

Saab AB Annual General Meeting

April 16, 2009

Åke Svensson, CEO

Mr. Chairman, my fellow shareholders,

2008 was an eventful and dramatic year for the world and for Saab. The global financial crisis has left no country and no economy unscathed. It also shows how a serious disruption to a key economic flow can quickly spread throughout the world.

The consequences of this crisis are one of Saab's greatest challenges right now. Last year we saw a slumping market for commercial aircraft and postponements to several important military orders. We also had to face continued uncertainty about Sweden's defence policy regarding procurements and future investments in research and development. During the third quarter, it therefore became necessary to revise our growth and operating margin forecasts.

All this affected our share price, which declined by 45 percent in 2008, compared with a 41 percent drop for the market index during the same period. Looking back at last year, we can see that we were still able to meet our revised objectives, and even exceed them slightly. The reason is that during the fourth quarter, despite the financial crisis, we generated strong operating income. In fact, it was Saab's best of fourth quarter ever.

Naturally, we were also pleased that order bookings increased to SEK 23 billion, compared with SEK 21 billion in 2007, and that sales rose by 3 percent to nearly SEK 24 billion. If, for the sake of comparison, we eliminate the sale of Saab Space and exchange rate effects, sales actually climbed 6 percent. Adjusted for one-time items, the operating margin was 8.4 percent.

Global economic conditions forced us to revise a number of assumptions in our business plan. As a consequence, we decided to write down various items in the balance sheet and allocate provisions for potential future losses on certain projects. Among these items, the single largest was SEK 1.2 billion for delays and modifications to commercial aircraft production by Boeing and Airbus. Even if these extraordinary items do not result in disbursements and therefore do not impact our cash flow, operating income fell to SEK 166 million. This produces an operating margin of only 0.7 percent, compared with 11.3 percent in 2007.

Taken together, this forced us to report a loss of SEK 242 million for 2008. This is the first time this has happened since Saab's IPO in 1998 and has naturally led to extensive deliberations by Saab's Group Management and Board of Directors. Thanks to the measures that were decided on, however, we now stand on more stable ground going forward.

Before I discuss our various operations, I would like to say that we are working very hard to improve our cash flow and increase efficiencies, so that we strengthen our ability to invest in future.

These intensive efforts are being pushed hard in our efficiency improvement program, the so-called Billion+ Program. Part of what we are doing is coordinating operations to create a more efficient infrastructure, and we are also trying to conserve our resources in any way possible.

The program continued throughout 2008 and was expanded last fall to include 500 staff cuts over a two-year period starting this year. The cutbacks will be achieved mainly through attrition and normal employee turnover, but it is still possible we may be forced to announce layoffs due to market conditions.

The goal of the program is now to achieve total annual cost savings of SEK 1.5 billion by the end of 2010.

The efficiency improvement program is helping us to strengthen our competitive edge. We must have flexible resources in order to finance research and development and continue to invest in marketing. To prepare for a more uncertain future with regard to financing for research and development projects, the Board of Directors also decided earlier this year to modify the accounting principles for our development expenditures. We will now recognize a significantly larger share of these expenses in our profit for the year. As of 2009, we will also amortize remaining development costs at a faster rate than before.

The effects of these changes make us more stable going forward and reduce financial risks over time. It will not hurt our cash flow, but will negatively affect reported profitability. This underscores the necessity of achieving all the cost savings in the Billion+ Program. At the same time, it is important to stress that these changes will not reduce our overall investment in research and development.

World-class engineering has always been a distinguishing quality of Saab, and demand for cutting-edge technology is and will remain the primary driver in our business. Ultimately, the need to finance a larger share of our development internally is a consequence of the uncertainty about the future development of the Swedish defence. Defence spending by the Swedish military will remain critical to our ability to develop future technology. Fortunately, the recently released government bill on the future focus of the Swedish defence was positive in this regard, including with respect to Gripen's continued development.

