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Speech by CEO Bengt Halse and Åke Svensson at Saab's Annual General Meeting in Linköping, April 7, 2003

Bengt Halse, President and CEO

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

As I am sure you already know, this is my last annual meeting as CEO. On July 14 Åke Svensson takes over. I'll get to Åke in a moment. And, more importantly, Åke will have a chance to speak himself.

Highlights of 2002

I thought I would begin with last year, then give you my perspective on Saab from the time the company again became independent in 1995, and lastly cover a few of the challenges Åke and his team face. Åke will conclude with a few words on his view of Saab's strategy and future development.

But let me begin with 2002. We continued to produce good financial results and our order backlog grew to the highest level ever. For our defence operations, it was another year of strong orders.

And as you just saw in the film, we made a number of strategic breakthroughs. We were chosen by NH Industries to supply the tactical system for the new Swedish standard helicopter NH90. This is proof that we can integrate highly advanced defence electronics in different platforms.

Our success in simulation and training has continued, and Saab Training Systems reported record order bookings. As did Saab Barracuda. And Dynamic. We won practically every competitive procurement we took part in, and added 7 billion kronor to our coffers, primarily from customers outside Sweden.

Our service operations – AerotechTelub being the best example – continued to grow in 2002 and show good potential for the future.

I am always reminding people that military aviation actually accounts for only 25 percent of our sales. Three fourths of what we do is other things.

This doesn't mean that Gripen is unimportant, just the opposite. I have always made it clear that selling Gripen is a long-term proposition. The decision-making process is complex and awarding an order takes a long time. Finalizing it takes even longer.

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Last spring the Czech Republic was the fourth country to select Gripen. Soon after we had reached a preliminary signed agreement, Central Europe suffered catastrophic floods. And the Czech Republic decided, for understandable reasons, to delay a final decision.

Hungary, on the other hand, decided in January of this year to extend its leasing agreement with the Swedish government. For us, this will mean total modification orders of 3 billion kronor. Gripen has thereby consolidated its breakthrough in the NATO market.

For our space and commercial aviation operations, 2002 was a tough year. The decline in demand in the telecom industry – and thus for communication satellites – has had a major impact on Saab Ericsson Space, which also incurred technical problems in a couple of development projects. Space is maintaining its share of a depressed market, but we shouldn't have any illusions. It is going to stay tough in the years ahead.

The problems in commercial aviation have impacted Saab's regional aircraft maintenance and service, where revenue is almost totally dependent on total traffic volume. Unlike our space operations, however, we have maintained, and even improved, our operating margin.

Weakness in the airline industry has also resulted a lower-than-expected growth in commercial aerostructures. So all in all, there are both bright spots and problems.

As a whole, 2002 was about what we expected. The numbers for 2002 confirm this. Operating income and the operating margin – excluding capital gains – continued to improve. The operating margin, adjusted for capital gains, has improved from 5.0 to 7.4 percent in two years. Organic growth was five percent and sales amounted to 16.5 billion kronor in 2002. Order bookings totaled 20 billion kronor and the order backlog at year-end was 43 billion kronor, an all-time high.

Earnings per share amounted to 6.87 kronor. The Board has proposed a dividend of 3.50 kronor.

We have also continued to improve our earnings and now have an order backlog a good bit over two and a half times annual sales.

This year we expect operating income and the operating margin to improve significantly, although our margin probably will not reach our long-term 10-percent objective before 2004.

Saab's development 1995 - 2002

Now a quick look back at what has happened since Saab became an independent company again in 1995. I have been fortunate to play a part in leading a company undergoing strong change in a market and an operating environment also undergoing strong change. This is important



to understanding where Saab is today and some of the challenges it faces.

In 1995 Saab was a wholly owned subsidiary of Investor. Today we are a publicly listed company with nearly 40,000 shareholders and with BAE Systems and Investor as our largest owners.

We were 8,000 employees then and 14,000 now. In 1995 we had sales of 8 billion kronor; in 2002 it was 16.5 billion.

We are twice as large a company but with substantially higher profitability. But perhaps the biggest changes are in our structure and strategy.

We still are Sweden's most research-intensive company. But we are now a much more complete, international company in 2003, than we were then. More importantly, Saab has a much clearer strategy and business concept. There is a more defined business logic throughout the company. An important reason why and how Saab has changed is naturally the changes in our market. We haven't exactly operated in a vacuum. The whole industry has been restructuring since the mid-90's. Few other industries have changed as dramatically. The competitive map has been completely rewritten. Globally, in Europe, and in Sweden.

