

INTERIM- REPORT

January – September

1999



- **Kockums Naval Systems has merged with Howaldtswerke Deutsche Werft (HDW), and Celsius has thereby become joint owner of a global leader in the building of conventional (non-nuclear) submarines and naval surface vessels.**
- **An agreement has been signed concerning a merger of Celsius Aerotech and the Swedish defence contracting units of TietoEnator, which are to be incorporated as a new company.**
- **A new Group structure has been established in response to the recent implementation of a number of structural transactions. This new Group structure is expected to yield savings amounting to at least SEK 70 M.**
- **Cutbacks affecting some 400 employees within business area Defence were implemented during the period. Notice was also given concerning further cutbacks involving an additional 400-plus employees.**
- **Operating income for the fourth quarter, prior to non-recurring items, is expected to be at approximately the same level as for the corresponding quarter last year. The forecast includes a planned provision for structural measures amounting to c. SEK 100 M. However, the market situation confronting the Group's defence-sector operations remains uncertain.**
- **Income after financial items amounted to SEK 79 M (387)¹ for the period and operating income to SEK 103 M (375). Income was positively affected by non-recurring items amounting to SEK 53 M (194).**
- **The level of orders received was at the same level as for the corresponding period last year, amounting to SEK 7,391 M (7,416).**

1) Figures in parentheses refer to 1998

Celsius' declared strategy is to consolidate operations with a view to creating a knowledge-driven company focused on advanced products and services. The two strategically im-

portant structural transactions implemented during the third quarter were a significant step in this direction. Celsius is proactively participating in the ongoing restructuring of the European defence industry.

During the period, Celsius signed contracts with two German companies, Babcock Borsig and Preussag, concerning the formation of a European shipbuilding company by merging the German company HDW (Howaldtswerke-Deutsche Werft) and Kockums Naval Systems. According to the terms of the agreement, Preussag sells 25 percent plus one of its HDW shares to Celsius. At the same time, HDW acquires all shares in Kockums Naval Systems from Celsius. The transaction will be effective as per October 1, 1999.

The merger of HDW and Kockums creates a new international company that will be a leading global player in the conventional (non-nuclear) submarine and naval surface vessel sectors. An agreement has also been signed between Celsius and HDW, stating the conditions of an acquisition of Celsius' 49-percent stake in Australian submarine builder, Australian Submarine Corporation (ASC).

The newly merged 'HDW Group' will have annual sales of approximately SEK 9 billion, an orderbook in excess of SEK 31.5 billion, and more than 4 300 employees. The agreement also includes an option that would allow Celsius to increase its stake in the company, as well as the right to sell its stake at some future date. The right to sell this stake may not be exercised prior to January 1, 2001, and at a predetermined price of DEM 355 M. Babcock Borsig has a call option on Celsius' 25-percent stake as of July 1, 2002, at an agreed price of DEM 370 M. Celsius will book this transaction as an exchange of shares, which will have a limited impact on net goodwill. Prior to implementation, the transaction must be approved by the respective authorities.

During the period, agreement was reached concerning a merger of the Celsius subsidiary Celsius Aerotech with the defence-related operations of TietoEnator.

Celsius will have a 57-percent majority holding in the new company, while TietoEnator will control the remaining 43 percent. The new company will number some 2,500 employees, with sales in excess of SEK 2.2 billion, and will be strongly focused on IT operations. Approximately two thirds of the new company is focused on the defence sector, in areas of long-term potential that have been awarded priority in defence planning. This will create a larger and stronger unit in that segment of the defence market that is expected to grow, both in Sweden and internationally. Contracts for industrial customers also offer considerable growth potential, and the companies now being merged complement each other well.

The new company will formally be established at the turn of the year (1999/2000). The merger will therefore have no financial impact on Celsius prior to the year 2000. These two proprietary constellations will be assessed in terms of their market value. TietoEnator will bring its companies into Celsius Aerotech, whereby goodwill in an amount of approximately SEK 250 M will arise in Celsius' consolidated accounts. The agreement contains an option clause, which awards Celsius after 18 months the right to acquire TietoEnator's shares in the new company at a predetermined price of SEK 1,200 M. Should Celsius choose not to exercise this option, TietoEnator has in its turn the right to demand that Celsius purchase all the shares after 20 months at a predetermined price of SEK 1,100 M.

