



United Defense

CHANGING THE FUTURE OF DEFENSE™

partners

Partners in Defense

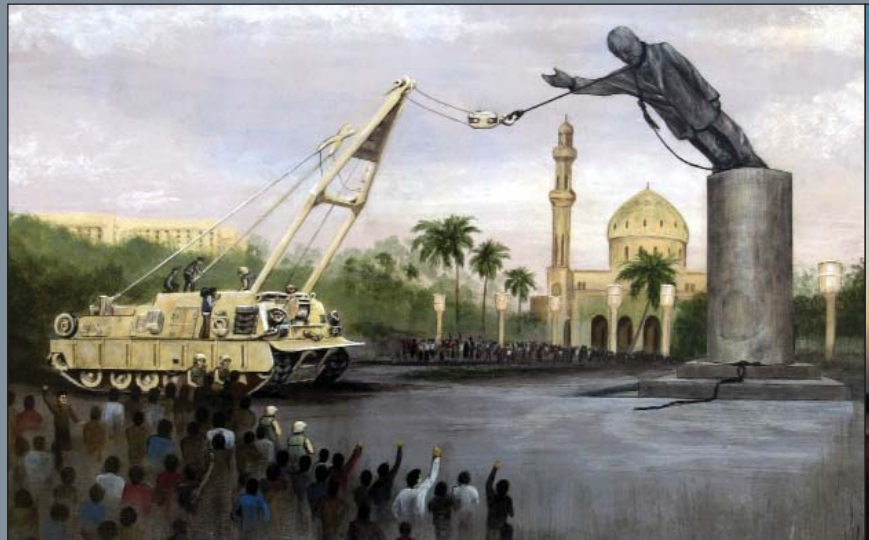
2003 Annual Report

Partners in Defense

2003 Annual Report

Immediate right: “Pulling Together for Freedom” was painted by United Defense employee Darlene Johnson to commemorate a key milestone during Operation Iraqi Freedom – U.S. Marines using an M88A2 HERCULES Recovery Vehicle to help Iraqi citizens pull down the statue of Saddam Hussein in Baghdad on April 9, 2003. The original painting was presented by Johnson to President George W. Bush during his visit to our Santa Clara, California, facility in May.

Far right: Three battalions of M109A6 Paladins, the Army’s 155mm self-propelled howitzer, fired some of the first salvos of the ground campaign and ultimately more than 13,000 rounds, day and night, in all types of weather in support of the Army’s Third Infantry Division.



United Defense

CHANGING THE FUTURE OF DEFENSE™

financial highlights



Sales (dollars in millions)	03		\$2,052.60
	02		\$1,725.30
	01		\$1,318.50
	00		\$1,183.90
PBT (dollars in millions)	03		\$215.25
	02		\$149.73
	01		\$14.68
	00		\$24.85
Fully Diluted Earnings per Share (after extraordinary item, in dollars)	03		\$2.66
	02		\$2.55
	01		\$0.20
	00		\$0.44
Cash Flow* (dollars in millions)	03		\$180.20
	02		\$156.50
	01		\$67.90
	00		\$76.20

*2000 and 2002 are adjusted to exclude \$23.7 and \$311.1 respectively.
Cash flow including acquisitions was \$98.2 in 2000 and (\$154.6) in 2002.

CONTENTS

2	Letter to Shareholders
6	From Ship to Shore, Full Life-Cycle Support
8	Service and Support on the Ground
10	Advancing the Future of Naval Defense
14	Helping the Army Aim for the Future
18	Technology for Current and Future Forces
20	Corporate Information

dear shareholders

In 2003, United Defense was called upon to deliver superior performance to the United States Armed Forces and its allies. United Defense is proud to have supported America's brave soldiers, sailors and Marines as they fought in Operation Iraqi Freedom and answered the nation's call throughout the world.

In fierce desert and urban battles, combat vehicles built by United Defense, including Bradley Fighting Vehicles and Marine Corps Amphibious Assault Vehicles, played a critical role in Saddam Hussein's defeat, while our employees provided field service support in Iraq as embedded volunteers in the combat zone. In the months preceding the war, our United States Marine Repair shipyards prepared American cruisers, transport ships and other naval vessels for rapid deployment to the Persian Gulf. When the first missiles were fired on Baghdad, they came from launchers that United Defense helped produce and install on the U.S. Navy cruiser USS Cape St. George. A most memorable moment came when a United Defense-built HERCULES tank recovery vehicle pulled down the statue of Saddam Hussein.

