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Speech by CEO Åke Svensson at Saab's Annual General Meeting in Stockholm, March 30, 2004

Mr. Chairman, ladies and gentlemen. It is with great pride and confidence that I address you, Saab's shareholders, here today. Pride because last year was a show of strength in a number of important respects, as I will soon explain.

The future always entails risks, especially in times of great change. But today, as Sweden debates this year's major defence decision, I also feel confident because I see so many opportunities for Saab. And I'm certain you agree, since you're shareholders.

The film we just saw gives you a glimpse of Saab in its impressive breadth. Despite that we are a relatively small company in an international perspective, we have expertise in a number of areas with great potential that can be found nowhere else.

Our strategy stands strong

As you know, we are active in defence, aviation and space.

Saab serves two roles that complement each other. We are a partner to the defence sector in our home markets and a supplier of world-class defence products in the global market.

The term partner means thoroughly understanding our customers' needs, and knowing how new technology will be designed and integrated with existing systems and environments to work today, and far into the future.

We manufacture and maintain broad-based defence systems in close cooperation with customers. And we ensure that our various systems work together friction-free.

Sweden is Saab's home market, and it is with the Swedish defence that our role as a partner has developed the furthest. South Africa, Hungary and Australia are also becoming home markets, since we can now assume turn-key responsibility for major, integrated systems solutions in these countries as well.

Serving as a partner is important to us, since it is how we maintain long-term technological leadership. Projects such as these are where new technology is developed.

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In our other role, we supply niche products to the global market. This includes camouflage systems, anti-armour systems, and simulation and training systems.

As a niche supplier, we have good opportunities to grow, in part through exports and in part through acquisitions. One example is Barracuda's acquisition of a signature management facility in Lillington, North Carolina.

One of the keys to our development work – in our home markets and the global market – is international cooperation between nations and between industries. Both roles – as a partner in home markets and supplier of niche products in the global market – are dependent on each other and have to be combined. Companies that partner with one or more large customers will also be seen as reliable suppliers in the global market. And successful suppliers in the global market are attractive as partners, who can raise cost efficiency and help share development costs for products and systems.

This is our core strategy.

Highlights of 2003

When you as shareholders evaluate Saab's development and potential, some factors are more important than others. You look at our ability to win major orders, to focus operations in accordance with our strategy and profitability objectives, and obviously our financial results. When we look back at 2003, we can see signs of strength in all these areas.

The film we just saw mentioned several of the last year's most important orders. Let me describe a few orders that confirm our strategy.

The first is Gripen, which has gained success in Hungary and has now been recommended in the Czech Republic, where we and the Swedish state are, I hope, in final negotiations. As you know, Brazil is also conducting an evaluation of its future air defence system, and Gripen is one of the alternatives.

I would also mention the order we won together with IBM, Boeing and Ericsson to build Sweden's new network-based defence.

And I am thinking about the European Meteor air-to-air missile program, where we are taking part in every stage, from development to production and integration. Gripen has been chosen as the test platform.

The order for wing sections of the huge Airbus 380 project is proof of our world-leading aviation competence. The wing edges are a load-bearing



structure on the plane, and we are responsible for both development and production.

Other orders that consolidate our position were won in anti-armour systems and simulation and training systems.

Saab is also a world leader in camouflage network systems, where advanced materials technology is utilized to conceal units, infrastructure and facilities.

At year-end, Saab had a record-high order backlog – SEK 46 billion. This surpasses the 2002 all-time high by three billion kronor. Order bookings in 2003 were SEK 19.6 billion, in line with the previous year.

Exports continue to grow in importance for Saab. Last year, 60 percent of order bookings came from outside Sweden – and exports' share of the order backlog reached 65 percent at year-end. The increase in exports is also reflected in sales, though there is a slight delay. Last year exports accounted for 46 percent of sales, an increase of five percentage points from 2002. The historically high share of exports in the order backlog is largely a conscious effort on our part to grow in the international market.

The focus on our core business is another important basis of assessment for you, as shareholders. Part of this involves strategic acquisitions.

Last year, for example, Saab purchased 21 percent of the South African company Grintek, which was formally approved in January of this year. The interest in Grintek is very important to us in that it helps us to further extend our relationship with South Africa. During the six years that have passed since South Africa selected Gripen, our cooperation has developed quickly. South Africa is a new home market for Saab, and Grintek is an ideal partner. The company, which provides electronics-related products and services in telecommunications, defence, air traffic control and security, is active both in South Africa and export markets. During the year, Saab and Grintek established a joint venture in command and control systems, GrIDS, Grintron Integrated Defence Solutions.

Eurencos is an example of how Saab is participating in the structural transformation of the European defence industry. Last year, Saab joined with SNPE of France and Patria of Finland to merge their propellant and explosives operations in this new European leader, EURENCO. Saab owns 19.9 percent of the new venture.