The structural transactions completed during the third quarter have led to the establishment of a new Celsius Group organization. The majority of Group operations are divided into three business areas: Defence, Aerotech Services and

Aviation Services. As earlier, a unit for Business Development operates in parallel to the three business areas. The Group also comprises operations in which Celsius has a significant joint interest, together with Niche Companies. This new Group structure involves an important downsizing of the central organization. In total, the new Group structure is expected to yield annual savings of at least SEK 70 M.

The first nine months of 1999 have been affected by the considerable uncertainty surrounding the future focus of the Swedish Defence Forces and the consequent scale of Sweden's future defence materiel requirements. This has led to delays and postponements in order inflow, which has contributed to the very poor development of earnings.

This will require further cost efficiencies and rationalization in the Company's joint defence operations. Redundancy notices affecting more than 400 employees have been issued during the period.

Since Autumn 1997, the Group has been engaged in comprehensive restructuring with a view to concentrating operations to a number of selected core business areas, in both the defence and commercial sectors. In addition to the structural transactions named above, this work has resulted in a number of acquisitions and divestments during the year.

During the period, Celsius formed a joint venture company with Grintek Group in South Africa, a company that will be a leading player in the field of electronic warfare, a field that is gaining increasing importance in the context of the high-tech defence forces of the future. Celsius has a 49-percent holding in the newly formed company, Avitronics: Grintek controls the outstanding 51 percent.

At the beginning of the year, Celsius and Saab each acquired a 50-percent joint interest in GP&C Sweden AB from the Swedish Space Corporation. The company develops and markets a system which transmits position and identity between ships and aircraft. With this acquisition, the companies establish a solid platform for continued development, manufacturing and marketing in a segment that is expected to expand sharply over the next few years.

Celsius Metech AB, which is part of business unit Celsius Aerotech, established operations in Denmark and Germany by acquiring the calibration division of Danish Aerotech.

To secure the most advanced competence in software- and systems development, inside and outside the Group, Celsius formed a new subsidiary, Celsius Consultants.

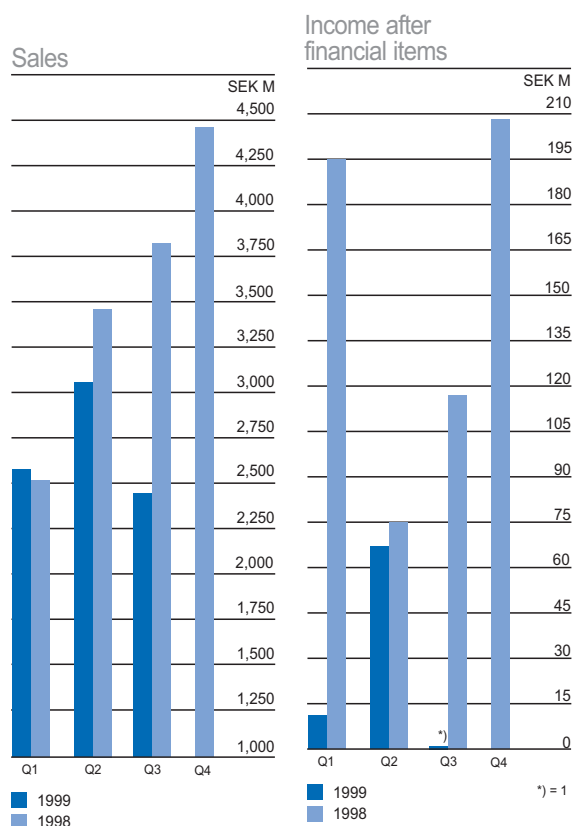
The two wholly-owned subsidiaries, GVA Consultants and Kockums Computer Systems (KCS) were sold, having only a marginal effect on Group earnings.

Income after financial items for the nine months ending September 30 amounted to SEK 79 M (387). Excluding non-recurring items, income amounted to SEK 26 M (193). During the report period, a dispute with the tax authorities concerning an earlier corporate divestment was ruled in favour of Celsius, permitting the realization of reserves totalling SEK 53 M.

Celsius has been informed by SPP (Swedish Staff Pension) insurance company that the Group's share of SPP's surplus consolidation amounts to SEK 682 M. The sum pertains to the excessive premium payments made in previous years. The date and terms for the realization of this sum have yet to be confirmed.