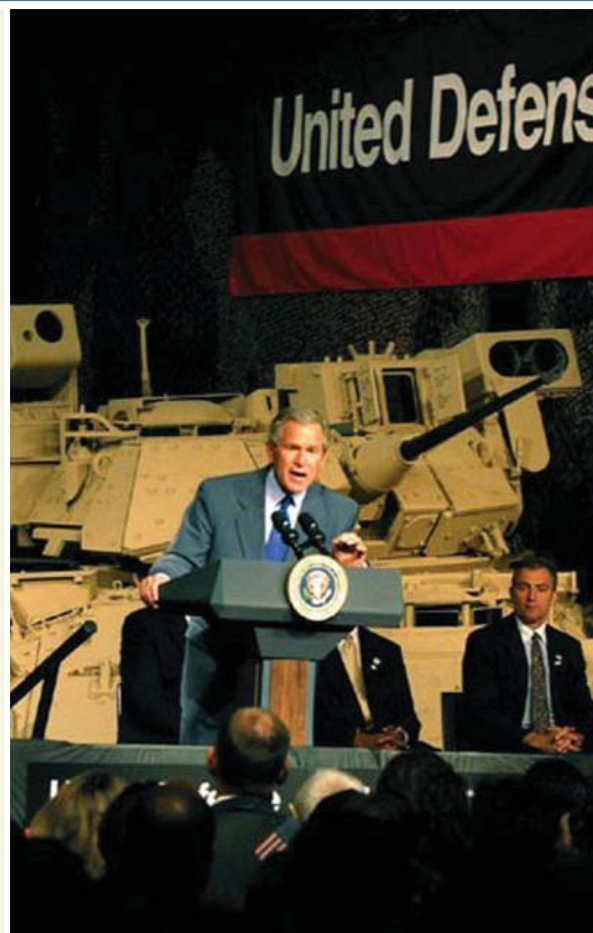
Off the battlefield, United Defense is partnering for the future with industry and government on projects that are developing breakthrough technology to protect America and its values in the future. The Advanced Gun System and a new vertical launching system for the U.S. Navy, and manned and robotic vehicles for the U.S. Army's Future Combat Systems program, are our largest development programs.

The hard work of United Defense employees received the highest praise from the President of the United States when he visited employees in San Jose to thank them and to say, "You do a lot to keep the American armed forces on the leading edge of technological change here at United Defense and I want to thank you for that. You not only help save lives but you're an agent for peace." A few of their stories are told on the pages of this report.

We are proud of United Defense's outstanding performance as a collaborative and dependable supplier to our defense customers as they protect our nation and its allies from hostile threats and enemies. Our success in meeting or exceeding the expectations of our customers helped United Defense achieve record revenues in 2003, our second year as a public company.

Here's a snapshot of our financial performance:

- Sales increased 19 percent to \$2.05 billion from \$1.73 billion in 2002, fueled primarily by the strong performance of United States Marine Repair.
- Net income for the year rose 4.5 percent to \$140.6 million, or \$2.66 per share on a fully diluted basis, from \$134.5 million, or \$2.55 per share fully diluted in 2002.
- United Defense achieved earnings growth, despite the fact that the company's provision for income taxes in 2003 increased to \$74.6 million from \$15.2 million in 2002. The sharply higher tax expense was primarily due to the expiration of net operating loss carry-forwards, which largely offset our income tax expense in 2002.
- United Defense finished the year with a fully funded order backlog of \$2.1 billion, a year-end record that gives the company a solid business foundation for 2004.
- The company reported robust free cash flow of \$180.2 million for 2003. Our free cash flow is defined as cash from operations less capital expenditures.



President George W. Bush visited our Santa Clara, California, development center May 2, where he recognized the commitment of United Defense employees to the defense of the nation. "Thank you for your contribution to making the world a more peaceful and free place... The technologies and products developed here at United Defense have made our military second to none," the President said.





An M88A2 HERCULES Recovery Vehicle rolls ashore in Kuwait during Operation Iraqi Freedom.

The Four Critical Dimensions of Our Success

Our company's success in 2003 was driven by our ability to excel in four critical business dimensions:

1. We delivered superb program execution, leading to higher customer satisfaction;
2. We were a recognized leader in new product development;
3. We maintained a strong international business with U.S. allies; and
4. We reaped the benefits of our acquisition strategy.

In addition to President Bush's visit, there were many highlights in 2003. The following successes in each of these four business dimensions illustrate what made this a solid year. You'll find more details about our accomplishments in the remainder of this annual report.

Program Execution

Throughout the year, United Defense created greater value for customers through our continuous focus on quality, lean manufacturing and on time, on budget delivery. We are pleased to report that the company's employees responded quickly to fill urgent requirements across our broad offering of services, equipment and spare parts.

We are particularly proud of the three dozen employees who volunteered to deploy to the Iraqi theater, embedded with the troops, in order to maximize the operational readiness of hundreds of United Defense vehicles in the combat force. In several cases, our people rode with commanders all the way to Baghdad. When replacement track was needed in Iraq because of the tremendous wear and tear on Army and Marine Corps vehicles, our forging plant in Anniston, Alabama, hired additional workers and expanded to three-shift operations, 24 hours a day, to meet the heavy demand for combat vehicle track.

United States Marine Repair generated sales of \$545 million for the entire year and was the main driver in our overall revenue growth in 2003. USMR started the year with two multi-ship, multi-year contracts for dock landing ships that supported the Marine Corps deployment to the Middle East. USMR produced a strong first full year performance with a fourth quarter surge and is well positioned to compete aggressively for future contracts with an added dry dock in Norfolk, Virginia, and an increased presence in Pearl Harbor, Hawaii.

While we continue to maintain solid revenues from our Navy missile launcher and Mk45 gun production and overhaul businesses, our latest success has been with the selection by the Coast Guard of the Bofors Defence 57mm Mk3 medium caliber gun for the Coast Guard's new ships. The Navy has also expressed interest in this gun for its new ships.

