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President and CEO Åke Svensson's address to Saab's Annual General Meeting 2007

“Mr. Chairman, my fellow shareholders,

I am proud of Saab and proud to again stand before you to talk about our company. There is a lot to say about what we have accomplished historically, what we are doing today, and, not least, what Saab can do to ensure that all of us live more securely in the future.

Saab is special in so many ways. Our company is essentially a direct extension and consequence of the vibrant images you saw in the introductory film. Saab was born from the democratic decisions that Sweden should have a strong defence and remain neutral – and therefore also have an independent defence industry.

When we look back at our first 70 years as a company, two aspects are always present and distinguish Saab:

- World-leading technology, and
- Continuous change.

Saab has developed in close cooperation with the Swedish defence through Sweden's decision to remain neutral. This required unique solutions, which, when allowed to compete in the international market, have shown that Swedish engineering innovations often were the best in the world.

Swedish investment in the defence industry not only created successful companies like Saab. The value and benefits that have been created in society are also significant, though perhaps not as well-known or accepted.

The fact is, the defence industry has been decisive to the development of the Swedish computer, automotive, medical technology and mobile telephone industries, to name just a few.

Throughout its history, Saab has continuously pushed the envelope of what is technically possible. Analyses show that the investments have repaid society by a wide margin.

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When engineers from Sweden's most research-intensive company have continued on in their careers, they have shared their expertise and thereby helped to develop other areas of Swedish business. In this way, Saab has served – and still serves – as an incubator and technology generator for Sweden. This is a role we would gladly continue to play.

I am concerned, however, that fewer young people in Sweden are choosing to study natural sciences and engineering. Swedish companies have a great need for engineering professionals. Yet we face a future where we risk an acute shortage. Saab has made efforts for years to counteract this, and we feel it is important to continue to do so.

The defence business is special. The customer is usually a national government, and complex systems are often developed in international alliances. Securing contracts and participating in key international development projects therefore require close cooperation between the world's major defence contractors and government authorities. This also applies to Saab. Our future success requires that the parliament and government support our business and that Sweden retains its role as a reference customer and stakeholder in our development.

We look forward to further investments by, and a good cooperation with, the Swedish state – in part because it benefits our country long-term and in part because it is an important prerequisite for Saab.

I also mentioned continuous change as a key factor. Our company was founded in 1937 as an aircraft manufacturer, Svenska Aeroplan Aktiebolaget. After the Second World War, we became an aircraft and automotive company that was then transformed into a transportation company, Saab-Scania, through a merger with Scania-Vabis.

In the 1990's, Saab streamlined its operations to focus on defence. Through the acquisitions of Celsius in 2000 and Ericsson's defence operations last year, we have secured a broad technology and product base in defence and security solutions. Our company has obviously undergone major changes. And this is likely to continue.

World-leading technology and the ability to adapt to continuous change are also our most important success factors in the future. We have to continuously adapt to our operating environment, respond quickly and be flexible in order to see and capitalize on opportunities. And we have to continuously offer the world's best technological solutions to our customers.

This also requires financial strength. We must have sufficient profitability to invest in research and development to create new systems and products. And, when opportunities arise, we must be able to make acquisitions to expand our market share or complement our expertise and offering.

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From this and several other perspectives, 2006 was a fantastic year. Sales increased by 9 percent to SEK 21 billion. Operating income rose to slightly over SEK 1.7 billion and generated a margin before structural costs of over 10 percent. This means that we are meeting our long-term profit targets, and our underlying earning capacity is good.

As we expected, markets outside Sweden are playing an increasingly important role; 65 percent of our revenue last year came from outside Sweden. In terms of order bookings, the figure was even higher – 72 percent. In our order backlog, the international share is no less than 77 percent. The corresponding figure for 2001 was significantly lower, as you can see. Saab's transformation into an increasingly international company poses cultural and professional challenges. I am convinced we can handle them in the right way.

2006 was also the year when we completed the deal we had worked on so long when we acquired Ericsson Microwave Systems. I consider it another historical milestone for Saab. The acquisition added 1,200 new colleagues, SEK 2.5 billion in sales and world-leading technological content and offerings in sensors, an excellent complement to our portfolio. Our strategy is to grow internationally. With the company now known as Saab Microwave Systems, we are doing just that. Its products are sold in around 30 countries, and its future growth markets are outside Sweden. Microwave's products were already an important part of our major system solutions. The nose radar in Gripen and the radar in the Bamse missile system are two obvious examples. In addition, the Erieye radar is at the core of the new airborne surveillance system Pakistan has ordered. The acquisition gives us a firmer command of our key systems and better positions us for future deals. Microwave's systems are also a good revenue source on their own. One example is the breakthrough in the Spanish market for the weapon detecting radar Arthur, an order worth over a half-billion kronor. Intensive work is now under way to benefit from the synergies we expect from the acquisition.