ORDERS RECEIVED

Orders received for the nine months ending September 30, which were at approximately the same level as for the same period last year, amounted to SEK 7,391 M (7,416). Business area Defence accounted for some 62 (60) percent of



the total order inflow, Commercial Aviation Services for approximately 27 (27) percent, Business Development for approximately 7 (5) percent, and Niche Companies for 4 (8) percent.

ORDER BACKLOG

The Group's order backlog declined by approximately SEK 1,100 M during the period, amounting to approximately SEK 12.8 billion at the end of the third quarter. Business area Defence accounts for about 90 percent of the order backlog. The other business areas have shorter throughput times and, therefore, lower order backlogs.

SALES AND INCOME

Group sales for the nine months ending September 30 declined by approximately SEK 1,700 M compared with the same period last year, amounting to SEK 8,101 M (9,823). Commercial Aviation Services reports a sales increase of approximately SEK 260 M and business area Defence a decline of approximately SEK 970 M. Business area Business Development noted an increase of about SEK 50 M, while Niche Companies reported a decline of approximately SEK 1,100 M. More than SEK 900 M of the decline reported by Niche Companies is attributable to the redelivery of the Petrobras XXIII drilling rig to the Brazilian customer, Petrobras, following its conversion, and to a number of corporate divestments.

Operating income for the period amounts to SEK 103 M (375). Excluding non-recurring items, the decline in income amounts to SEK 131 M. Business Area Development accounts for the largest decline in income, amounting to SEK 77 M. The decline is partly attributable to development costs incurred in the Infomatics field and also attributable to Nexplo's weak income development, mainly the result of an inadequate volume of orders. The result reported by Niche Companies in 1998 was sharply inflated by the aforementioned

tioned redelivery of a drilling rig after its conversion. The negative deviation for the period, prior to non-recurring items, amounts to approximately SEK 60 M. Business Area Defence also accounts for a large part of this decline in earnings, amounting to SEK 24 M, deriving mainly from a lower level of sales and reduced capacity utilization, attributable to postponement of expected order inflow. Business Area Commercial Aviation Services reports an operating income marginally higher than that for the same period last year.

FINANCIAL POSITION

Celsius Group liquid funds, which amounted to SEK 1,173 M at the close of the period, have declined by SEK 261 M since year-end 1998 (1 434).

Investments in property, machinery and equipment amounted to SEK 193 M (188) for the period. Depreciations totalled SEK 262 M (247).

Total assets have declined by SEK 654 M since year-end 1998, amounting to SEK 11 884 M by the close of the report period. Total assets amounted to SEK 12 538 M at year-end 1998.

The equity/assets ratio at the close of the period was 28 percent, one percentage unit higher than at year-end 1998.

NUMBER OF EMPLOYEES

The number of Group employees declined during the period by some 600 persons, totalling approximately 10 300 persons at the close of the period. This reduction in personnel, although deriving mainly from business area Defence, was also partly attributable to corporate divestments by business area Niche Companies.

COMMENTS BY BUSINESS AREA

Defence

The inflow of orders for business area Defence rose during the period by approximately SEK 200 M, amounting to SEK 4,726 M (4,522). Sales declined sharply during the period to SEK 5,292 M (6,261). The order backlog has decreased by almost SEK 800 M since year-end 1998. Operating income declined, amounting to SEK 98 M (122). As well as by the lower level of sales, income has been adversely affected by delays and postponements of procurement orders from the Swedish armed forces. Business area Defence numbered 7,055 (7,457) employees at the close of the period. During the report period, notice was given to slightly more than 400 defence employees.

Large orders during the period included one from the Swedish Defence Materiel Administration (FMV), received by Kockums Naval Systems, for an additional two Visby-class corvettes, worth approximately SEK 900 M. This means that Kockums Naval Systems now has six Visby-class corvettes on order.

Kockums Naval Systems also received an order for two KBV 201 "multi-role" vessels for the Swedish Coast Guard. The order is worth approximately SEK 240 M. Bofors Underwater Systems received an order from Brazil for the Torpedo 2000 weapon system. The order is worth in the region of SEK 500 M. As the first export order for this system, it is of crucial significance to future export efforts. A number of other countries have expressed keen interest in Torpedo 2000.

