducted in cooperation with customers, which is reported as cost of goods sold.

## NOTE 49 SIGNIFICANT EVENTS AFTER THE CONCLUSION OF THE PERIOD

- On 3 January, Saab completed a successful first flight with the second GlobalEye Airborne Early Warning & Control (AEW&C) aircraft.
- Supported by Sweden, Saab submitted a proposal for the Swiss New Fighter Aircraft procurement to armasuisse, the Swiss defence procurement agency. Saab is offering Gripen E and a comprehensive industrial participation programme for Swiss industry corresponding to 100 percent of the contract value.
- Saab signed a contract in January with the UK Ministry of Defence for support and services related to the land-based Giraffe AMB radar systems. This multi-function radar has been in operation in the UK since 2007.
- Supported by Sweden, Saab submitted a proposal for the Finnish HX fighter procurement to the Finnish defence procurement agency, the Logistics Command of the Finnish Defence Forces. The proposal comprises 64 Gripen aircraft, both single-seat Gripen E and dual-seat Gripen F, and is the formal response to the customer's Request for Quotation (RFQ) issued in April 2018.
- The last shares in connection with Saab's rights issue were registered on 31 January, finalising the issue.

## 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, with operations that are characterised 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 is proposing a total dividend of MSEK 601 (588), an increase of 2.2 per cent, corresponding to SEK 4.50 per share (5.50). The completed rights issue increases the number of dividend-paying shares by 25 per cent.

Saab AB's unrestricted equity amounts to MSEK 10,849 and profit carried forward in the Group before the dividend is paid amounts to MSEK 11,067.

Net income for the year attributable to the Parent Company's shareholders amounted to MSEK 1,313 for the Group and MSEK 1,075 for the Parent Company.

After paying the dividend to the shareholders, the Group's equity/assets ratio amounts to 34.3 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 35.0 per cent in 2018.

Saab's gross capital expenditure in 2018 amounted to MSEK 1,481. Investments are also made in research and development, which in 2018 amounted to MSEK 2,223, of which MSEK 1,140 was capitalised in the balance sheet.

At year-end, Saab had net debt, which includes liquid assets, short-term investments and interest-bearing receivables less interest-bearing liabilities, including provisions for pensions, amounting to MSEK 1,460.

The proposed dividend is not expected to affect Saab's ability to carry out its commitments on a short- or 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 of Saab AB

# Proposed disposition of earnings 2018

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                                     | 4,216,961,639         |
| Share premium reserve                                 | 5,557,130,127         |
| Net comprehensive income for the year                 | 1,075,469,016         |
| <b>Total</b>  | <b>10,849,560,782</b> |
| be disposed as follows:                               |                       |
| To the shareholders, a dividend of SEK 4.50 per share | 600,672,960           |
| To share premium reserve                              | 5,557,130,127         |
| Funds to be carried forward                           | 4,691,757,695         |
| <b>Total</b>  | <b>10,849,560,782</b> |

After the proposed disposition, equity in the Parent Company will be as follows:

| SEK                   |                       |
|-----------------------|-----------------------|
| Capital stock         | 1,746,405,504         |
| Ongoing rights issue  | 427,128,048           |
| Statutory reserve     | 542,471,135           |
| Revaluation reserve   | 669,183,636           |
| Share premium reserve | 5,557,130,127         |
| Retained earnings     | 4,691,757,695         |
| <b>Total</b>          | <b>13,634,076,145</b> |

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 601 (588), or SEK 4.50 per share (5.50) be issued as a dividend. This has been calculated based on the amount of outstanding shares on 31 December 2018, of 133,482,880 (106,823,782). Saab's equity/assets ratio is currently 35.0 per cent (31.7) and after the proposed disposition of earnings will be 34.3 per cent (30.8)