A changed market

The end of the Cold War and new geopolitical factors in the early 90's, and more recently peaceenforcements and now the war on terrorism, presented the world's defence contractors with significant challenges – and they still do so.

In late 1993 the U.S. Secretary of Defence at the time, William Perry, told a dinner gathering of representatives from the American aerospace and defence industries that the next time they dined together he expected to see much fewer of them on hand. It came to be known as "the last supper."

The U.S. government was ready to support and promote the consolidation of the domestic industry, which at the time encompassed a plethora of companies of varying size and level of competence.

Today there are primarily five U.S. companies with the size and strength to integrate the most advanced defence systems: Boeing, Lockheed Martin, Raytheon Northrop Grumman and General Dynamics.

We have seen a similar development here in Europe, although the process began later. Looking back, the starting point for cross-border consolidations would have to be when British Aerospace became Saab's largest shareholder in the summer of 1998.

Political ambitions have naturally played a part as well – nationally, in the EU and in the European part of NATO. Over time several large European constellations have taken shape. The largest are the German-French-



Spanish EADS and our shareholder BAE SYSTEMS. BAE SYSTEMS also has strong transatlantic ties. Thales, based in France and with a more transnational structure, is a strong player with major international ambitions. And Finmeccanica of Italy has aspirations to play a part in redrawing the European map of the defence and aerospace industry. There have been great changes in Sweden as well. And Saab has been the industry's main driving force.

Acquisition of Celsius 2000

When we acquired Celsius in 2000, we took the lead in the structural transformation of the Swedish defence industry. In one fell swoop, we doubled our size and, more importantly, became a more complete company – particularly in broad-based systems solutions. The combination of Saab's expertise with Celsius competence in advanced information and command and control systems laid the foundation for the position we have today in network-centric defence solutions. The development of the tactical system for the NH90 helicopter is just one sign of how this combination of competencies has helped us to improve our positions.

The acquisition of Celsius also gave us an international market presence that was considerably larger and in some respects better established than in the old Saab. And while the industrial logic was important, you can't overlook the clear signals from the Swedish customer. We didn't have a "last supper" like in the U.S. But the desire to bring together Sweden's capabilities in the missile field, for example, was obvious. Sweden was simply too small for both Saab and Celsius.

Restructuring

The most spectacular dimension of the consolidation process has unquestionably been our acquisitions. Just as important, however, are all the businesses and projects that we have spun off, discontinued or sold. The efforts to sell and restructure operations that have been unprofitable or fallen outside our core have been under way since the mid-90's. One of the most important decisions – and perhaps one of the toughest – was the discontinuation of regional aircraft production in 1997. This was a critical decision for Saab's long-term development. The situation for turboprop regional aircraft made it impossible to remain profitable. I doubt whether Saab would have survived if we had allowed these operations to continue to drain our financial resources.

Following the acquisition of Celsius in 2000 we again had to increase the pace of our structural efforts. More businesses that didn't fit in or didn't



meet our profitability demands had to be sold or dissolved. Since the acquisition, we have sold or discontinued around 25 businesses. Our work to reassess and enhance the company's structure is ongoing constantly ... and will never be finished.

Market listing 1998

On June 18, 1998 the Saab share was re-listed on the Stockholm Exchange. Saab's transformation from a wholly owned subsidiary to a company of 40,000 shareholders is a huge change – particularly from a corporate management perspective.

Despite all the debate on quarterly results and management's fixation on share performance, I firmly believe that, in our case, going public has been beneficial. Being part of the stock market without question adds an element of discipline. This applies to reporting as well as to how we in management formulate and communicate objectives and strategies. I can't say that I always recognize Saab in all the analyses and valuations, but the feedback we receive from the capital market is valuable. For example, it helped us in late 2000, after over a year of negotiations, to obtain insurance against the market risk in our leasing portfolio of regional aircraft, thanks to which we now can sleep much more soundly than we would have otherwise.

What are the financial results since the listing

What has happened financially since the listing? Sales have doubled. Organic growth accounts for five percent a year, with the rest coming from acquisitions. And exports represent a growing share of our aviation and defence operations.

Operating income, excluding capital gains, has improved every year since 1998.

