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Speech by CEO Bengt Halse, at Saab's Annual General Meeting, Linköping April 8, 2002

Mr. Chairman, my fellow shareholders, ladies and gentlemen. I warmly welcome you to Saab's Annual General Meeting.

Streamlining of the Group

During the year we continued to streamline the Group through extensive divestments and the development of our core business. We acquired the remaining 43 per cent of AerotechTelub and purchased Ericsson's share of Saab Avionics. Both of these operations are now wholly owned subsidiaries.

The acquisition of Ericsson's share of Ericsson Saab Avionics also made it possible to combine these operations with our other avionics and electronic warfare businesses to create a stronger Saab Avionics.

The acquisitions give us a better opportunity to improve both revenues and costs. In the Systems and Electronics business area, considerable structural work was done during the year. Thirteen business units have been restructured into 6. At the same time, a number of operations have been divested or shut down.

Saab Systems and Electronics has thereby become a more homogenous and integrated business area with a clear strategic focus on advanced defence electronics.

During the year we also divested a number of operations outside our core businesses. The last parts of Celsius Aviation Services were divested and restructured and the 25 per cent holding in the German HDW shipyard was sold.

2001 by the number

Financially, 2001 was a good year. We ended up well in line with the year before, and cash flow was strongly positive.

Net sales amounted to SEK 15.6 billion, an increase of 5 per cent for comparable units or, in other words, exclusive of the divested Marine Electronics and Aviation Services, among other things.

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Operating income rose by 4 per cent to nearly SEK 1.6 billion. This includes the capital gain on the sale of Saab Marine Electronics. Excluding this gain, income was nearly SEK 950 million, an increase of 5 per cent and an improvement in the underlying operating margin from 5 to 6 per cent.

Earnings rose to SEK 10.59 per share and the return on equity exceeded 18 per cent after tax.

Order bookings amounted to slightly over SEK 15 billion. The order backlog at year-end remained at slightly over SEK 40 billion, which corresponds to over two and a half years' invoiced sales.

If we look back, how well has Saab succeeded? Let's look at a few key parameters.

Growth since 1998 totals 90 per cent, of which Celsius naturally accounts for the dominant share. The underlying organic growth has averaged 5 per cent per year.

As I said, our order backlog is about SEK 40 billion or more than two and a half times annual sales. The majority of order bookings in 2001 were from markets outside Sweden, even though this year we didn't have anything the size of the Gripen order from South Africa.

We are building for the long term by maintaining our focus on the defence market and investing in research and development. In recent years research and development has corresponded to nearly 25 per cent of invoiced sales, of which we pay about 5 of the 25 ourselves directly in the income statement.

In the last two years we have acquired, among others, Celsius, AerotechTelub, and Avionics, and earlier this year we acquired a signature management business in the U.S.

As you can see in this slide, we have also divested a large number of companies in the last two years that did not fit our core business or have the capacity to reach our objectives.

Our operating margin compares well with that of our colleagues in the industry and the competition. And our operating income has risen every year since 1998.

Our policy is to distribute between 20 and 40 per cent of net income. This year the proposed dividend is 31 per cent. Provided that the Annual General Meeting this evening approves this year's proposed dividend, we will have distributed over SEK 1 billion to our shareholders while at the same time increasing our equity by nearly 60 per cent or over SEK 2 billion since we went public in 1998.



I feel that we more than well have delivered what we had hoped to in 1998. Now how about the future?

Growing defence market

Seventy per cent of invoiced sales last year was in the defence market.

We are seeing a shift in defence in the Western World toward greater use of high technology.

Investments in advanced defence materiel are growing. Budget cutbacks in recent years have resulted in latent investment needs in many countries. In addition, rapid technological developments in and of themselves are leading to investments in new technologies and systems.

The willingness to participate in international peacekeeping missions is also driving new investments in what we call interoperability, by which we mean the ability to co-operate with units from other defence forces.

We saw evidence of increased investments in defence materiel even before September 11, although what happened in the U.S. naturally reinforced the need for investments.

The United States by far accounts for the largest share of the defence market and the planned increase in the U.S. budget alone is larger than the total defence budget in any European country.