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 25 February 2019

Marcus Wallenberg  
Chairman

Sten Jakobsson  
Deputy Chairman

Danica Kragic Jensfelt  
Board member

Sara Mazur  
Board member

Daniel Nodhäll  
Board member

Bert Nordberg  
Board member

Cecilia Stegö Chilö  
Board member

Erika Söderberg Johnson  
Board member

Joakim Westh  
Board member

Stefan Andersson  
Board member

Göran Gustavsson  
Board member

Nils Lindskog  
Board member

Håkan Buskhe  
President and Chief Executive Officer (CEO) and board member

Our audit report was submitted on 1 March 2019  
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 2018 except for the corporate governance statement and the statutory sustainability report on pages 68–77 and 52–67 respectively. The annual accounts and consolidated accounts of the company are included on pages 38–135 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 2018 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 2018 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 corporate governance statement and the statutory sustainability report on pages 68 to 77 and 52 to 67 respectively. 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.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the addi-

tional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

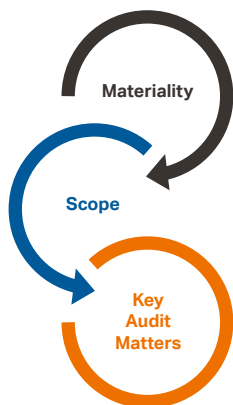
### Basis for Opinions

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 SEK 100 million 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 and USA 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. From 2018 Saab recognize revenue according to IFRS 15, revenue from contracts with customers.

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 completion, 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 and USA. 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 continuously 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 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.

|   |   |
|---|---|
| <b>Group Materiality</b>                              | SEK 100 million.  |
| <b>How we determined it</b>                           | Five percent of operating profit.   |
| <b>Rational for the materiality benchmark applied</b> | 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 over time 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 fulfillment of performance obligations 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 48 to 51 and in the notes to the financial statements (note 2 and 4) the accounting principles are described in more detail.

From 2018 Saab recognise revenue according to IFRS 15, revenue from contracts with customers.

## 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 48 to 51.

In our audit we have evaluated the design of these processes, methods and controls and tested on a sample basis 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 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.

Contracts for 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.

As part of our audit of long term contracts during the year we have considered the application of IFRS 15.

### 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 to 37 and 142 to 144 as well as the statutory sustainability report on page 52 to 67. 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.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the auditor's report.

### 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 2018 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.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the auditor's report.

#### ***The auditor's examination of the corporate governance statement***

The Board of Directors is responsible for that the corporate governance statement on pages 68 to 77 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.

#### ***The auditor's opinion regarding the statutory sustainability report***

The Board of Directors is responsible for the statutory sustainability report on pages 52 to 67, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR:s auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report 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 opinion.

A statutory sustainability report has been prepared.

PricewaterhouseCoopers AB, Stockholm, was appointed auditor of Saab AB (publ)'s by the general meeting of the shareholders on the 15 April 2015 and has been the company's auditor since the 7 April 2011.

Stockholm 1 March 2019

PricewaterhouseCoopers AB

Bo Hjalmarsson  
Authorized public accountant

# Information to shareholders

## Annual General Meeting 2019

The Annual General Meeting will be held at 4:00 pm (CET) on Thursday, 11 April 2019 at Saab's hangar, Åkerbovägen 10, Linköping, Sweden.

## Notification

Shareholders must notify the company of their intention to participate in the meeting not later than Friday, 5 April 2019.

- By telephone +46 13 18 20 55
- By mail to: Saab Aktiebolag c/o Euroclear Sweden AB, Box 191, SE-101 23 Stockholm, Sweden
- Online: [www.saabgroup.com/arsstamma](http://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 as indicated above.

## Right to participate

Only shareholders recorded in the share register maintained by Euroclear Sweden AB on Friday, 5 April 2019 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 Friday, 5 April 2019, they must request re-registration with their nominees several business days in advance.

## Dividend

The Board of Directors proposes a dividend of SEK 4.50 per share and 15 April 2019 as the record day for the dividend. With this record day, Euroclear Sweden AB is expected to distribute the dividend on 18 April 2019.

## Distribution of the annual report

The annual report will be available on Saab's website, [www.saabgroup.com](http://www.saabgroup.com), approximately three weeks prior to the Annual General Meeting on 11 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](mailto:servicecenter@servistik.se).