The acquisition from Ericsson also included the remaining 40-percent interest in our space operations. Saab Space, which is now wholly owned, celebrated by becoming the supplier of onboard computers for Europe's satellite navigation project, Galileo.

Two other important structural moves in 2006 were the acquisition of Denmark's Maersk Data Defence, with over 200 employees, and the establishment of a new aerostructures business in South Africa together with Denel. Taken together, these moves give us a stronger position in our key home markets, the Nordic region and South Africa.

2006 was also a fantastic year from the perspective of new orders. Order bookings rose to a record level of SEK 27.5 billion, which gives us our highest order backlog ever, SEK 51 billion.

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A strong contributing factor was naturally the confirmation of Pakistan's order for our airborne surveillance system. The fact that Pakistan, with its magnificent but difficult-to-navigate landscape and strategic location requires a surveillance system is obvious.

There are many applications for this system, not only defence-related. It can be of help, for example, in connection with natural disasters, rescue missions and crime fighting. Several other countries have expressed interest. This convinces us that we have developed yet another unique system with strong international potential.

Another such system is the surface-to-surface missile 15. In 2006, Poland became the second NATO member after Germany to order the system. The order is valued at SEK 1 billion.

An increasingly important aspect of our business is support solutions, conducted in close with our customers' operations. Saab remains in place in Afghanistan, for example, to support Sweden's peacekeeping forces with a power supply and distribution system at the Swedish base. This is no one-time occurrence. Saab is prepared to support and stand alongside the Swedish defence in its international missions in the future.

2006 was also a good year for our best-known product, the Gripen fighter. The Swedish Air Force ordered scheduled upgrades for over SEK 1 billion. Hungary became the second NATO member, after the Czech Republic, to place the system in operational service. And our third export customer, South Africa, celebrated its first test aircraft. Here you can see Gripen flying over Cape Town. The aircraft is now undergoing a comprehensive testing program under the management of Saab personnel prior to the first series deliveries in 2008.

But perhaps the biggest event regarding Gripen in 2006 was the Swedish Air Force's participation in Red Flag, an international exercise in Alaska. Red Flag is a realistic, tactical exercise involving the air forces of several countries, and Sweden participated for the first time.

Just the logistics of flying seven Gripen aircraft, tons of equipment and personnel over half the globe, carrying out successful, high-pressure exercises over a ten-day period, and then flying everything home again were a huge challenge. And we certainly succeeded! During those ten days, Gripen flew some 100 demanding missions in cooperation with the world's most prominent air forces. Competitors and observers were deeply impressed by Gripen's performance. Our opinion – that Gripen is world's most modern fighter in operational service – was reaffirmed.

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Never has international interest in Gripen been as great. It feels like we are now competing where we should be: to replace the previous generation's fighters. The competition is tough, and we are playing in the big leagues. But Saab and Gripen are well-qualified. We also began 2007 by flying three Gripen fighters to India, where a major order for 126 aircraft awaits.

The defence industry and sales of defence systems in the international market are often the subject of speculation. In our case, we have recently been accused of bribery. The Director of Public Prosecutions for the Swedish Anti-Corruption Unit has initiated an investigation of alleged improprieties in connection with the lease of Gripen aircraft to the Czech Republic.

It is our firm conviction that our business uses only legal methods. Bribes have never been allowed at Saab. We are fully cooperating with the public prosecutor and providing all the information needed in the investigation. This makes it unsuitable for us to further comment before the prosecutor's work is done.

Defence orders are complicated. Allow me to describe what is required, for example, to seal a deal involving Gripen.

As with any project, the first piece of the puzzle, and what gets us considered in the first place, is having a product whose price and performance meet the customer's requirements. Furthermore, the cost to own and operate the system, and its upgrade opportunities, are important factors.

Our second puzzle piece is financing. Good financing solutions are increasingly important to compete. Companies that can offer the buyer favorable loans with long pay-off periods and low interest rates have a better chance of winning an order. Saab can offer competitive export credits through the Export Credits Guarantee Board in Sweden, for example, which also helps us to manage various types of business risks. Naturally, this also requires that Saab is a well-managed and trustworthy company.

In major defence orders, the customer always requires so-called industrial cooperations. This means that we, as the seller, also have to help to create long-term economic growth and development in the buyer's country. This can be done through the direct participation of the country's industry in the production and development of the Gripen system, or by having Saab help to establish companies and transfer technology.

Saab's approach is that such projects should always be financially sound. And everyone involved must profit from them. In this way, Saab meets its commitments, at the same time that we build profitability and encourage development in the buyer's country – not only in the defence field but even more so in the civilian sector.