We live in a constantly changing world. And it is critical that we understand what is happening so that we can keep pace. This makes it important to be able to look back as well as ahead. Let me therefore share a few of my thoughts on global political developments that impact Saab and our operations.

The global financial crisis we are facing is a clear example of the vulnerability of the modern, flow-based society we live in. In this case, it is mainly a question of capital flows. Next time it could involve the flow of goods, services, information, energy or people. To maintain the stability of these flows, controls, efficiency and security are becoming increasingly important. While this may seem obvious, it hasn't always been that way.

Since the Peace of Westphalia in 1648, our global order has focused on protecting national borders. At the end of World War II, there was a realization that a change was needed. A new system, known as Dumbarton Oaks, was sketched out in 1944. Named for the estate in Washington, DC where international delegates convened, the new doctrine laid the foundation for the United Nations and was based on the principles of solidarity and mutual dependence between nations.

The basic assumption was that peace and prosperity were increasingly dependent on growth in global trade. But it wasn't until the Iron Curtain fell in 1989 and China and India gradually accepted market economics that the right conditions for the Dumbarton Oaks model were in place.

The EU and its inner market are also based on the principles of Dumbarton Oaks. Sweden is an active part of the European Union, and following a decision in 2004 the EU's security policy also applies in Sweden. As a result of parliament's decision last November, when the Lisbon Treaty was approved, Sweden has accepted the EU's position on foreign policy issues.

Developments in recent decades have increased the focus on maintaining flows across borders rather than maintaining the borders themselves. Today more resources are therefore being devoted to cross-border infrastructure and the efficiency of these flows. This transition to a global, flow-based economy is fundamentally changing the threat scenarios for our society. At the same time, it is important to note that we still haven't shed the old order just yet. We still have borders to deal with – between nations, between continents and between trading blocs.

For Saab, this development is very interesting. Our company was established more than 70 years ago and has developed primarily in a defence-related, Swedish environment. During the Cold War, we developed advanced systems to defend Sweden's borders. Now that the Cold War is over and global demand to protect flows and infrastructures is increasing, we at Saab must find our role.

Against this backdrop, we are focused on three strategic directions.

First, civil security is becoming a growing business. Secondly, we are transitioning higher up the value chain in order to offer our customers full-service solutions, and not just individual systems and products. And thirdly, we are no longer strictly a Swedish company. We are becoming increasingly international.

The market for civil security is constantly growing and military technology is increasingly finding commercial application. Saab has a lot to offer in this regard. This was the reason we established a new business unit for civil security, Saab Security, during the year.

In 2008, we received a large number of orders in civil security and are now supplying, among other things, the surveillance system for Arlanda Airport and communication systems such as Raket.

We also received orders in 2008 for surveillance systems for the Ringhals and Oskarshamn nuclear power plants in Sweden and for the Swedish Prison and Probation Service.

Customers increasingly want us to offer larger solutions and take on turn-key commitments. The ability to combine various products and technological solutions into full-scale systems will become increasingly important to us in the future. This requires that we can assume the role of integrator of our own and others' systems as well as the role of operator with or without related services and support.

One example of the latter is the long-term agreement we signed last year with the Swedish Defence Materiel Administration on a comprehensive support commitment for the SK 60 aircraft system. As the principal supplier, we are now responsible for operations, maintenance and availability of all SK 60 aircraft. This is an example of a public-private partnership, which is also becoming increasingly common.

A growing share of our sales comes from markets outside Sweden. This reflects a goal Saab has had for several years, and is critical if we are to continue to grow at the same time that the Swedish defence market shrinks. Exports now account for 68 percent our sales, and our aim is that they will continue to grow.

Among our largest orders during the year was from Thailand for an integrated air surveillance system based on Gripen, with a value of SEK 2 billion for Saab. The order includes an advanced air surveillance system using the Erieye radar on Saab 340 aircraft as well as communication and command and control systems. Another major order was for the command and control system for the Canadian Navy's twelve Halifax Class frigates, valued at more than SEK 1 billion. Several other important international orders were received during the year from India, Finland, the UK, France, South Africa, Australia and the U.S.