# Multi-year overview

| MSEK, unless otherwise indicated   | 2018                     | 2017          | 2016          | 2015          | 2014          | 2013          | 2012          | 2011          | 2010          | 2009          |
|--|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Order bookings   | 27,975                   | 30,841        | 21,828        | 81,175        | 22,602        | 49,809        | 20,683        | 18,907        | 26,278        | 18,428        |
| Order backlog 31 December  | 102,184                  | 107,233       | 107,606       | 113,834       | 60,128        | 59,870        | 34,151        | 37,172        | 41,459        | 39,389        |
| <b>Sales</b>   | <b>33,156</b>            | <b>31,666</b> | <b>28,631</b> | <b>27,186</b> | <b>23,527</b> | <b>23,750</b> | <b>24,010</b> | <b>23,498</b> | <b>24,434</b> | <b>24,647</b> |
| Foreign market sales, %  | 59                       | 58            | 57            | 58            | 55            | 59            | 64            | 63            | 62            | 69            |
| Defence sales, %   | 85                       | 84            | 83            | 82            | 79            | 81            | 82            | 84            | 83            | 83            |
| <b>Operating income (EBIT)</b>   | <b>2,266</b>             | <b>2,250</b>  | <b>1,797</b>  | <b>1,900</b>  | <b>1,659</b>  | <b>1,345</b>  | <b>2,050</b>  | <b>2,941</b>  | <b>975</b>    | <b>1,374</b>  |
| Operating margin, %  | 6.8                      | 7.1           | 6.3           | 7.0           | 7.1           | 5.7           | 8.5           | 12.5          | 4.0           | 5.6           |
| Operating income before depreciation/<br>amortisation and write-downs (EBITDA)               | 3,182                    | 3,089         | 2,743         | 2,859         | 2,523         | 2,367         | 3,168         | 4,088         | 2,187         | 2,598         |
| EBITDA margin, %   | 9.6                      | 9.8           | 9.6           | 10.5          | 10.7          | 10.0          | 13.3          | 17.4          | 9.0           | 10.5          |
| Financial income   | 193                      | 121           | 90            | 169           | 103           | 62            | 153           | 162           | 116           | 50            |
| Financial expenses   | -663                     | -272          | -276          | -338          | -239          | -428          | -202          | -324          | -341          | -450          |
| Income after financial items   | 1,796                    | 2,099         | 1,611         | 1,731         | 1,523         | 979           | 2,003         | 2,783         | 776           | 976           |
| <b>Net income for the year</b>   | <b>1,366</b>             | <b>1,508</b>  | <b>1,175</b>  | <b>1,402</b>  | <b>1,168</b>  | <b>742</b>    | <b>1,560</b>  | <b>2,217</b>  | <b>454</b>    | <b>699</b>    |
| Net income attributable to Parent Company's<br>shareholders                                  | 1,313                    | 1,477         | 1,133         | 1,362         | 1,153         | 741           | 1,585         | 2,225         | 433           | 686           |
| Total assets   | 56,128                   | 44,998        | 41,211        | 35,088        | 29,556        | 27,789        | 28,938        | 31,799        | 29,278        | 30,430        |
| – of which total equity  | 19,633                   | 14,285        | 13,301        | 12,912        | 11,373        | 12,227        | 11,280        | 13,069        | 11,444        | 10,682        |
| – of which equity attributable to Parent Company's<br>shareholders                           | 19,412                   | 14,097        | 13,156        | 12,851        | 11,291        | 12,136        | 11,168        | 12,950        | 11,274        | 10,542        |
| Equity per share, SEK <sup>1)</sup>  | 145.43                   | 121.86        | 114.17        | 111.99        | 98.83         | 105.31        | 97.35         | 113.53        | 99.41         | 92.26         |