Celsius received orders from the Venezuelan Army to a combined value of approximately SEK 375 M. These comprised an export order for deliveries of the RBS 70 man-portable air-defence missile and additional missile equipment from Bofors Missiles, and orders for ammunition for the Carl Gustaf multi-role weapon and the AT4 anti-armour

weapon from Bofors Anti Armour Systems.

During the period, Bofors Weapon Systems received two orders for spares for the Indian Army. These are follow-on orders that fall within the framework of the original FH (Field Howitzer) 77B export contract, signed in 1986, and mean that Celsius can resume operations on the Indian market.

Bofors Weapon Systems has also received an order from FMV for the first phase of a Swedish-American project for joint development of a TCM (Trajectory Correctable Munition). The order amounts to SEK 75 M.

The Swedish Defence Materiel Administration (FMV) has placed an order for the development and supply of a computerized command-and-control support system for mechanized battalions. Bofors Weapon Systems will be acting as primary supplier within the Celsius Group, and the project will be conducted in collaboration with CelsiusTech Systems and Celsius Aerotech. The order is valued at approximately SEK 50 M.

Bofors Weapon Systems also received an order from FMV for an upgrade of the CV 9040A combat vehicle. The order is worth about SEK 34 M. The first deliveries of upgraded vehicles are scheduled for November of this year, with final deliveries scheduled for the beginning of 2001.

During the report period, industrial representatives from Denmark, Norway and Sweden signed a Letter of Intent concerning cooperation between the three countries, and formed an industrial consortium with a view to collaborating on the Viking submarine project, with the intention of developing the next generation of submarines. The companies that form the Viking Industrial Group are Odense Staalsskibsværft (Denmark); Kongsberg Defence & Aerospace (Norway) and Celsius, via Kockums Naval Systems. The Project Viking concept has been established to coordinate the prospective procurement of next-generation submarines for these three Nordic countries, thereby reducing costs for each country. Feasibility studies are currently in progress.

Celsius has also been selected to supply radar warning receivers (RWRs) for Germany's Tornado combat aircraft, an important step forward for CelsiusTech Electronics, which now enters the export market with its warner know-how. Contract negotiations are expected to have been completed by summer 2000.

The consortium Systems Engineering Consortium of Australia (SECA) – including Celsius – decided on commercial grounds not to bid for Australian defence contractor ADI.

Following the close of the period, FMV, acting on the instructions of the Swedish Defence Forces, has placed an order for the RBS 23 BAMSE missile system with Bofors Missiles. The order, worth SEK 55 M, is a bridging order, designed to secure the retention of competence in the high-tech field of missile development and thereby enable placement of a subsequent series order, when a final decision has been reached concerning procurement of the air-defence missile system.

Also after the close of the period, Bofors Anti Armour Systems has received an order from the British Ministry of Defence (MoD) to conduct the project definition phase for the next generation NLAW anti-armour weapon.

Commercial Aviation Services

The aviation market shows signs that the boom has peaked, which has led to a temporary break in the current trend of growth. Consequently, the good organic growth earlier noted by Celsius Aviation Services has slowed somewhat. In the asset management sector (i.e. the leasing and sale of, mainly, aero engines), the market situation has become much tougher for Celsius' 1998 acquisition Amtec, resulting in increased

price competition. Furthermore, the market is changing its emphasis towards longer-term leasing contracts, thereby distributing earnings over a more extended period.

The level of orders received in the nine months ending September 30 remained at the same level as for the corresponding period last year, and amounted to SEK 2,078 M (2,064). Sales rose by about 14 percent, however, to SEK 2,170 M (1,911). The greater part of this increase derives from Hawker Pacific in Australia which, however, was first included in the accounts from May last year. Operating income is at the same level as for the corresponding period last year, and amounts to SEK 150 M (149). The divestment of used aircraft, taken over in conjunction with the acquisition of Hawker Pacific has adversely affected operating margin. In parallel this has resulted in a sharp reduction in tied-up capital. Commercial Aviation Services numbered 1,573 employees at the close of the period (1,692).

Business Development

Business area Business Development comprises business units Celsius Infomatics, Nexplo Industries and Celsius Materials Technology. These business units are based on the Group's joint technological competence, but differ widely in terms of products and markets.