Earlier we had made acquisitions in Australia with the technology company Saab Systems and in the U.S. – in Lillington, North Carolina – where Saab Barracuda manufactures advanced camouflage systems.

**Results 2003**

For you shareholders, our financial results are naturally the most concrete basis of evaluation. And in this respect as well, 2003 was a show of strength.

Sales rose to slightly over SEK 17.2 billion, corresponding to growth of 4.3 percent, and operating income rose to SEK 1.3 billion.

Our operating margin – if you exclude structural costs for lay-offs, among other things – improved substantially, from 7.6 percent till 9.3 percent – close to our objective of 10 percent. Including structural costs, there was a slight improvement, from 7.4 to 7.5 percent. The significant improvement in the margin, excluding structural costs, shows that the measures we have taken are producing results.

Earnings per share amounted to SEK 7. The Board of Directors has proposed a dividend of SEK 3.50, in line with the previous year.

This year we expect to maintain organic growth of around 5 percent. And we feel that our objective of an operating margin of 10 percent is within reach, provided there aren't any other structural adjustments needed in our home market.

That's a possibility that can't be taken lightly. Just last year we were forced to lay off a number of employees, mainly due to lower development orders from the Swedish defence. Only two weeks ago SaabTech gave notice to 70 employees due to a reduced workload. These are painful measures that unfortunately were necessary for us to remain competitive and profitable in the long term.

Changes in our operating environment

The events of 19 days ago, March 11 in Madrid, like September 11, 2001 in New York, are a frightening example of how the threat assessment from the Cold War has been replaced by new threats. More diffuse, but just as devastating and unquestionably very serious.

There is no major threat of invasion with conventional forces hanging over Sweden. The Swedish defence instead is gradually transforming from an invasion defence to a rapid reaction force, which is faster to respond and more focused. Sweden is also helping to build a European capability to handle crises and threats of war. This has become an important element in our national security policy.



The Swedish defence therefore has to be able to serve in new situations, and in new partnerships with civil entities – for example, in the event of natural catastrophes and terrorist attacks – and with foreign military units, if there are crises or threats of war close by or far from home.

One of the strongest trends in our area right now is so-called network-based defence. It means using information technology to link various military resources to achieve higher efficiency and precision.

The superiority of the U.S. military in Iraq was due in large part to its superior ability to coordinate information gathering, command and control, and precision engagement.

Saab is among the market leaders in network-based defence thanks to our extensive background in systems integration and the development of advanced systems solutions, which we also combine with experience in integrating commercial and military systems.

Imagine that this network approach were applied in a totally different country or an entire region where the traditional separation between military and non-military threats no longer applies. The result is “network-based civil defence,” where a network-based defence is integrated with civil units such as the police, fire department, coast guard and emergency services.

This kind of defence – where civil and military units work together – would protect society much more efficiently than is possible today.

Earlier today, we saw examples of this here in Kungliga Tennishallen at the seminar, “Society’s Security in a New Age.” Guests from the parliament, government and military were able to see how various units can be linked to handle different types of situations, such as accidents and anti-terrorism actions, more efficiently. We also saw how the municipality of Linköping, the regional utility Tekniska verken, and Saab have brought home healthcare services together in what we call “the Hub,” so that this type of social service can be provided more efficiently to everyone.

Swedish Defence Decision 2004 and the defence industry

Against this background, the Swedish Defence Decision 2004 is extremely important. This is where the government lays down the direction and assumptions by which Swedish defence will be organized, and how it will be equipped. It also sets the terms for the defence industry, and for Saab in the Swedish market, for many years to come.



I am an optimist. Based on the reasoning that has been put forth, I believe that the government shares my opinion, at least in principal, of how important it is that Sweden's defence industry maintains its position.

This is what the government wrote in its budget proposal, and I quote:

“Multilateral collaborations, bilateral alliances and the need for international responses are expected to further increase the need for joint materiel development, including research and technological development. As a result, the plans for materiel procurement by the Swedish Armed Forces will increasingly have to take into account, and coordinate with, other countries' needs. It is imperative for such international cooperations that Swedish competence in industry and public authorities is sought after, and in certain cases world leading.” End quote.

It is obvious that the government appreciates the value of international cooperation, based on domestic defence industry development projects.

Today the Swedish defence industry indeed has a competence that is sought after and in several cases world-leading.

Our opinion is that research and development resources should now be targeted in areas where the Swedish defence industry can remain truly competitive. Areas where we are already on the cutting edge. Areas where our products, and our competence, are already sought after in the global market.

Gripen naturally comes to mind. As do our missile systems, underwater systems, and command and control systems, all of which can play important roles in a future network-based defence.

Investments in these areas would benefit Sweden, since the defence industry can then continue to provide the country with access to advanced technology, continue to ensure that high-tech competence remains within the country, continue to spread technology to commercial industry, and continue to generate considerable export sales. Plain and simple, the defence industry can continue to serve as a growth engine, at the same time that it helps to defend society.

