

**SAAB**

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Speech by President and CEO Åke Svensson to Saab's Annual General Meeting April 5, 2006

"Mr. Chairman, my fellow shareholders,

Let me begin with an image of the Earth seen from space at night. To me, it conjures many thought about understanding our history, our world and where we are headed. These are important considerations in order to develop Saab as a company. The world around us is changing – from an historical perspective very quickly. And Saab is changing with it.

For 2005 and Saab, this change can be summed up in two words: Growth and internationalization.

Last year was a strong one for Saab. We won several breakthrough orders in Sweden and abroad. We raised our sales and we produced stable income despite major restructurings.

Sales revenues rose by 8 percent, or SEK 1.5 billion, to SEK 19.3 billion. This is what we predicted in our forecasts. Approximately SEK 1 billion of this is attributable to South Africa's Grintek, which we became the majority owner of during the year.

Adjusted for acquisitions and investments, underlying growth was approximately 6 percent, in line with our target and slightly better than our forecast.

Income for 2005 was charged with extraordinary structural costs and provisions for the helicopter project.

Despite this, we reached a level of SEK 1.6 billion. This corresponds to an operating margin of 8.6 percent. If we take out structural costs, our margin was 10.2 percent, in line with our long-term 10 percent target. In other words, our underlying earning capacity remains stable.

We received many new orders during the year. Orders rose to SEK 17.5 billion, against SEK 16.4 billion a year earlier. The order book remains well filled: SEK 42 billion at year-end.

More than half of sales outside Sweden

In terms of internationalization, 2005 was a remarkable year: For the first time, more than half of our sales was from customers outside Sweden – 56 percent, in fact, compared with 48 percent the year before.

Of the new orders received during the year, no less than 63 percent was from markets other than Sweden. And if you look at the order book at year-end, it was

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even more international: 75 percent of the order backlog comes from outside Sweden.

Taking part in developing Sweden's future net-centric defence

Our Swedish home market was affected by parliament's decision on the level of defence spending for the period 2005 – 2007. We are adapting our operations in Sweden accordingly. For both 2005 and 2006, we have been forced to announce layoffs. In total, 1,500 people are affected over the two years.

The transformation of the Swedish defence means less defence spending and fewer development projects. But at the same time, the defence forces are restructuring, which means that new functions and systems have to be developed.

We are playing a part in developing Sweden's future net-centric defence, and in 2005 received an order to develop a new battle management system to command units up to battalion level. We also received an order to further develop the Swedish air defence system, and we were awarded orders for NLAW, the Next generation Light Antitank Weapon. In addition, we reached an important agreement on Swedish participation in the development of a demonstrator for an advanced unmanned aerial vehicle.

All in all, Saab still has strong sales and a strong position in the Swedish market. But in the long term, as our sales and order figures indicate, an internationalization process is under way.

Internationalization also through strategic acquisitions

This internationalization is happening not only through higher sales in international markets, but also through strategic acquisitions.

A significant step we took during the year, perhaps our most important, was becoming the majority shareholder in Grintek, a leading high-technology company in South Africa with operations in telecommunications and industrial and defence electronics.

We are now integrating a portion of our operations in Sweden and South Africa.

During the year we also acquired a South African avionics company, AMS.

The acquisition of Grintek means that, in one fell swoop, we added SEK 1 billion in sales and 1,500 new Saab employees. Of course, this step was the outcome of a longer process, which began with the Gripen contract in 1999, and which opens new business opportunities and places demands on our presence in the country. Local acquisitions and cooperations will naturally result.

As the contracts increase, and our relations with South Africa grow stronger, this will develop into a new home market for us. Which is exactly what we are hoping for.

**Defence and Security Solutions**

To underscore our strategic direction, we have organized our various business units, starting January 1, 2005, into three segments.

The three reflect different competencies – and differences in businesses and customer relationships – between the markets where we are active. For each of the segments, we have a strategy how to grow.

The business units that develop and manufacture advanced command, control and communication systems are in the business segment Defence and Security Solutions. In this segment, we also offer a wide range of advanced services, including support and logistics solutions and sophisticated consulting services. In 2005 the segment accounted for 27 percent of sales. The operating margin was 10 percent.

Major orders in 2005 in this segment included a fire control system for the Dutch army and the combat management system for Australia's ANZAC frigates.

But the most important international order, without question, was from Pakistan for an airborne surveillance system.

When a few remaining conditions are met, we expect to be able to book the contract and begin the extensive development work in 2006.