The current trend toward a more unified European defence identity will help to speed up the renewal of defence materiel in the EU.

Saab is active in the fastest-growing segments of the defence market: defence electronics and software, systems integration and high technology services. We are strategically well situated to benefit from the growth now taking place.

Always in the finals

In the areas where we are active, we are also among the world leaders. We are often our customers' first choice in the areas where we deliver our products and services.

This applies, for example, to naval information and command and control systems for small and medium-size vessels.

In electronic warfare, we are the world's leading producer of passive countermeasures, which are used on the F-14, Tornado, Harrier, Viggen, and Gripen and have been sold to the Eurofighter and F-15.



We are the world leader in training and simulation for army purposes with instrumented combat training centres and laser simulators.

Barracuda's signature management systems are definitely world leaders and are sold in around 50 countries.

In certain high technology services in our core areas, we are often our customers' first and only choice.

In anti-tank weapons, we are Europe's only supplier with its own development capabilities, and we have a world market share of over 50 per cent. Right now the British defence is in the midst of a very important procurement of a new anti-tank system. Here again, we are in the finals with our system called MBT LAW.

We are the leading independent supplier of space equipment in Europe and, for example, supply no less than 90 per cent of the global market's separation systems and more than 20 per cent of frequency converters for commercial telecom satellites.

The fact that we are not the biggest in the overall market from an international perspective matters little to our customers or us. We have a depth and breadth in our competencies that few companies can match.

We could be perceived as a niche company, but that's not the way we look at it. We have segmented the market and chosen to be active only in segments where we are competitive and where we feel can earn money in the long term. In segments where we make it to the final round of competition.

Saab's direction

You may think that our products don't have much in common, but they do. They represent our three main areas: defence electronics, systems integration, and high technology services.

Defence electronics means the hardware and software – the intelligence – that is included in advanced defence systems. There are several examples of this in the exhibit outside.

In 2001 we not only reached the final round, but also won many valuable procurements.

As you saw in the film, we have made several significant breakthroughs in defence electronics, including with the GAMER combat training centre in Norway and the BOL countermeasure system in the U.S. And less than two weeks ago we received an order from the UK worth more than SEK 600 million for support of existing simulator systems.



The second focus area is systems integration, the ability to link together complex technologies and subsystems into complete systems.

Gripen is without question our best example of systems integration. Gripen stands alone as the only fourth-generation fighter in operational service. But it is much more than just an aircraft; it is a complete information, command and control, and weapons system.

Hungary's selection of Gripen, as the first NATO member state, is extremely important to us. And now final negotiations are under way with Czech Republic on the purchase of 24 Gripen. The decisions by Hungary and Czech Republic are of major importance to our continued export efforts, particularly in Central Europe.

Sweden's decision to acquire 18 NH90 multi-role helicopters has given us the job of developing the tactical mission system. This contract was won thanks to the broad base of expertise within Saab, the competence in aviation systems technology, and the command and control, countermeasure and maintenance know-how we acquired with Celsius.

Finland and Germany's selection of the RBS 15 MK3 anti-ship missile is a further reflection of our capability and competitiveness in systems integration.

The third focus area is high technology services: advanced technical services, maintenance, and customised system solutions in a number of markets.

The service content in all of Saab's products is growing. I am thinking here, for example, of consulting services provided primarily by the Technical Support and Services business area and AerotechTelub. More than half these services are provided to the Swedish defence. Public agencies and companies responsible for large infrastructure investments are also important customers.

The Swedish Civil Aviation Administration is such a customer, and the delivery of primary functions in the traffic control system for the new traffic control tower at Arlanda Airport is a good example of a customized system solution.

These three focus areas form our core business. It is within these fast-growing segments that we conduct the majority of our operations. And it is within our core business that we are working systematically with acquisitions and structural deals.

One example is Saab Barracuda's earlier mentioned acquisition of a signature management business in Lillington, North Carolina, in the U.S. This is a natural step toward the goal of growing, organically and through acquisitions, on both sides of the Atlantic.