The orders Saab receives vary greatly in size. Many do not come with press releases or make headlines. Others generate great interest around the world. It is worth noting that these two categories of orders account for about the same percentage of our total sales.

As you all know, Gripen is a very important product for Saab in terms of both the business we generate and our technological development. It is also an industrial project of considerable importance to the country and something we can all be proud of. It was gratifying therefore to see that the government bill on the future focus of the Swedish defence presented on March 19 of this year underscored the further development of Gripen as a cornerstone in a future Swedish defence. At the same time, the government has clearly stated that Gripen exports are a valuable component in this work.

The Gripen system took a number of important steps forward in 2008 and earlier this year. Many of you remember that at last year's Annual General Meeting we received a report prior to the unveiling of the Gripen Demo. That was in April, and in May the plane made its maiden flight.

It was a great feeling to see that everything went well with this important flight – confirming that our engineers had succeeded with an extensive redesign despite tight time constraints, and also because we have submitted several tenders where the new functions are necessary to meet customer requirements.

Gripen Demo is an example of a new way of working for us. We have developed a test aircraft and a land-based testing platform to develop new technology and improve Gripen's performance. And we did so in record time, using completely new methods and tools. This improves our capability to adapt Gripen to our customers' needs in a unique, cost-effective manner.

The willingness of the Swedish customer to participate in the further development of Gripen led to orders from the Swedish Defence Materiel Administration in 2008 for electronic warfare systems and supplementary weapons pylons for Gripen. We also received additional orders earlier this year to support the Gripen system's operating capabilities and study its future capabilities. Together, these orders are worth around SEK 1.5 billion. For us at Saab, this will secure development work in several locations, primarily Linköping, Stockholm and Göteborg.

With regard to our marketing investments, we are working at present on sales campaigns for Gripen in several countries, currently with a focus on Brazil, India and Switzerland.

Unfortunately, the Norwegian government announced in November that it had decided to go with an American alternative. We had hoped and believed that Gripen would offer a winning alternative in terms of price and performance and at the same time create the basis for an extensive industrial cooperation and security alliance between our two countries. We devoted a lot of work, together with our government, to this tender, but at this point we can only say that Norway wanted a different solution. I would also add, however, that we were surprised by the cost calculations Norway used in its decision-making process with regard to Gripen.

We are now moving on and, as I mentioned, there is still considerable interest in Gripen in the export market. The fact is that Gripen has been awarded more export contracts in the last decade than any other aeronautics system, though there are competing systems that have received larger individual orders. In comparison with our competitors, we are small, which has actually proven to be a strength, because we can adapt better to change and be more flexible.

To date, five nations have chosen Gripen as the foundation of their future air force. In addition to Sweden, Hungary and Czech Republic have received all the aircraft they ordered. Deliveries to South Africa began last year and thus far they have received five aircraft. The aircraft that Thailand has ordered will be supplied in 2011, and production work has begun. In addition, Sweden has ordered the upgrade of 31 Gripen to the latest C/D version, which we will be working on until 2014.

Gripen is a striking example of Saab's role as a technology incubator in Swedish society. This applies to most of Saab's products. For more than 70 years, we have contributed, as a research-intensive company, to the development of high-tech expertise through strong research cooperations with universities, institutes of technology and research institutes. In this way, we have helped to create technological innovations that, time and again, have benefited other industries. And we continue to do so, all the time.

There many advantages to this type of cooperation. Besides providing us with capabilities to develop the defence systems we need they are also important to the country's and Saab's development. They get young people more interested in the natural sciences and engineering and naturally therefore also help Saab to meet its competence needs, which is becoming an increasingly important challenge for us.

Aside from this important societal benefit, we, like other Swedish companies, take responsibility for our actions in everything from diversity, fair working conditions and professional ethics to climate change and other environmental considerations.