Shareholders' equity has increased by 2.8 billion kronor, at the same time that 1.5 billion has been distributed in dividends to our shareholders.

This is where we stand today. Let me conclude with a few words on what lies ahead – the risks and opportunities Saab faces.

Defence market growing

Underlying demand in our markets is growing. This is partly due to the global situation, but also to the fact that many countries have investment needs they accumulated during the 90's.



They are now realizing that they may have cut back too much and the type of international missions we are seeing more of require new investments. In addition, operating and maintenance costs are beginning to eat up a growing share of the budgets in many countries with older systems. Even more important for Saab is that the segments of the market we focus on are expected to grow at a faster rate. It's a case of high-technology investments taking the place of operating expenses.

In Sweden, this trend is obvious. Through a series of political decisions, we are transforming what was a traditional invasion defence into an internationally oriented task force. The consequences for Sweden's defence investments are already evident. And the demands placed on equipment used in international missions are affecting technological development.

From a long-term perspective, the defence decisions Sweden faces next year are extremely important to our future. We are therefore participating fully in preliminary discussions with politicians and government agencies. The political deliberations will involve in no small part the depth and breadth of the competencies Sweden needs nationally. And not only for our defence.

No other company in Sweden, relative to its size, has the impact on the research and educational landscape like Saab. Sweden stands at a crossroads. We have an excellent opportunity to further build our high-technology expertise and be competitive internationally under the right conditions.

Strengths, weaknesses, opportunities and challenges

At previous annual meetings and in other situations I have covered what I feel are our strengths and weaknesses, and I will quickly repeat them here.

Our relatively small size in aerospace and defence from an international perspective may naturally be perceived as a weakness. We can't generate the volumes and economies of scale that other companies can through large orders in their home markets. We are more dependent on international successes and cooperations.

This is balanced in part by the fact that our home market is one of the most advanced in the world. We have a modern, competitive product range for growing markets.

We are also strengthening our position through international partnerships, where we cost-effectively can play a role in developing future systems.

For several years we have – successfully, I feel – adapted to changing market conditions. In recent years great effort has been placed on



improving operating efficiency – and the structural work I previously mentioned. Today we have a strong product portfolio and record-high order backlog.

What challenges do we face? It is likely that our main Swedish customer will be less able in the future to finance investments in a new product generation – at the same time that international competitive pressures will continue to rise. Against this background, the ability to generate business across business areas is critical. And we have to be better at effectively picking up business and partnerships in the international arena.

In recent years we have tried to change our organization and structure to meet these challenges. The changes that were made in the Group's management organization in 2002 must be seen in this light. The fact that three fourths of our order bookings came from markets outside Sweden is a good sign that our strategy is bearing fruit. We will still need a positive cooperation with hopefully insightful Swedish politicians. And we will face even higher demands in terms of leadership and flexibility.

Åke Svensson is the right man for this difficult task. Obviously he will form his own team and find his own way to meet these challenges!

After the six-month interim report is released on July 14, Åke takes over the rudder at Saab. And what I am planning to do?

At the request of Åke and the Board, I have said that I would be willing to continue to help at Saab for a time. After over eight years of hard work and challenges, along with much enjoyment, this company remains close to my heart. Åke has asked me to lead Saab's Strategic Advisory Board. And I will help him develop his international network and otherwise be at his disposal. We are also convinced that Saab can benefit if I stay on for a while as chairman of AECMA, the trade organization of the European aerospace industry.

This means that Åke will be my boss as of July 14. At least when it comes to Saab. And now I would like to thank you all for your time and introduce Åke Svensson.

***Åke Svensson, new President and CEO effective July 14, 2003***

Thank you, Bengt. There certainly are very big opportunities and challenges ahead for Saab. I am not going to give you a detailed plan today of what I see in the company's future. That's because there are three months left until I take over, which is time I plan to use to better inform myself about the company. And because we in the current management, as Bengt said, have been working and continue to work closely with strategic issues.

Business concept

We have stated that our business concept is to:

"Develop, manufacture and maintain broad defence systems solutions in our home market and provide related advanced technical products and services within defence, aviation, space and similar areas." And that our customers are governments and industries in the global market.

This may sound a little confusing. But the formulation was meant for a reason. Our home market is not just Sweden, and the global market also includes Sweden. What we say is that Saab is a company with the competencies to deliver broad-based defence systems at the highest systems integration level. And that we have a portfolio of specific, related products.