In addition to our core business, we work with support businesses. This involves resources that already exist in the company and which can be applied in other markets. For example, our work with Airbus and Boeing. You saw the superjumbo A380 in the film. We will be building parts of the wings right here in this hangar. Our work constantly generates new ideas how defence technology can be utilised in other situations. We further develop such ideas ourselves or in partnerships – or we divest them – to create more value from the technology we generate. The most recent examples are Marine Electronics, Triangle Equipment, A2 Acoustics, and Sanguistech, as mentioned in the film.

In 2000 and 2001 alone we generated approximately SEK 1 billion in cash flow and profit from these operations.

Is this the right direction long-term? Will it help us to consistently deliver to our shareholders? Yes, I naturally think it will.

Clearly, there has been a growing acceptance of the concept of a Revolution in Military Affairs, with information superiority, decision support and precision engagement, as I have talked about at previous general meetings.

Information, intelligence, and decisions that only a few years ago could take a day to process in the hierarchy from the front line to staffs and operation control now are usually processed in real time. But we still have a ways to go before all units are online at the same time, until everyone can see everything. That will require networks.

Tests in the U.S. show that small units in a network-centric defence can defeat much larger units. It's called self-synchronized effects when everyone has full and accurate information. In business, we call it productivity gains.

I know these sound like advanced theories and new doctrines, and they are. But basically it is a question of making productivity gains in defence similar to those we have made in business since the breakthrough of the personal computer in the early 1980's, the mobile phone in the early 90's, and the popularisation of the Internet in the late 90's.

There is a growing interest in network-centric defence solutions that link existing and future sensor systems, command and control systems, and weapons systems to increase overall defence capabilities. High demands are placed on security and reliability though also on mobility and logistics.

The focus on network-centric defence solutions is clearest among the world's leading defences – most obviously the U.S., though even Sweden is on the cutting edge, and we are also seeing a big interest in Australia, for example, where we have strong operations.



Now maybe it should be called Evolution in Military Affairs rather than Revolution in Military Affairs.

Saab actually has already begun to deliver network-centric defence systems. The system integration of the Swedish Air Force 2000 air defence system, and the naval command and control systems are truly trailblazers in this respect.

Saab Net Defence comprises our range of products and services in network-centric defence solutions. This is an area in which we really combine our know-how in defence electronics, systems integration, and high technology services. The revenue potential for systems integration is in the hundreds of millions of kronor in the short to medium term. But the true potential is in adapting existing and future products and systems to work in networks. Then we are talking billions.

Strengths and weaknesses and possibilities and threats

Are there no problems facing Saab? Yes, of course there are!

I would like to conclude by looking at our strengths and weaknesses and possible opportunities and threats.

What are our biggest weaknesses?

The fact that we are a relatively small company within what is called aerospace and defence could be seen from an international perspective as a weakness. The relatively small size of our home market could also be considered a weakness. We cannot generate the same volumes and economies of scale that other contractors can in their home markets. We are more dependent on international success and alliances.

These weaknesses are offset in part by the fact that our home market is one of the most advanced in the world. And our size isn't a big factor either for our customers or us as long as we make it to the final round, as long as we are leading in our selected market segments.

We have a modern and competitive product portfolio whose markets are growing. Our high-quality order backlog gives us stability and strength.

We are working with international partnerships to develop future systems with greater efficiency and lower costs, which will strengthen our position on the global map.

We are clearly focused on future growth sectors.



Our financial strength and access to two principal owners, BAE SYSTEMS and Investor, that add significant value to our business are also important factors for us as a company.

Are there then any threats? Yes, of course there are!

But we also have great opportunities. One major opportunity is from the growing demand for, for example, investments in advanced defence materiel that I have pointed to today. This creates major export opportunities for us. Exports already account for a steadily increasing share of our sales.

Changing economic conditions have led to a consolidation of the industry. We have an attractive position in this restructuring and are actively seeking out further opportunities for structural deals and co-operations.

We see an opportunity in the increased outsourcing of defence services and maintenance. And we have the opportunity to continue to create further value through technology transfers from defence technology to other applications.

Ladies and gentlemen, shareholders, I can't help but see more strengths than weaknesses and more opportunities than threats.

Saab should therefore have every reason to continue to deliver value to its shareholders in the future.

Thank you, Mr. Chairman.