Our company-wide initiatives to implement lean manufacturing techniques have produced immediate results from our Navy missile launcher and canister lines to our Bradley Fighting Vehicle production lines.

The U.S. Congress recognized the importance of maintaining the strength of the Current Force and approved a Fiscal Year 2004 budget that included \$221 million for Bradley upgrades, nearly \$50 million for various Navy programs at our facility in Louisville, Kentucky, \$17.5 million for M113 upgrades, and continued funding of the Marine Corps' amphibious assault vehicle upgrade program.

In recognition of our superb program execution, United Defense received performance award fees in 2003 from the U.S. Navy and U.S. Army for exceptional results in Navy ordnance programs and the Army's Non Line-of-Sight Cannon program. The company's reputation for program execution resulted in \$2.1 billion in new orders for our two core businesses: Defense Systems and Ship Repair and Maintenance.

New Product Development

New product development holds the key to the future of United Defense and to enhancing the capabilities of the Army's and Navy's current and future force. As a key member of the Navy's new DD(X) destroyer development team, our successful work during design and readiness reviews has resulted in approval for us to proceed with the materiel ordering and fabrication of the first model of the 155mm advance gun, a major weapon system on the ship. We also received approval to proceed with the detailed design for another primary weapon for the DD(X), the Navy's new Advanced Vertical Launching System, which we are developing in partnership with Raytheon and Northrop Grumman.

The Army is undergoing a similar transformation with its investment in the Future Combat Systems (FCS) program. In December 2003, the company scored a major victory with the receipt of a \$2 billion contract – the largest in our history – from The Boeing Company to form an integrated design team with General Dynamics Land Systems to develop FCS manned ground vehicles. Under the contract, United Defense was specifically contracted to develop five of the FCS ground vehicles including the Non Line-of-Sight Mortar, an Infantry Carrier Vehicle, a Medical Vehicle, a Maintenance-and-Recovery Vehicle, and the Non Line-of-Sight Cannon, which the Army has identified as critical and integral to the program.

In addition, United Defense is playing a key role in developing system concepts for two variants of the Armed Robotic Vehicle, an unmanned 5-ton remotely operated system.

Other ongoing projects include the development of an Integrated Active Protection system for combat vehicles, demonstrating the first-ever ability to defeat incoming missile threats while the vehicle is on the move. A contract to build add-on armor for the Army's latest combat vehicle, the Stryker, enabled us to further advance our position as a leading provider of survivability solutions. We continue to advance our capabilities in light-weight composite materials for future systems.

International Business

United Defense is partnering with U.S. allies through our strong international operations. A big success story in 2003 was the exemplary performance of FNSS, our Turkish joint venture, which has been producing new combat vehicles for two U.S. allies, Turkey and Malaysia. FNSS improved its profitability last year while taking significant actions to remain on schedule and below budget.

Our expertise and strength in smart ammunition continues to gain momentum through our Swedish subsidiary, Bofors Defence, a world leader in precision munitions. Bofors provides smart munitions for its two major gun systems, the 57mm and the 40mm. In partnership with Giat, Bofors has designed and developed and is now in production of a 155mm sensor-fused artillery round designed to defeat armored vehicles. During the year, Bofors continued to partner with Raytheon on the next generation of ammunition known as the Excalibur program, a GPS-guided 155mm artillery round that will enhance the precision of Army gun systems. Overall, sales from customers outside the U.S. generated 22 percent of United Defense's revenue in 2003.



United Defense field service personnel Aaron Hill and Bob Edwards were two of more than 30 company representatives in theater serving the needs of our armed forces, assuring that Bradleys, Command and Control Vehicles, and other systems were fully operational, helping our soldiers complete their missions.



The Bradley Fighting Vehicle was invaluable to soldiers battling the forces of Saddam Hussein, proving indispensable on desert battlefields and in urban environments.



Thomas W. Rabaut
President and
Chief Executive Officer

William E. Conway, Jr.
Chairman,
Board of Directors

Acquisition Strategy

United Defense has benefited greatly from the acquisition of United States Marine Repair in mid-2002, which expanded our partnership with the U.S. Navy and added balance to our business portfolio.

To further strengthen the Ship Repair and Maintenance business, United Defense announced in January 2004 an agreement to acquire the U.S. Navy ship repair business of Honolulu Shipyard, Inc. The acquisition is expected to be completed during the first quarter of 2004, positioning USMR as the largest private supplier of ship repair and overhaul services for naval vessels stationed in Pearl Harbor, Hawaii, the Navy's third-largest homeport.

Looking ahead, United Defense has the financial flexibility to pursue growth options that would build upon and complement our core capabilities. Our recent acquisition of Kaiser Compositek is exactly such a fit. This newest addition to UDI is a developer and manufacturer of light-weight composite materials that can take the place of traditional, heavier metal components in naval and ground combat systems.

Enhancing Shareholder Value

The company's strong performance in 2003 helped create greater value for our shareholders. United Defense's common stock rose 37 percent for the year, and the company's market capitalization grew to \$1.67 billion. In addition, more investors had an opportunity to invest in United Defense because The Carlyle Group, our major shareholder since 1997, has been reducing its stake through a series of stock sales. The end result of these sales has been to diversify our shareholder base.