Orders received up to and including the third quarter increased by some 35 percent to SEK 501 M (373). This increase derives primarily from Nexplo Industries and Celsius Materials Technology. During the latter part of 1998, Bofors Explosives and Finland's Patria formed a joint venture company – Nexplo Industries. Celsius has a 60-percent holding, Patria the remaining 40 percent, whereby the whole company has been included in Celsius' consolidated accounts as a subsidiary. The merger of the two companies led to the formation of a significantly larger company. At the end of 1998, Celsius Materials Technology acquired the German surface-engineering company Nussbaum GmbH. This company is therefore included in net income for the year, but not for the corresponding period last year.

Sales for the period rose by approximately 12 percent to SEK 496 M (441), while there was a sharp decline in operating income during the period, which fell to SEK -102 M (-25). This decline is attributable mainly to increased investment in development by business unit Infomatics. Nexplo's low volume of orders has also adversely affected income, and about 70 employees have been declared redundant. Infomatics projects include the development of an advanced automotive radar, which is the key component of a "smart" speed control/collision-alert system. The business area numbered 1,001 (596) employees at the close of the report period. The increase in sales derives mainly from the consolidation of Nexplo Industries and the acquisition of Nussbaum GmbH.

Niche Companies

Business area Niche Companies consists of a number of companies with a strictly commercial (non-military) focus. The business area is engaged in the offshore, engineering and shipyard sectors.

Orders received during the period decreased to SEK 308 M (610). About half of the decline is explained by divested companies and the other half by the reduced order inflows of the two commercial shipyards, Götaverken Cityvarvet and Öresundsvärvet.

At the start of the year, Kockums Industrier received an order for 120 heavy goods wagons from Swedish State Railways (SJ), valued at SEK 86 M excluding an option of further 60 wagons. The new heavy goods wagons will be

used by SJ and the Swedish forest company StoraEnso, to transport reels of paper. SJ Cargo has now also exercised an option to purchase a further 30 goods wagons, at an estimated value of SEK 21 M.

In addition, Kockums Industrier has received an order from the Swedish National Rail Administration for 12 railborne service vehicles. The order is worth approximately SEK 64 M. A contract for an option on a further 14 vehicles, worth SEK 75 M, was signed at the same time.

Sales for the period amounted to SEK 380 M (1,435). This decline is mainly attributable to the fact that sales for the corresponding period last year included the redelivery of the Petrobras XXIII drilling rig to the Brazilian customer, Petrobras, following its conversion, at a value of about SEK 900 M, as well as to the sale of KCS and GVA Consultants. Operating income amounted to SEK 21 M (82). The result includes non-recurring capital gains of SEK 53 M (59). The business area numbered a total of 549 (770) employees at the close of the period.

OWNERSHIP STRUCTURE

The number of shareholders has remained unchanged since year-end 1998, amounting to approximately 13,500 as of September 30 this year. As before, the Swedish State retains 25 percent of the share capital. Swedish investment funds and insurance companies held approximately 33 percent, while other Swedish investors accounted for about 16 percent. The percentage held by foreign investors amounted to 26 percent of the share capital.

THE MILLENNIUM CHANGEOVER

The extensive programme to ensure that intra-Group systems, as well as those supplied to customers, will continue to operate reliably through and beyond the millennium changeover in the year 2000 is in all essential respects complete. Necessary Y2K modification and verification of priority areas of operation had been completed on schedule by the end of June, 1999. A limited number of non-business-critical activities, which still remained to be completed at the close of the second quarter, were completed in October. Operationally, implementation of Y2K measures is delegated to individual business units, under the supervision of specially appointed "millennium" managers, who report to a central working committee, under the direction of an IT board, at Group level.

FORECAST FOR THE CURRENT YEAR

Operating income for the fourth quarter, prior to non-recurring items, is expected to be at approximately the same level as for the corresponding quarter last year. The forecast includes a planned provision for structural measures amounting to c. SEK 100 M. However, the market situation confronting the Group's defence-sector operations remains uncertain.

NEXT FINANCIAL REPORT

The year-end report for 1999 will be published on Thursday, February 24, 2000.

Stockholm, November 3, 1999.