| Net liquidity/debt excluding interest-bearing<br>receivables and net provisions for pensions | 2,190                    | 344           | 28            | -1,880        | 185           | 1,953         | 3,837         | 4,735         | 2,382         | -1,631        |
| Net liquidity/debt <sup>6)</sup>   | -1,460                   | -1,834        | -1,836        | -3,217        | -2,113        | 813           | 1,996         | 5,333         | 3,291         | -634          |
| Cash flow from operating activities  | -490                     | 3,164         | 4,154         | 358           | -713          | -662          | 350           | 2,392         | 4,487         | 1,696         |
| <b>Free cash flow<sup>6)</sup></b>   | <b>-3,195</b>            | <b>852</b>    | <b>2,359</b>  | <b>-726</b>   | <b>-1,094</b> | <b>-1,460</b> | <b>-396</b>   | <b>2,477</b>  | <b>4,349</b>  | <b>1,447</b>  |
| Free cash flow per share after dilution, SEK <sup>3)</sup>                                   | -27.27                   | 7.33          | 20.38         | -6.30         | -9.45         | -12.35        | -3.35         | 20.96         | 36.79         | 12.24         |
| Average capital employed   | 28,151                   | 22,495        | 21,135        | 18,454        | 15,897        | 15,454        | 15,131        | 13,987        | 13,743        | 13,775        |
| Average equity   | 16,959                   | 13,793        | 13,107        | 12,143        | 11,800        | 11,754        | 12,175        | 12,257        | 11,063        | 10,006        |
| Return on capital employed, %  | 8.7                      | 10.5          | 8.9           | 11.2          | 11.1          | 9.1           | 14.6          | 22.2          | 7.9           | 10.3          |
| Return on equity, %  | 8.1                      | 10.9          | 9.0           | 11.5          | 9.9           | 6.3           | 12.8          | 18.1          | 4.1           | 7.0           |
| Profit margin, %   | 7.42                     | 7.49          | 6.59          | 7.61          | 7.49          | 5.92          | 9.18          | 13.21         | 4.47          | 5.78          |
| Capital turnover rate, multiple  | 1.18                     | 1.41          | 1.35          | 1.47          | 1.48          | 1.54          | 1.59          | 1.68          | 1.78          | 1.79          |
| Equity/assets ratio, %   | 35.0                     | 31.7          | 32.3          | 36.8          | 38.5          | 44.0          | 39.0          | 41.1          | 39.1          | 35.1          |
| Interest coverage ratio, multiple  | 3.71                     | 8.72          | 6.84          | 6.12          | 7.37          | 3.29          | 10.91         | 9.58          | 3.20          | 3.16          |
| Earnings per share before dilution, SEK <sup>2) 5)</sup>                                     | 11.27                    | 12.79         | 9.85          | 11.90         | 10.03         | 6.45          | 13.86         | 19.57         | 3.80          | 5.96          |
| Earnings per share after dilution, SEK <sup>3) 5)</sup>                                      | 11.21                    | 12.70         | 9.79          | 11.81         | 9.96          | 6.27          | 13.41         | 18.82         | 3.66          | 5.80          |
| <b>Dividend, SEK</b>   | <b>4.50<sup>4)</sup></b> | <b>5.50</b>   | <b>5.25</b>   | <b>5.00</b>   | <b>4.75</b>   | <b>4.50</b>   | <b>4.50</b>   | <b>4.50</b>   | <b>3.50</b>   | <b>2.25</b>   |
| Gross capital expenditures for tangible<br>fixed assets                                      | 1,481                    | 1,093         | 807           | 799           | 732           | 543           | 328           | 325           | 262           | 197           |
| Research and development costs   | 7,562                    | 7,348         | 7,421         | 6,841         | 5,970         | 6,543         | 5,946         | 5,116         | 5,008         | 4,820         |
| <b>Number of employees at year-end</b>   | <b>17,096</b>            | <b>16,427</b> | <b>15,465</b> | <b>14,685</b> | <b>14,716</b> | <b>14,140</b> | <b>13,968</b> | <b>13,068</b> | <b>12,536</b> | <b>13,159</b> |