Reflecting the reduction of Carlyle's holdings in our company, the composition of our Board of Directors will be changing. On March 2, 2004, we welcomed our newest Director, Admiral Robert J. Natter (Ret.), who recently completed a distinguished 41-year career in the U.S. Navy, where he last served as the commander of U.S. Fleet Forces Command in the U.S. Atlantic Fleet. Admiral Natter is an outstanding addition to the Board of Directors and his experience and understanding of our Navy customer will help guide us to better serve this important element of our business. Effective April 13, 2004, Allan M. Holt of The Carlyle Group will leave our Board after nearly seven years of valued service.

Thank you, as always, for your confidence in our business strategy as well as your trust in us to operate our business with integrity. Everyone in United Defense understands the importance of our relationship with our stockholders and is committed to maintaining both strong performance and the highest standards of ethical behavior. On behalf of United Defense and our dedicated employees, we look forward to meeting the expectations of our customers and stockholders in 2004 as we carry on our mission to provide America's soldiers, sailors, airmen and Marines with the finest combat capability in the world.

Sincerely,

Thomas W. Rabaut

Thomas W. Rabaut
President and Chief Executive Officer
March 2004



Name John Vitzthum **Occupation** United States Marine Repair Dockmaster



United Defense produces the Mk45 Mod 4 Naval Gun System, the primary gun system for U.S. Navy surface fire support, as well as the mechanical components and launch canisters for the Mk41 Vertical Launching System. The systems provided firepower support for Operation Iraqi Freedom aboard U.S. and Australian ships.

John Vitzthum oversees the intricate dance of dry docking a ship. For almost 30 years, Vitzthum, a member of an elite handful of Navy-certified dockmasters, has supervised the dry docking evolution of some of the largest Navy vessels afloat. He helped design a fully automated dry docking system for monitoring, data acquisition, alarming and control for United States Marine Repair's San Diego shipyard, Southwest Marine. The design includes a completely computerized ballast control system, offering customers a safety advantage and precision accuracy for the complicated dry docking process. Taking the customer's needs and concerns into consideration from beginning to "mission accomplished," Vitzthum consults with the ship's crew to develop docking calculations and specifications. After the initial planning phase, Vitzthum operates the complex instrument panel from his hermetically sealed control room on the safety deck of the dry dock, submerging under water as the docking process begins. With no visual observation of the actual dry docking in progress, he relies exclusively on his skill and extensive experience, having docked over 2,000 ships. To Vitzthum's credit, and confirmed by a "no discrepancies" report after the most recent NAVSEA audit, Southwest Marine has gained the reputation of having one of the best dry dock maintenance programs on the West Coast.

From Ship to Shore, Full Life-Cycle Support

As the year 2003 began, the Nation found itself preparing for conflict in Iraq. On March 19, 2003, the American people and the world heard President George Bush declare, “On my orders, coalition forces have begun striking select targets of military importance.” With these words, Operation Iraqi Freedom began.

United Defense’s support for our Armed Forces actually began before the first shots were fired. From Oct. 1, 2002, through the start of the conflict, United States Marine Repair (USMR) shipyards performed significant repair work on 14 ships that deployed to Southwest Asia, including destroyers, cruisers, and supply and transport ships.

Employees at shipyards in San Diego and Norfolk, Virginia, accelerated work on aircraft carriers and cargo and equipment transport ships that were to transport the in the initial staging to Kuwait. Those strategically located shipyards have provided more long term and pre-deployment repair and maintenance support to ships deployed to Operation Iraqi Freedom than any other private sector ship repair firm in the U.S.

Long term and continuous maintenance contracts supported or held by USMR shipyards ensured those ships could endure the long deployments with no degradation of combat readiness.

After the President’s order, the first missiles fired on Baghdad were fired from launchers United Defense helped to produce and install aboard the U.S. Navy’s cruiser, Cape St. George, a ship that has since received post-deployment repair services from USMR. An Australian ship armed with a Mk45 5-inch gun built by United Defense provided fire support to British forces fighting in Basra.

Once in dry dock, the USS Mustin is encased with a protective shroud to protect the environment during cleaning and repairs.



Name Rich Ackerson

Occupation Powder Painting Technician

Naval combat systems are subjected to the harshest environments possible and require the best protection from the elements. *Rich Ackerson is part of United Defense’s team that ensures that our launching systems can survive the harshest conditions the sea can deliver. Ackerson operates the powder paint station at the United Defense missile launch system facility in Aberdeen, South Dakota. United Defense began the transition from a liquid paint to a powder paint process in 2003 and will complete the transition for all launching system components and canisters early in 2004. Powder paint offers numerous advantages over wet paint, including improved protection of metal parts aboard ship and reduced environmental impact at the Aberdeen facility.*



Name John Cole

Occupation Senior Field Service Representative



The Bradley played a prominent role in the advance of coalition forces toward Baghdad.

When the U.S. military moved against Iraqi forces, John Cole, a United Defense employee who was stationed at Fort Hood, Texas, went to war too – all the way to Baghdad.