Lars G. Josefsson
President and CEO

Key indicators SEK M	Jan-Sep 1999	Jan-Sep 1998	Full year 1998
Sales	8,101	9,823	14,293
Operating income	103	375	580
Income after financial items	79	387	595
Total assets	11,884	12,297	12,538
Liquid funds	1,173	1,547	1,434
Equity	3,272	3,190	3,382
Return on average capital employed (%) ¹⁾	7	11	12
Return on average equity after taxes (%) ¹⁾	7	12	16
Equity/assets ratio (%)	28	26	27
No. of employees on closing day	10,296	10,659	10,902

**Sales by
business area SEK M**

Defence	5,292	6,261	9,513
Commercial Aviation Services	2,170	1,911	2,829
Business Development	496	441	685
Niche Companies	380	1,435	1,653
Eliminations	-237	-225	-387
<i>Group</i>	8,101	9,823	14,293

**Operating income,
by business area SEK M**

Defence	98	122	376
Commercial Aviation Services	150	149	209
Business Development	-102	-25	-53
Niche Companies	21 ²⁾	82 ³⁾	116 ³⁾
Joint Group income/expenses and eliminations	-64	47 ⁴⁾	-68 ⁴⁾
<i>Group</i>	103	375	580

1) calculated on a rolling 12-month basis

2) including dissolution of a reserve in an amount of SEK 53 M, subsequent to a favourable ruling on a disputed tax claim by the administrative court of appeal.

3) of which a capital gain of SEK 59 M

4) of which compensation amounting to approximately SEK 100 M in settlement of a claim against Förvaltnings AB Statum concerning pension obligations as well as capital gain of approximately SEK 35 M on the sale of shares in BPA

Funds statement SEK M	Jan-Sep 1999	Jan-Sep 1998
Income after tax	29	324
Depreciation added back	315	370
Other items not affecting liquidity	42	-482
Change in working capital	-104	-17
Funds generated by operations	282	195
Investments, net	-510	-689
Funds generated after investments	-228	-494
Financing	116	114
Dividend to shareholders	-140	-95
Change in liquid funds, excluding translation differences	-252	-475
Translation differences	-9	13
Change in liquid funds	-261	-462

Quarterly data

Order inflow by business area SEK M	Q1 1999	Q2 1999	Q3 1999	Jan-Sep 1999	Q1 1998	Q2 1998	Q3 1998	Jan-Sep 1998	Q4 1998
Defence	1,596	1,373	1,757	4,726	2,159	964	1,399	4,522	1,241
Commercial Aviation Services	631	820	627	2,078	517	678	869	2,064	880
Business Development	254	142	105	501	170	115	88	373	226
Niche Companies	218	38	52	308	137	204	269	610	188
Joint Group income/expenses and eliminations	-68	-87	-67	-222	-92	11	-72	-153	-85
<i>Group</i>	2,631	2,286	2,474	7,391	2,891	1,972	2,553	7,416	2,450

Sales by business area SEK M	Q1 1999	Q2 1999	Q3 1999	Jan-Sep 1999	Q1 1998	Q2 1998	Q3 1998	Jan-Sep 1998	Q4 1998
Defence	1,725	2,035	1,532	5,292	1,683	2,629	1,949	6,261	3,252
Commercial Aviation Services	629	816	725	2,170	532	658	721	1,911	918
Business Development	181	196	119	496	152	176	113	441	244
Niche Companies	133	105	142	380	208	151	1,076	1,435	218
Joint Group income/expenses and eliminations	-84	-86	-67	-237	-52	-144	-29	-225	-162
<i>Group</i>	2,584	3,066	2,451	8,101	2,523	3,470	3,830	9,823	4,470

Operating income by business area SEK M	Q1 1999	Q2 1999	Q3 1999	Jan-Sep 1999	Q1 1998	Q2 1998	Q3 1998	Jan-Sep 1998	Q4 1998
Defence	5	48	45	98	13	82	28	122	254
Commercial Aviation Services	47	53	50	150	49	48	52	149	60
Business Development	-37	-9	-56	-102	1	-10	-17	-25	-28
Niche Companies	-10	50 ¹⁾	-19	21	53 ²⁾	-12	40	82	34
Joint Group income/expenses and eliminations	10	-65	-9	-64	78 ³⁾	-28	-2 ⁴⁾	47	-115
<i>Group</i>	15	77	11	103	194	80	101	375	205

1) including dissolution of a reserve in an amount of SEK 53 M, subsequent to a favourable ruling on a disputed tax claim by the administrative court of appeal.