This is a major order in monetary terms, totaling over SEK 8 billion, two thirds of which goes to Saab and the rest to our partner, Ericsson. But it is also important in that it is indicative of the future opportunities available to Saab. This surveillance system has a wide range of applications in civil security.

Develop multiple home markets

We at Saab are specialists in designing solutions where various command, control, communication or surveillance systems work together in an effective way. In this area, we therefore have excellent prospects of growth.

Projects of this type are not only question of professionalism, but also trust. Since they often involve national security, there is a long-term political dimension. Our strategy, therefore, is to develop close customer relationships in more countries, so that we become an important partner for security solutions at a national level. And so that we can add new home markets other than Sweden.

In South Africa, we are on our way to achieving this. Other countries include Australia and Finland. Further opportunities are opening thanks to the interest Denmark and Norway are now showing in Gripen.

Expand into Civil Security

In the segment Defence and Security Solutions, we anticipate higher demand – in Sweden and other countries – in the emerging market for civil security.

In 2005 the Japanese Coast Guard ordered two Saab 340 aircraft adapted and equipped for search and rescue missions along coasts and at sea. In Sweden, we have already been involved in the development of Rakel, a radio communication system for all authorities that work with safety and security.



A strong trend – here in Sweden and in other countries – is that defence authorities and other government departments are trying to outsource parts of their operations and are seeking new forms of collaboration with industry. We see growth opportunities here for Saab.

Systems & Products

Apart from the ability to develop and manufacture advanced command, control and communication systems, Saab has developed substantial expertise in a number of technological areas over the years.

In these areas, we have designed world-leading systems and products. Among the examples are missile systems including anti-armor weapons, signature management, combat training, electronic warfare, underwater systems and satellite equipment. Many orders include maintenance and operation of the systems we supply.

The business units that develop and sell these products are in the business segment Systems and Products.

This business segment accounted for 34 percent of sales in 2005. The operating margin was slightly over 11 percent.

The largest orders we booked in 2005 were in this business segment.. One was for radar warning equipment for the German Air Force's Tornado aircraft. The other was for IRIS-T, an air-to-air missile developed collaboratively by a number of European countries. Both were billion-krona orders.

Other major orders last year included the heavyweight antiship missile RBS15 for Germany, an ultra lightweight camouflage net system for the U.S. Army and a new anti-armor system for the Swedish defence.

Sales in this segment are the result of longstanding customer relationships, in the same way as with complex defence and security solutions. But the decision-making process entails fewer political factors.

Our competitive strength in this area is strongly based on customer analyses of our products' price and performance. Consequently, the potential markets for us are very large.

Systems and Products is where we expect the greatest sales growth in the years ahead.

We are the world leader in a select number of niches of the global market. And we are constantly looking for market potential in each of these areas, and what is needed to increase our market shares.

We have cutting-edge competence here that we will retain and develop. We can do so through our research and development – as in the case of Robot 15 – or through international alliances.



In Systems and Products, we also see opportunities to grow through acquisitions and thereby increase our market shares in the niches where we are active. One successful example is our U.S. acquisition in 2002 in Lillington, which was decisive to Saab Barracuda's strong current position in the American market.

Aeronautics

Our aviation operations are in the business segment Aeronautics.

Aviation was where Saab began – the Swedish Aeroplane Corporation – and in this field we have unique expertise. Unique for a European company, and even more unique in that it can be found in such a small country as Sweden.

Aeronautics accounted for 39 percent of sales in 2005. Sales rose compared with the previous year, but operating income declined, in part because of structural costs and provisions caused by the delay in the helicopter project. As a result, the operating margin was only 3 percent.

For the foreseeable future, the business segment Aeronautics will be dominated by Gripen.

Export Gripen

Gripen is one of the world's most modern fighter aircraft in operational service. The system also has practically unlimited possibilities for further development and modifications. Gripen will remain a modern fighter for at least another 30–40 years, and we therefore anticipate major opportunities for new orders from several countries.

The Gripen program passed two important milestones in 2005. One was when all 14 aircraft on order from the Czech Air Force were delivered. The time from order to delivery was only about a year. That must be a world record. This means that Gripen is now operational in a NATO country, which opens opportunities for further exports.

The second milestone was the maiden flight of South Africa's first Gripen.

Gripen will be in operational service in South Africa from 2008.

And I can proudly note that last week we handed over the first five Gripen to Hungary.

We are now working aggressively to achieve further success in the export market.

Invest in research and development

Sweden's decision to participate in the international Neuron project is important to Gripen's further development and in order to retain aeronautics expertise in Sweden.