Cole rode with the U.S. Army's maneuver forces in an M4 Command Control Vehicle (C2V) – the mobile Assault Command Post from which Lt. Gen. William S. Wallace, V Corps Commander, orchestrated the assault on Baghdad. Cole brought his extensive knowledge of the C2Vs to Iraq and kept the fleet of C2Vs fully functional for the duration of major combat operations. The C2Vs were in operation for more than 4,000 hours around-the-clock throughout Operation Iraqi Freedom, and Cole made sure each vehicle was 100 percent operationally ready every day.

Cole began supporting the vehicles in Kuwait shortly before hostilities. During the push to Baghdad, he was responsible for the mechanical systems and the onboard mission equipment on the C2Vs to ensure they functioned properly. Cole also assisted in determining the best way to strategically deploy the C2Vs and provided Wallace with daily reports about each vehicle's capabilities.



Service and Support on the Ground

After M9 Armored Combat Earthmovers from the Army and Marine Corps cleared lanes through ditches, minefields and berms, the ground phase of combat launched swiftly into Iraq.

The newly deployed M4 Command and Control Vehicles, used by the U.S. Army V Corps commander and his senior leaders in the Iraqi theater, gave commanders unprecedented control over the battlefield and allowed the leaders of advance units to direct and manage the battle while moving at high speeds across the desert.

Three battalions of M109A6 Paladins, the Army's 155mm self-propelled howitzer, fired some of the first salvos of the ground campaign and ultimately more than 13,000 rounds, day and night, in all types of weather in support of the Army's Third Infantry Division.

Army leaders relayed that tank crews wanted Bradleys with them during combat operations since the speed of a Bradley turret adds extra capabilities and increases survivability. Enemy forces were no match for combined infantry and armor teams that were able to dominate the urban terrain.

Marine Corps amphibious assault vehicles deployed an unprecedented 500 miles inland to take control of Tikrit, north of Baghdad.

From the beginning of the buildup in Kuwait, United Defense made a significant commitment to support the Armed Forces by embedding volunteer employees with the units preparing for battle. Their mission was to ensure that the equipment continued to operate despite sand storms and rugged terrain, and field reports indicated that the equipment remained operationally ready at better than 90 percent rates in spite of severe conditions. According to the Army's Program Manager for Combat Systems, "There's nothing United Defense won't do for the soldiers over there. United Defense Field Service Representatives (FSRs) are exposed to the same hardships and danger that soldiers are."



Name Robert Barber

Occupation Press Operator



Robert Barber trims T157 "big foots," the Bradley Fighting Vehicle track shoe at United Defense's Anniston, Alabama, location. Each shoe is forged from a 50-pound steel "billet." Operating the 6,000-ton press, with temperatures at 2,300 degrees, Barber and his team can convert close to 15 tons of steel into track shoes during an 8-hour shift. Once the shoes are forged, they are cleaned, machined and ready for rubberization and track assembly. Under a current order, 470,000 Bradley track shoes, enough to outfit over 2,600 Bradley Fighting Vehicles, will be made by Barber and his fellow workers. In order to meet the Bradley demand and produce another 960,000 track shoes for the M113 family of vehicles, the Abrams tank, and other vehicles to support the Army's combat needs, the company is operating three shifts in Anniston, seven days a week.



Name Constance Cotter

Occupation Modeling and Simulation Specialist

Constance Cotter knows that integrating technologies under accelerated development timelines is a requirement, not an option, for United Defense.

As a Modeling and Simulation specialist for United Defense, Cotter makes that possible.

Cotter is coordinating the integration of the design inputs from hundreds of designers to achieve one Integrated Virtual Prototype for the combat systems United Defense is developing for the Navy's new DD(X) destroyer. The virtual prototype will define the functionality of the combat systems, guide the engineers in designing parts and subassemblies, and provide a highly visual, three-dimensional model for developers and customers to review design progress.

The goal of the Modeling and Simulation team is to create highly complex models of the current design – as rapidly as possible – which also reduces the number of physical prototypes required. With the support of the Visual Integration Lab where Cotter works, engineers have been able to make significant changes to the Advanced Gun System design to pare its weight significantly in a short period of time.



Each of the U.S. Navy's new DD(X) destroyers will feature two 155mm Advanced Gun Systems (AGS) developed and manufactured by United Defense. The vertical loading gun design reduces system weight significantly, while maintaining the required 10 round-per-minute rate of fire.

In 2003, United Defense reached an important milestone in developing key armament systems for the Navy's new DD(X) destroyer – the Advanced Gun System and the advanced Mk57 Vertical Launching System earned customer approvals of the Engineering Development Model designs.

With a range of up to 100 nautical miles, the 155mm, 62-caliber Advanced Gun System will enhance the Navy's ability to protect and support the Marine Corps and other armed forces conducting shore and land attack missions. The supporting launch system is being developed in partnership with Raytheon. Component testing to validate key design features of the Advanced Gun System and the Launching System will be conducted in 2004.

In a related program, United Defense is partnering with Lockheed Martin Corp. to develop smart munitions for the Advanced Gun System. The demonstration phase of the first smart munition – the Long Range Land Attack Projectile – was completed in 2003. United Defense has awarded a competitive follow-on contract to Lockheed Martin to support the next phase of development. The 155mm projectile is scheduled to begin guided flight tests in 2004. United Defense and our Bofors Defence subsidiary are also developing the Close-In Gun System, a smaller caliber set of guns to combat surface and air threats to the DD(X) destroyer.