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The term off-set is misleading when describing Saab's approach, I feel. As far as possible, Saab avoids off-sets in a strict sense. We want to establish long-term industrial cooperations that in many cases begin before the order for Gripen is even finalized.

Our fourth puzzle piece is political considerations. An order for fighters, for example, entails so much more. It is also a question of a long-term relationship between nations. Aircraft orders are an international affair based on extensive security and cooperation agreements – and therefore require close cooperation between governments and industry.

In other words, winning the order requires more than just a good product at a good price. We have to put all the puzzle pieces together to be a winner. The larger and more complex the systems we sell, the greater the importance of the puzzle pieces to the right: industrial cooperations and politics. The needs and terms set by each buyer-country differ, which is why we, and our competitors, need advisors and representatives to understand the situation at hand and act appropriately.

Competition for the best advisors is fierce, and agreements with them are sensitive. We cannot reveal to our competitors which advisors we hire or what we pay. But Saab's rules for hiring and paying advisors are crystal clear. Our rules are also published on our website. We do careful research and obtain references. And we are always careful to spell out our ethical requirements.

Payment is usually based on ongoing assignments. But it can also be a percentage of the contract value, which is contingent on winning the order. These are the conditions we have to deal with. Again, I can assure you we are complying with the rules. Internal and external audits ensure that we do.

For me, not only as the president of Saab but also from a personal standpoint, business ethics are a matter of principle. And I know that this opinion is shared by all my colleagues. During the last year, we spent a lot of time on our business concept, our vision and, not least, our values: expertise, trust and ambition. I have had the privilege of traveling around to discuss these issues with all our employees. It is very clear to me that we are, and will remain, a company that does business based on our values and good business ethics.

Mr. Chairman, my fellow shareholders: Saab faces an exciting future where, as I have noted, the focus is on world-leading technology and continuous change. Our strategy remains firm, and is reflected in our three strategic business segments. Allow me to briefly recapitulate their most important aspects.

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Defence and Security Solutions develops and links together advanced systems and offers sophisticated support and service solutions. The political dimension is crucial, and an important strategy for us is to develop close customer relations typical of a home market. We have such a role in Sweden, are on the way to achieving one in the other Nordic countries and in South Africa, and to some extent in Australia as well.

In the Systems and Products segment, we sell our world-leading products on the international market. Customers' decisions are largely based on price and performance, and the potential markets for us are therefore quite large. The key is to enhance our existing systems and develop new solutions. Research and development, international alliances and acquisitions are the means to success.

Then we have the Aeronautics business segment. The emphasis here is on Gripen and the ability to refine and export the system today and in the future. We are therefore investing substantially in research and development, we are participating in Airbus and Boeing projects, and we are developing new technology in projects involving unmanned aerial vehicles – UAV's.

In 2006, we worked hard to refine our business concept, our vision and our values. In 2007, we are concentrating on a number of programs that will make us even more efficient. The aim is naturally to increase profitability, with the goal of leaving us more money to invest in research and development as well as marketing. Only in this way can Saab remain a world leader.

In conclusion, I would like to describe how our company will play an important role in providing security for people in the future. We call it civil security. Because the technology developed to protect our borders can also protect what is important and vulnerable in society today and in the future – flows. Flows of people, money, energy or goods and services of various kinds. Saab can help society by creating robust crisis management systems and protecting critical infrastructure. This is opening an attractive new market for us.

Allow me to offer two examples. In 2006, we signed a breakthrough order to provide Securitas with a security platform for Stockholm's Arlanda and Bromma airports. The order has attracted a great deal of attention in Sweden and internationally. Can Saab do that, people asked. The answer is unequivocal: Yes, we can!

You can see one of the technologies that can be used in such situations on the screen right now. This technology originated in our missile operations to identify and follow targets. With a few modifications, it can be used to identify deviant behavior in a group of people and automatically follow the individuals in question. The system creates exactly what you need to avert a crisis: a warning with time to react.

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I will give you another example of how one of Saab's products, developed for military purposes, is now finding civil applications and markets. In this case it is Giraffe, the world's first radar system that can simultaneously track aircraft, missiles and ballistic projectiles. Attacks from the air are among the most difficult to protect against. France is well aware of this and has – despite a strong domestic radar producer – ordered the system from us to protect large public events.

These examples demonstrate two things. The first is that Saab, with its expertise, can develop new system solutions for civil security, though also that we can utilize our existing products and systems to make society safer against today's most prevalent threats.

The second fact that these examples show is that such deals require:

- World-leading technology
- The ability to continuously change, and
- Financial strength.

Saab has all this and more. We stand strong – and proud – as we look to the future.”

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