Saab is a leader in the research and development of unmanned aerial vehicles. During the year the FILUR demonstrator also took to the skies for the first time. Thanks to Saab's know-how in this area, Sweden is now participating in the



Neuron project, and we can therefore continue to develop our expertise for many years to come.

Taking part in the technological development of unmanned aerial vehicles is important. It means, among other things, that we will be able to add additional autonomous functions to Gripen in the future.

Participation in international alliances, preferably through a leading role in international development projects, is therefore an important element in our aeronautics strategy.

Civilian operations

At the same time that Gripen is being put into service in more countries, our civilian operations are growing as well.

For Airbus, Saab has developed and is now manufacturing the leading edge of the wing of the A380 superjumbo. We are also involved in several other Airbus projects. With Boeing, we reached an agreement in 2005 on development work and deliveries for the new passenger aircraft B787 Dreamliner.

Development projects in the commercial aviation sector are important. For one thing, they are good business. Secondly, they help to ensure that we retain our aeronautics expertise. And what's more, they are important to the further development of Gripen.

A global company with opportunities and diversity

Saab has long been a global company in that we have had the world as our market. But we are also gradually becoming a more global company by adding operations and employees in new countries.

This diversity is one of our most important success factors. Our geographical diversity, and the breadth of our operations, makes Saab a company of opportunities. This is also reflected in our human resource policy.

Internationalization creates more job opportunities and contributes to creativity.

Matching talents with available positions is important. We therefore have leadership programs for employees at various stages of their development.

For many years, we have also made a special effort to increase the number of women in leadership positions through annual mentoring projects. When we recruit managers, there should always be at least one woman among the candidates. In this way, we are working long- term to gradually increase the share of women in top positions. This takes time, but will make the company stronger.

Sweden can only compete by maintaining a world-leading expertise



Every year 7,000 engineers graduate in Sweden. The corresponding number in China is 650,000. While Sweden obviously cannot compete in terms of quantity, we must do so in terms of quality, by being the best.

The fact that we have world-leading expertise is obvious in the case of Gripen. But a lot of effort and investment are needed if Sweden is to maintain a leading position. In this regard, Saab is one of the most important players. We are probably Sweden's most research-intensive company. About one fifth of our sales is devoted to research and development. We are also helping to support Sweden in high-technology areas through cooperations with universities and research institutes.

But we are also helping to stimulate interest in technology on a broader level. For the last seven years, Saab has arranged the "Swedish Championship in Technology," which in 2005 was awarded Kunskapspriset, the "knowledge prize" by Nationalencyklopedin. Students from the country's institutes of technology and universities compete to be champions in future technology. The finals were held here in this hall earlier today. This is one example of what Saab is doing so that Sweden will remain the best.

From protecting borders to protecting flows

In our changing world, the focus is now shifting from protecting borders to protecting flows.

While military threats have not been eliminated, society is facing other types of threats as well. The terrorist attacks in London, the tsunami in Southeast Asia, the hurricane that devastated New Orleans, and here at home, the storm Gudrun, are obvious examples.

The increased need for civil security is also the result of a gradual and less dramatic development that has made our societies more vulnerable. We have become dependent on uninterrupted energy supplies, communications and other infrastructure. And we have become dependent on unimpeded flows of people, goods, information and money between countries.

Disruptions in these flows can have major consequences for those people affected, but also because major economic values are at stake.

Let me give you an example. Did you know that 80 percent of world's goods are shipped by sea? This is a very vulnerable flow.

I would like to show you an example of a system for marine security. Saab Transponder Tech is the world's leading manufacturer of transponders for maritime applications. They are used for identifying ships, for traffic management and for rescue missions.

We have systems that at any given time can provide real-time images of a coast or a harbor.

Some 600 such base stations are currently in use along China's coast, and deliveries are now under way to Spain and Portugal, among other countries.



This is what Saab's systems can do. The slide shows a real-time image of shipping traffic south of Gotland. The ships have transponders onboard that continuously send information on the ship's identity, speed, position and destination to base stations along the coast.

These base stations in turn are linked to a communication system, through which users such as sea rescue and naval command centers can share the information at the same moment that it is sent.

This is one example of how we at Saab help to protect people, flows and society.

Saab has technology for a changing world

Mr. Chairman, my fellow shareholders,

I have given you a report on last year and at the same time provided an update on our strategy to continue to grow by adapting to changes in our markets.

2005 was a strong year for Saab. And 2006 is beginning well, with several major orders. I am also optimistic about Saab's prospects in the longer term.

Saab has the technology to meet the growing needs in society to protect important civilian and military functions.

In a changing world, there are many business opportunities for Saab.

Thank you! “