Above: At major homeports and at sea, United Defense personnel provide expert hands-on technical support to ensure Naval combat system performance and readiness.

Below: Using Advanced Gun Systems and advanced Mk57 Vertical Launching Systems designed by United Defense, the DD(X) destroyer is designed to engage multiple targets simultaneously.





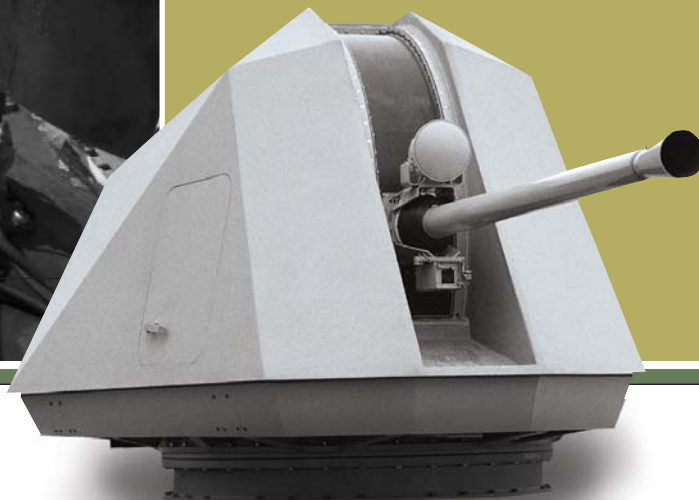
Name Eric Outlaw

Occupation Machinist

After the Ticonderoga class cruiser USS Cape St. George (CG 71) successfully settled in the Titan dry dock at United States Marine Repair's Norfolk, Virginia, shipyard, the order of the day was "all hands on deck."

One of those "hands," Eric Outlaw, along with 200 other experienced, skillful ship repair professionals, takes over the enormous task of ensuring the "battle readiness" of the vessel. Their work includes disassembling propeller blades, removing shafts for inspection, rebuilding sea valves, repairing roller chocks and completing major engine overhauls. In 2003, NORSHIPCO dry docked 13 ships. Workers put in many thousands of hours as "hidden patriots" side-by-side with ship's crew to meet rigorous production schedules and deliver to America's warriors a combat-worthy ship "surge ready" and able to deploy at a moment's notice. The Old Dominion, NORSHIPCO's newly acquired dry dock, further enhances the shipyard's ability to serve the United States Navy.

The Bofors 57mm naval gun has been selected to be the new Coast Guard Cutter's (right) main armament and is a potential candidate for critical missions aboard the Navy's new Littoral Combat Ship and the DD(X) destroyer.



Advancing the Future of Naval Defense

From dry docks to the high seas, United Defense is positioned to meet the current and future needs of the U.S. Navy and other naval customers.

Our United States Marine Repair business is the leading provider of ship repair, maintenance and modernization services for the U.S. Navy. With dry dock and shipyard operations at three of the Navy's largest homeports – Norfolk, Virginia, San Diego and Pearl Harbor – and other locations, USMR overhauls ships for deployment in times of war and in peacetime. USMR performed admirably in readying U.S. Navy vessels for action in Operation Iraqi Freedom.

To counter enemy threats at sea, United Defense is a leader in developing and producing naval ordnance systems for the U.S. and its allies. From naval gun systems and launching systems to advanced propulsion fabrication and precision-guided munitions, United Defense is delivering technology that naval forces count on to achieve victory. Looking to the future, United Defense is developing the Advanced Gun System and Advanced Vertical Launching System for the U.S. Navy's new DD(X) destroyer. At the same time, we continue to enhance the performance of the current fleet with upgrades to the Mk45 5-inch gun and production of Mk41 vertical launching system missile canisters.



The 155mm Long Range Land Attack Projectile is a precision-guided, rocket-assisted munition capable of delivering a unitary high-explosive warhead at ranges out to 100 nautical miles.



The USS Cape St. George missile cruiser strikes an imposing profile in dry dock during routine service upon returning from Operation Iraqi Freedom.



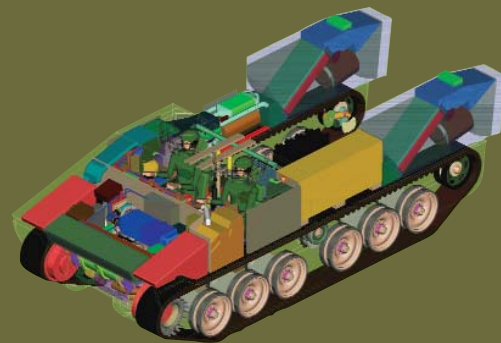


Name Monica Miller

Occupation Design and Development

Monica Miller and her team had a mere five months to design and build an advanced platform for the Non Line-of-Sight Cannon Demonstrator.