This means that Saab, often with its customers, can take part in the development of highly advanced and complex defence systems. This could mean information and command and control systems at an overall systems level or the development of fighter aircraft like Gripen. But also that we, as a result of this expertise, have an array of world-leading, independent products.

An important consequence is that we have two types of business relationships. Those we could call "home market relationships," of which the Swedish customer is an obvious example. This is a longstanding relationship where we have developed and delivered overall systems as well as individual products. This relationship naturally offers important business opportunities. The other relationships are in the aftermarket – though also in the integration of future system structures that the Swedish defence wants. Similar relationships can also arise when we supply Gripen to other countries. Such a major investment in a key defence system creates a close relationship between the country that buys it and us as a supplier.



We have a number of other leading products in various segments of the market with good export potential. Along with products we developed together with partners in other countries. In this case, our opportunities for exports and joint development are not as dependent on longstanding relationships. Future relationships don't have to be that close, either. The common denominator in all these deals – and all our products – is that we are always a competitive alternative for customers in the areas where we are active. Our systems should always be able to reach the finals of the procurement process. This is important. It shows that Saab has what it takes to compete in a very real sense. The fact that we are small globally is of little consequence to the customer. And that's the key. There is an interaction between broad-based, advanced systems and niche products. By taking part in the development of advanced defence concepts, we are also building knowledge we can integrate into our products. If you look, for example, at network-centric defence, you have to create turnkey solutions and develop products that can work in networks. This is important to our customers. They have to know that we can handle the systems themselves and the products that are part of them. We offer customized high technology focused on the future.

Strategy

On this basis, the Board has set a strategy for Saab for the years ahead consisting of three elements.

The first is to further increase efforts to export existing products and systems. The establishment of Saab International, to strengthen coordination of our international marketing and our position in various markets, should be seen in this light.

The second is to continue to develop future systems in partnership or on our own. From this perspective, Sweden's development of network-centric defence is crucial. We are also participating, for example, in several international programs for future aviation systems and advanced missiles.

And thirdly, we will continue to focus on acquisitions and divestments. We want to be a company that takes part in the continued restructuring of the defence industry.



We have the financial and organizational strength to acquire big or small businesses in Sweden and abroad. And both before and since the Celsius acquisition we have shown that we can structure new operations we acquire in a way that makes our core business more efficient.

One consequence of our strategy and the changes in our market is that we are becoming a more integrated company. The boundaries between business areas, which can be important for those follow Saab from a financial perspective, are less important for our operations.

In procurements, customers are looking more at capabilities than numbers and are expecting their suppliers to have systems expertise. Increasingly, development projects and deals have to be made across business unit and business area boundaries.

Another factor that affects Saab's organization and structure is that we have a number of major development projects that will soon enter production, which means that the volume of development work decreases. And we are seeing that production series become shorter and volumes smaller. At the same time, we expect the number of studies and demonstrator projects to rise.

Add to that the discussions now under way about defence spending. We can already see the organizational consequences of this. We also have to adapt our resources.

In Järfälla, for example, we established a new unit last year by merging our operations in command and control systems, electronic warfare and avionics. We are forming a stronger, more flexible organization that better utilizes and coordinates our capabilities in defence electronics.

Just two weeks ago we presented a new organization for Aerospace operations here in Linköping. We are creating two business units: Saab Aerosystems and Saab Aerostructures. The former is focused on the defence market and the latter on components and sections for the Gripen and commercial aircraft. We are making the change so that in the long term we can adapt our production and development resources to developments we anticipate in these areas. We also hope to better utilize our resources.

Saab has the opportunity to continue to develop as one of the most exciting high-technology companies in our part of the world. We face considerable challenges here in Sweden and internationally. We have a number of systems that could further strengthen our position internationally. We have integration competence at the systems level that few companies can compete with. We must be willing at all times to critically analyze our operations.

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My conclusion is that through our willingness to change and focus our future on two main tracks – as a system supplier to the Swedish defence and a partner in advanced products for the international market – we can look forward to an exciting future.

On July 14 Bengt steps down, after which I will again address these and naturally other issues. Still, I would like to take the opportunity now to thank Bengt for the years that I have had the privilege to work with him in Saab's management. He has been an inspiring leader who combines tremendous knowledge about our industry with a great sense of humor. And he has taught me to always try to think a step or two ahead. Thanks so much, Bengt. And thanks to all of you as well. I'll see you again soon.