Diversity is an important theme we are working on conscientiously. In 2008, we set an ambitious goal to hire more women in senior positions. By 2015, 30 percent of managers at Saab will be female. Today the figure is 18 percent, and the share of women at Saab as a whole is 22 percent.

We are also engaged in extensive environmental work within the Group. Our technological expertise allows us to develop products and services with better environmental performance.

One environmental issue that has received a great deal of press is carbon emissions from aircraft. While you have to remember that aircraft actually account for only about 2 percent of the world's total CO₂ emissions, we are working conscientiously and consistently to further reduce our share. We are doing so primarily through two important EU programs: Clean Sky and Single Sky.

In the Clean Sky Joint Technology Initiative, the industry is trying to further reduce European aviation's carbon emissions by 50 percent by 2020. We will also reduce nitrogen oxide emissions by 80 percent and cut noise levels in half. With Single Sky, we will be paving the way for a single European air traffic control system to facilitate more efficient air traffic planning. In this way, we would also eliminate some of the aircraft emissions that traffic backups in the air cause. This was what Gunilla Fransson spoke about in the film earlier.

As you know, an investigation is still under way on suspected bribes in connection with export sales of Gripen. We are cooperating with the Swedish prosecutor in any way we can to obtain all the facts. I brought this up at the last two Annual General Meetings and will not discuss it here again, other than to stress our very clear stance on ethical standards and business methods.

To reinforce the rules that apply, we established an even clearer set of guidelines and stricter code of conduct in 2008. We also took measures to ensure that our employees as well as our partners and consultants are fully aware of these guidelines and comply with them. Everyone who works within and for Saab shares a responsibility. There can be no question about this. Corrupt methods have no place at Saab.

Another issue that has debated lately is executive compensation. All Saab employees essentially have fixed salaries. Some people in executive positions or with specific responsibilities also have a variable salary component with well-defined targets and a maximum possible payout. In addition, all employees have the opportunity to participate in one of our two share matching plans.

The Board of Directors will report on this issue in more detail later during the meeting, but allow me to briefly stress that our compensation is designed to encourage efforts that contribute to the company's development. Variable compensation is an important instrument to manage and drive our company in an

effective, targeted manner. I am convinced that utilizing coordinated, measurable and difficult-to-attain – though not unrealistic – goals gives our employees an incentive and focus and helps us to work as “One Saab.”

The targets we use are measured primarily in financial terms, such as order bookings, sales revenue, income, earnings and cash flow. In some cases, we complement them with special strategic goals relevant to an individual or group. Variable compensation is an important part of our management model and helps us to create long-term value for all our shareholders.

And so, in conclusion, a journey of change continues into the future. Our restructuring and efficiency improvement program will lay a foundation so that we can continue to develop new technology and generate new business at a manageable risk level, while maintaining our competitive edge.

We will remain an important industrial partner to the Swedish defence and contribute to high-tech research and development – in Sweden and abroad.

We will continue to expand to new markets and make them our own. We will increase our efforts to establish Saab as a supplier of security solutions to the civil market.

And we will supply more comprehensive system, logistical and support solutions – and take full responsibility on behalf of our customers.

Allow me to conclude by giving you a brief but interesting example of what Saab can offer in terms of cutting-edge technology. We have developed an image processing technology that has received a great deal of attention both in Sweden and abroad. The technology is based on our unique expertise in guided missile systems. The same technology is now used, for example, in the three-dimensional maps you can find at hitta.se.

You've got to agree that technology is exciting. And that our expertise offers tremendous opportunities. Smart technological solutions set Saab apart. We must continue to discover technologies that contribute to and complement our offerings.

Despite a turbulent period, I am convinced that our fantastic product portfolio, our employees and the engineering expertise we have demonstrated time again will continue to create good opportunities for us as a company and naturally for all our shareholders.

Thank you!