Miller and her team ensured the project ran smoothly by partnering with other divisions of United Defense to meet their requirements and then encouraging the design leads responsible for each subsystem. The design and development of the hybrid-electric, band-tracked chassis by Miller and the project team in Santa Clara, California, helped meet an aggressive timeline for United Defense. The chassis was delivered to our Minneapolis, Minnesota, facility for integration of the 155mm cannon and automated ammunition handling system in time to deliver the demonstrator to the Army in July. The Non Line-of-Sight Cannon – one of eight variants comprising the Manned Ground Vehicles family for the Army's Future Combat Systems – illustrates the company's ability to rapidly prototype new systems by integrating design and development activities across United Defense divisions and collaborating with its partners and customers. The first firing of the demonstrator on Aug. 26 – a mere six months from concept to reality – provided an initial glimpse at the Army's Future Combat Systems (FCS) manned ground vehicles.



United Defense is ready to produce the systems of the future in a Lean environment by applying core capabilities in aluminum, titanium, ballistic composite and advanced armor manufacturing.

Helping the Army Aim for the Future

United Defense has responded to the Army's bold strategy to transform to a lighter, more mobile and lethal force, known as Future Combat Systems, by accelerating development of emerging technologies for the current force while applying selected capabilities toward the future force.

Our longstanding expertise in these technologies led to our selection as a key partner in the development of manned combat vehicles for the Army's Future Combat Systems (FCS) program. Under a \$2 billion, four-year contract awarded by The Boeing Corp. in December 2003, we are partnering with General Dynamics Land Systems on the engineering development and demonstration of five FCS Manned Ground Vehicles. Within the common design team, we are leading the development of crew stations, propulsion, armor, active protection, countermeasures, signature management and defensive armament. We are also responsible for developing the software architecture for the common elements of Manned Ground Vehicle design.

The first vehicle to provide a glimpse into what Future Combat Systems technologies may look like is the Non Line-of-Sight Cannon (NLOS-C) Demonstrator, designed and built by United Defense in less than six months. The 24-ton, 155mm self-propelled howitzer, one of five platforms for which we will have the lead, has completed initial live fire and mobility testing. The other vehicles include the Infantry Carrier Vehicle, the Future Maintenance and Recovery Vehicle, the Non Line-of-Sight Mortar and the Medical Vehicle.

To support development work, our 3-D modeling and simulation laboratory has received a Software Engineering Institute (SEI) Capability Maturity Model® Level 5 rating, giving our engineers confidence that they can develop software-intensive vehicles and support systems on time, reliably and with record low defect rates.



The company will make a significant contribution to the U.S. Army's Future Combat Systems through the development of Manned Ground Vehicle variants in conjunction with the FCS lead systems integrator and industry teammates.





Name Bill McClain & Marty Paino

Occupation Lean Manufacturing Managers

Bill McClain and Marty Paino are United Defense's field generals in the Assembly and Test Natural Management Team's war on waste.

In less than six months they led planning and transition of the company's mature Bradley family of vehicles assembly line in York, Pennsylvania, to a Lean environment, eliminating unnecessary process steps and material handling while improving effectiveness, quality and operator safety.

Following the successful transition of the Bradley Turret assembly to Lean earlier in 2003 – driving a 30 percent reduction in manufacturing hours and more than a 50 percent reduction in inventory levels – the transition to Lean manufacturing on the Bradley vehicle assembly line was initiated in August 2003. Incorporating lessons learned from the turret assembly area, assemblers and engineers rebalanced the assembly line so the processes at each station were completed in identical blocks of time. Then, to facilitate the design of the workstations and ensure operator involvement and training, the team piloted each new process on a production vehicle. Assemblers from each station helped to build that vehicle using Lean practices. As a result, the team was able to reduce non-value added activities and create operator-friendly processes and work tools.

United Defense has been selected to play an additional role in the U.S. Army's Future Combat Systems through development of the company's Armed Robotic Vehicle (ARV), the best solution to meet program requirements for unmanned assault and reconnaissance variants.



Helping the Army Aim for the Future

In 2003, United Defense's expertise in the technologies needed for the Army's Future Combat Systems resulted in a contract to mature design concepts for two 5-ton Armed Robotic Vehicle variants.

To improve the survivability of soldiers in manned vehicles, United Defense is developing the Active Protection System in partnership with the U.S. Army's Tank-Automotive and Armaments Command and teammates Northrop Grumman Space Technologies and BAE Systems. This system is designed to defeat incoming threats before soldiers' lives are put at risk. Now in the FCS System Development and Demonstration phase, the Active Protection System has established a series of notable technology firsts, including defending a vehicle moving at 20 mph against live rocket-propelled grenades and tank-fired high energy anti-tank rounds. In earlier demonstrations, the system defeated anti-tank guided missiles with both "hard kill" and "soft kill" countermeasures.

With technology like the Active Protection System, United Defense is changing the future of defense. But responding to the future needs of our customers is only part of our mission. To ensure superb program execution, United Defense has made investments to improve and transform our facilities; we've implemented Lean manufacturing processes to increase efficiency and eliminate waste; and we've linked our laboratories across the company to provide sophisticated modeling and simulation tools that accelerate technology development for our customers.

Ghislaine van Rijckevorsel, FCS Physical Architecture Lead, appears to hold a 3-D model of the FCS Infantry Carrier Vehicle in the 3D Dome at the Santa Clara facility.