2) of which a capital gain of SEK 59 M

3) of which compensation amounting to approximately SEK 100 M in settlement of a claim against Förvaltnings AB Statum concerning pension obligations

4) of which capital gain of SEK 35 M on the sale of shares in BPA

This interim report has not been subject to examination by the Company's auditors.

THE CELSIUS GROUP

Celsius is an international advanced-technology and knowledge-based corporation which, in close interaction with its customers develops, manufactures and maintains advanced systems, products and services within three core areas: Defence, with a focus on electronics, IT and smart weapon systems; Aerotech Services, which comprises advanced services, consultancy and maintenance, primarily for defence-sector customers, and Aviation Services, which is focused on engine and component maintenance and asset management services for the commercial market.

This comprehensive competence provides a platform for the development of new products and services with strong growth potential in both defence-related and commercial markets.

Celsius has sales in excess of SEK 12 billion and some 9,500 employees.

The Celsius "B" share has been listed on the Stockholm Stock Exchange since June 1993. In September 1999, the Company had about 13,500 shareholders.





**Press information
November 3, 1999**

Celsius interim report, January-September 1999

Celsius president and CEO Lars G. Josefsson comments:

The Celsius Group reports consolidated income after financial income/expenses of SEK 79 M (387)¹ for the first nine months of the year. Operating income amounted to SEK 103 M (375). This includes non-recurring items amounting to SEK 53 M (194). Sales for the first nine months of the year declined by approximately SEK 1,700 M. The level of orders received up to and including the third quarter was at approximately the same level as for same period last year.

“The third quarter of 1999 was especially notable for two strategically important structural transactions: the merger of Kockums Naval Systems with German shipbuilder Howaldtswerke Deutsche Werft (HDW), and the merger of Celsius Aerotech with the Swedish defence contracting units of TietoEnator.”

With the HDW merger, Celsius becomes joint owner of a powerful European business constellation, which will be a global leader in its field and which will generate added value for the Group and its shareholders. Furthermore, the value of Celsius’ stake in this new shipbuilding group is guaranteed, in the form of an option agreement, to be worth a minimum of SEK 1,560 M.

By virtue of its majority stake in the new company formed by the merger between Celsius Aerotech and TietoEnator’s Swedish defence contracting units, Celsius commands a strong position in a company with considerable growth potential, in areas with long-term prospects and that have been awarded priority in Sweden’s defence planning – and that feature an increasing number of industrial orders,” says Celsius president and CEO Lars G. Josefsson.

“The implementation of these two structural transactions is an important step towards repositioning the Celsius Group as a knowledge-intensive company focused on high-tech products and services. As a result of this partially new Group structure, a new organization has been established for the Celsius Group. The majority of operations will be organized into three business areas: Defence, Aerotech Services and Aviation Services. There will also be a radical reduction in the size of the central organization. This new Group structure is expected to yield total savings in the region of at least SEK 70 M. To these will be added the efficiencies that will be vigorously implemented on an ongoing basis, especially as regards defence-related activities.”

“Income for the first nine months of the year has been adversely affected by Sweden’s sluggish decision-making process concerning defence policy. The proposals for future orders as contained in the Supreme Commander’s defence procurement plan, published in June, will not favourably affect Celsius’ earnings until next year at the earliest.”

“Following the close of the report period, Celsius received two orders of considerable importance to the future. The first order, from the Swedish Defence Forces, is a suborder for the RBS 23 BAMSE air-defence missile system, designed to secure the retention of competence in the high-tech field of missile development, and to prepare the way for an eventual series order. Also after the close of the period, Great Britain selected Celsius’ new MBT LAW light anti-armour weapon as one two systems competing for an eventual contract in 2002.”

“The result so far this year has, for known reasons, been very weak. The fourth quarter looks stronger, however, and we expect the result for the remaining three months of the year after structural costs amounting to c.SEK 100 M to be comparable to that of the fourth quarter last year,” concludes Lars G. Josefsson.

For those requiring further information, a telephone conference will be held on November 3rd, at 14:45 hours CET (Central European Time). Celsius’ CEO Lars G. Josefsson and Celsius’ Executive Vice President, Nils-Ove Andersson, will be available to answer questions. To participate in the conference, call +44 (0)181 401 1043 (if calling from Europe) or 334 323 4002 (if calling from the US). The full interim report, with a selection of presentation materials, will be available on the Celsius website at www.celsius.se.

Celsius AB

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