I think it is important to remind people of the great benefit to society that our industry creates. It is something that is often forgotten in the debate.

Saab cooperating internationally

Today Saab participates in a number of international development projects.



This slide shows you a selection of the major research, technological and product development projects in which Saab is participating in Europe. These are all technology transfers of the very highest level.

We are taking part in integration work between different weapons and defence systems right from the development stage. In this way, Sweden gains access to advanced technology that otherwise would not have been available, unique expertise is built up in our country, and defence materiel procurement is more cost efficient.

As the government mentions in the quote I just cited, these cooperative projects are extremely important to Sweden and its security. We are invited because of Sweden's willingness to participate, and because Saab is the world leader in certain technological areas.

Here are three examples. Saab is participating in the NLAW alliance, which is developing a light anti-armour system for the British defence. We are also participating in international development work on Taurus, a cruise missile that can be integrated with Gripen – and a number of other fighter aircraft. And Saab has signed a memorandum of understanding with Dassault Aviation of France to jointly develop an Unmanned Combat Aerial Vehicle.

But our participation in advanced international cooperations cannot be taken for granted. It requires a genuine willingness on the part the Swedish defence to invest in development and the ability of Saab to maintain and enhance its competence. Only companies with cutting-edge technical expertise have access to this type of international development work.

Let's therefore hope that Defence Decision 04 sends the right signals, and that the government sets priorities that in the long term will help Saab and the rest of Sweden's defence industry to take part in international development projects.

And that wouldn't be the only positive effect. The huge technological and economic impact that the defence industry generates would continue to benefit our whole society.

Unique investment in research and development

In 2001 and 2002, research and development corresponded to approximately 25 percent of our sales.

Why is such a high figure important? Well, because the investments we made 10–15 years ago have led to the world-leading products and systems we have today, and to our success in the international market. So when we invest in



research and development now, it is to ensure our ability to sell new products and system ten years in the future.

This is why we are so concerned by what has happened in the last year, as the Swedish defence has reduced its allocations for development orders. It has meant fewer resources for research and development and that fewer new products and systems get developed.

In the short term, it is not so important, but if the trend continues, it will have serious consequences. If you look back a few years, you can clearly see how technology has spread from the defence industry to commercial businesses and society as a whole.

You might remember after all that there is a car named after Svenska Aeroplan Aktiebolaget and that Saab helped to build Sweden's first computer or that we are the company behind the advanced dental implants that are now designed and manufactured by Nobel Biocare, just to name a few examples.

If Sweden can maintain its position on the cutting edge of technology in a number of areas, it would competitively benefit the entire business sector. Saab plays a part through a systematic approach to commercializing inventions that fall outside our core business.

One example is SMM Medical, which uses the experience we have gained in designing pilots' uniforms for medical applications. And Saab Marine Electronics, which became the world-leader in level-gauging systems for the oil and process industries by applying the expertise from Saab's radar altimeters. And Biosensor Applications, which works on the very cutting edge of technology in mine detection as well as electronic drug and explosive detection systems that are used by police and other law enforcement officials.

Saab also cooperates extensively with Swedish universities and institutes of technology. Over the years, procedures and models have been developed to make sure that these cooperations are mutually beneficial.

For Saab, they are an effective way to find out what's new in commercial technology development. Our own research can then be focused on higher systems levels, concept studies and demonstrators.

For universities and institutes of technology, they open up new opportunities to take part in advanced research projects that benefit many areas of society.

Furthermore, Saab is helping to increase interest in technology among young people and broaden contacts with the country's engineers, who are an important target group for us. One popular event at the country's institutes of



technology is the “Teknik-SM” technology championships, which Saab arranges and where the nation’s engineering students compete each year for the title of Swedish champion in future technology.

A look ahead

In the defence industry, one of the major concerns right now is integration. Integration between defence systems that were traditionally used by specific branches of the military. Integration between military and civil information systems. Integration between military systems from different countries and defence alliances. Integration between current and newly developed systems. Saab knows integration.

Looking ahead, Saab has a well-filled order book, not to mention documented expertise in producing internationally sought-after products, and the ability to always “make it to the finals” when customers make their procurement decisions.

The emphasis in our work will be on airborne systems and missiles, command and control systems and advanced electronics, and service and maintenance.

In 2004, Saab will continue in its efforts to expand in the international market. We will continue to focus on acquisitions to strengthen our presence in key markets and enter new ones.

Hopefully we will also see a defence decision this year that gives Sweden an effective, sophisticated defence against today’s threats, contributes to good growth opportunities, and at the same time offers Saab stable, long-term operating conditions.

We all know that you can't make any guarantees about the future, but I began by saying that I feel proud, since last year was a show of strength and confident, since I see so many opportunities for Saab even in times of great change. I hope that you, my fellow shareholders, feel the same way. You have every reason to.

Thank you!