Name Eric Tran & Larry Lee

Occupation Engineers

Eric Tran and Larry Lee work at the Combat Simulation Integration Lab (CSIL) in Santa Clara, California – the company's West Coast center for vehicle hardware and software test and evaluation activities. *They are responsible for supporting the Future Combat Systems (FCS) program modeling and simulation effort, as well as other technology development programs. Lee specializes in the development of soldier-machine interfaces – the screens used by the soldier to control the vehicle, use the vehicle weapons and communicate with others on the battlefield. Tran develops the virtual battlefield visual databases used to create realistic battlefield environments where we evaluate combat vehicle performance in combat simulations.*

CSIL engineers develop high-fidelity simulation models of new hardware well before it is ever produced. They also design and build the environments to test vehicle tactical software used in programs such as Bradley. The CSIL is one of the few non-government System Integration Labs to achieve Software Engineering Institute (SEI) Capability Maturity Model® Level 5 certification. The lab supports development of all types of simulations from virtual (dome environment) to constructive (battlefield evaluations of combat systems) to live (simulation systems used to evaluate soldier and weapons system performance at the combat training centers).



Name Rolf Österlind

Occupation Manager of Research



Bofors Defence AB has established expertise in a wide range of intelligent ammunition, including (Bottom) the 120mm STRIX, a terminally guided mortar round (Middle) BONUS, a 155mm spin-stabilized artillery shell containing two sensor-fused, top-attack submunitions and (Top) Excilibur, a 155mm artillery projectile with on-board Guidance, Navigation and Control that receives its location from a GPS and/or a projectile tracking system.

Rolf Österlind's technical expertise and program leadership competence was key in enabling the successful development and production of the joint Swedish-French BONUS artillery round. A key challenge for Österlind and the BONUS team was the development of a fixed-wing concept for the submunition that provided a controlled and stable search pattern that met stringent service requirements. When compared to traditional parachute submunition deployment, this fixed-wing concept has enabled greatly improved accuracy for BONUS in searching for and destroying armored vehicles. Bofors expertise in intelligent munitions extends to the U.S./ Swedish Excilibur program, for which it received a \$97.6 million contract for the Systems Development and Demonstration phase of the precision-guided, extended range 155mm artillery projectile program from Raytheon Missile Systems, the prime contractor.

Bofors Defence A.B., a United Defense subsidiary based in Karlskoga, Sweden, is recognized globally for its competencies in the design, development and production of intelligent ammunition, artillery systems and naval gun mounts.

In partnership with prime contractor Raytheon Missile Systems, Bofors is applying its technical expertise to develop the Excalibur 155mm smart projectile for cannon artillery that will support future ground forces. Bofors received a \$97.6 million contract in July 2003 for the Systems Development and Demonstration phase of the Excalibur program, which is intended to have a range in excess of 50 km with pinpoint accuracy. Separately, Bofors is producing BONUS sensor fuse 155mm projectiles under a joint Swedish-French program. The first BONUS production lot was recently delivered to the armies of both nations for qualification testing.

Bofors is also achieving international acceptance of its 57mm Mk3 medium caliber naval gun. Already fielded in several navies, Bofors received a contract worth up to \$79 million from Northrop Grumman Ship Systems to produce the naval gun for the U.S. Coast Guard's new National Security Cutter. The weapon system is also a strong contender for the Navy's Littoral Combat Ship program and its new DD(X) destroyer.

Another strong international business for United Defense is FNSS, our joint venture in Turkey. In the past year, FNSS improved its manufacturing processes, reduced material costs and procured parts locally to achieve on time, on budget delivery of Armored Infantry Fighting Vehicles to its two largest customers, the Turkish and Malaysian armies.

As leaders in their markets, with technology for current and future forces and a shared commitment to superb program execution, Bofors and FNSS are playing important roles in United Defense's mission to serve more than 40 international militaries.



Above: The Bofors Defence self-propelled howitzer, FH 77 B, fires a range of 155mm ammunition including intelligent munitions. Bofors is currently under a \$25 million contract to provide two prototypes of the next generation artillery system to the Swedish army. Below: FNSS technicians ready a line of Armored Infantry Fighting Vehicles for customer delivery.



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Shares Listed
New York Stock Exchange
Ticker Symbol: UDI

Annual Meeting
The annual meeting of United Defense shareholders
will be held on Tuesday, April 13, 2004, at the
Hyatt Regency Crystal City, Arlington, Virginia.
A formal notice and proxy will be mailed before
the meeting to shareholders entitled to vote.

Quarterly Earnings Calls
April 22, 2004
July 22, 2004
October 21, 2004

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Disclosure Statement

United Defense information in this release may involve guidance, expectations, beliefs, plans, intentions or strategies regarding the future. These forward-looking statements involve risks and uncertainties. All forward-looking statements included in this release are based upon information available to United Defense Industries, Inc. as of the date of the release, and we assume no obligation to update any such forward-looking statements. The statements in this release are not guarantees of future performance and actual results could differ materially from our current expectations. Numerous factors could cause or contribute to such differences. Some of the factors and risks associated with our business are discussed in the company's annual statement on Form 10-K dated March 3, 2004, and in our other reports filed from time to time with the Securities and Exchange Commission.

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