<sup>1)</sup> Number of shares, excluding treasury shares, as of 31 December 2018: 133,482,880; 2017: 115,685,451; 2016: 115,232,495; 2015: 114,746,834; 2014: 114,251,832; 2013: 115,241,831; 2012: 114,718,422; 2011: 114,069,871; 2010: 113,404,688; 2009: 114,263,900.

<sup>2)</sup> Average number of shares before dilution 2018: 116,467,822; 2017: 115,444,915; 2016: 114,971,098; 2015: 114,484,478; 2014: 114,929,422; 2013: 114,928,817; 2012: 114,395,790; 2011: 113,691,233; 2010: 113,946,228; 2009: 115,156,720.

<sup>3)</sup> Average number of shares after dilution 2018: 117,144,915; 2017: 116,310,466; 2016: 115,775,275; 2015: 115,280,946; 2014: 115,785,595; 2013: 118,205,015; 2012: 118,205,015; 2011: 118,205,015; 2010: 118,205,015; 2009: 118,205,015.

<sup>4)</sup> Board of Directors' proposal.

<sup>5)</sup> Net income less non-controlling interest divided by average number of shares.

<sup>6)</sup> For more information and explanations regarding the usage of these key ratios, please see [saabgroup.com](http://saabgroup.com), investor, financial data, key ratios.

Financials for 2017 are restated according to the changed accounting principles for revenue from agreements with customers (IFRS 15).

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.

The average number of outstanding shares during the period, as well as for previously reported periods for comparative purposes, have been adjusted in accordance with IAS 33 "Earnings per share", in accordance with the terms of rights issue.

# Glossary

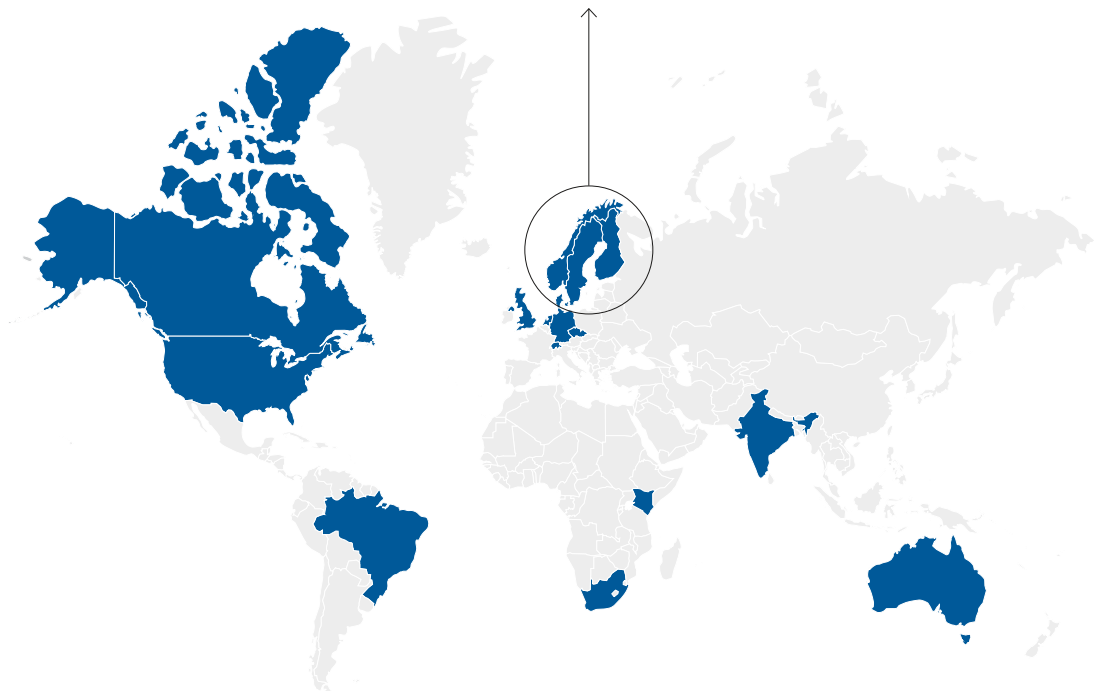
|                    |   |                    |  |
|--------------------|---|--------------------|--|
| <b>9LV</b>         | Combat Management System  | <b>GlobalEye</b>   | Airborne surveillance system (AEW&C)                         |
| <b>A26</b>         | Submarine programme for the Swedish Navy                              | <b>GLSDB</b>       | Ground Launched Small Diameter Bomb                          |
| <b>AEW&amp;C</b>   | Airborne Early Warning & Control                                      | <b>GRI</b>         | Global Reporting Initiative                                  |
| <b>Arthur</b>      | Artillery Hunting Radar   | <b>Gripen</b>      | Fighter system   |
| <b>AT4</b>         | Anti-Tank weapon  | <b>ICT</b>         | Information and Communications Technology                    |
| <b>Carl-Gustaf</b> | Man-portable multi-role weapons system                                | <b>ISP</b>         | Swedish Inspectorate of Strategic Products                   |
| <b>CBRN</b>        | Chemical, Biological, Radiological, Nuclear agents                    | <b>ISR</b>         | Intelligence, surveillance and reconnaissance                |
| <b>CDP</b>         | Carbon Disclosure Project   | <b>LTI</b>         | Long-Term Incentive Programme                                |
| <b>Erieye</b>      | Airborne surveillance system (AEW&C)                                  | <b>R&amp;D</b>     | Research and Development                                     |
| <b>FMV</b>         | Försvarets Materielverk (Swedish Defence and Materiel Administration) | <b>SOTACS</b>      | Special Operations Tactical Suit                             |
| <b>FTE</b>         | Full Time Equivalent  | <b>T-X Program</b> | The United States procurement programme for fighter trainers |
| <b>Giraffe</b>     | Surveillance radar system   |                    |  |
| <b>GHG</b>         | Greenhouse gas emissions  |                    |  |

# Saab in the world

## Number of employees

| Number of employees by city                                       | 31 Dec 2018   |
|---|---------------|
| Linköping, Sweden   | 6,276         |
| Göteborg, Sweden  | 1,575         |
| Järfälla, Sweden  | 1,297         |
| Karlskoga, Sweden   | 957           |
| Karlskrona, Sweden  | 733           |
| Gauteng/Centurion/Pretoria/Johannesburg/Bedfordview, South Africa | 649           |
| Husvarna, Sweden  | 543           |
| East Syracuse NY, USA   | 528           |
| Malmö, Sweden   | 511           |
| Arboga, Sweden  | 504           |
| Växjö, Sweden   | 342           |
| Adelaide SA, Australia  | 335           |
| Stockholm, Sweden   | 245           |
| Östersund, Sweden   | 187           |
| Trollhättan, Sweden   | 143           |
| Fareham, UK   | 141           |
| Apeldoorn, Netherlands  | 106           |
| Uttenreuth, Germany   | 102           |
| Sönderborg, Denmark   | 90            |
| Slavkov, Tjeckien   | 81            |
| Gamleby, Sweden   | 80            |
| Jönköping, Sweden   | 76            |
| Nyköping, Sweden  | 73            |
| Thun BE, Switzerland  | 63            |
| Western Cape/Cape Town/Hermanus/Bredasdorp, South Africa          | 61            |
| Docksta, Sweden   | 53            |
| Luleå, Sweden   | 52            |
| Lillington, US  | 50            |
| Rockingham WA, Australia  | 50            |
| Norrköping, Sweden  | 46            |
| Tampere, Finland  | 46            |
| Haninge, Sweden   | 40            |
| Singapore   | 38            |
| Zeist, Netherlands  | 34            |
| Helsingborg, Sweden   | 34            |
| Vancouver, BC, Canada   | 29            |
| Other   | 926           |
| <b>Total</b>  | <b>17,096</b> |

| Number of employees by country | 31 Dec 2018   |
|--------------------------------|---------------|
| Sweden                         | 14,086        |
| South Africa                   | 711           |
| USA                            | 650           |
| Australia                      | 410           |
| UK                             | 204           |
| Netherlands                    | 149           |
| Germany                        | 130           |
| Denmark                        | 102           |
| Finland                        | 92            |
| Czech Republic                 | 91            |
| Switzerland                    | 63            |
| Canada                         | 60            |
| India                          | 47            |
| Brazil                         | 46            |
| Norway                         | 46            |
| United Arab Emirates           | 33            |
| Kenya                          | 29            |
| Other                          | 109           |
| <b>Total</b>                   | <b>17,096</b> |



## Contact information

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**SAAB**