

The restructuring efforts of the past two years are paying off. The Division recorded a positive, better-than-planned EBIT, and increased orders to the equivalent of more than three years' revenues. Profitability is expected to grow strongly over the coming years.

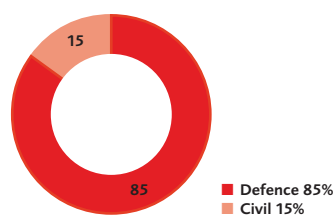
millions of euros	2002	2001	variation
Revenues	3,306	3,345	-1%
EBIT	40	-79	-
Order intake	4,410	3,081	43%
Order book	10,110	9,094	11%

The year saw mixed signals from major European customers. While the British defence market is still the primary growth engine in Europe and while the French Government launched a new multi-year defence funding plan which will provide opportunities for new and upgraded missile systems as well as for unmanned aerial vehicles (UAVs), the German defence budget is under considerable strain. Nevertheless, Germany approved two major missile contracts in 2002, enabling EADS to secure orders for Taurus (€0.5 billion) and Meteor (EADS stake 50% = €0.9 billion).

Due primarily to revenue losses in the secured telecoms business, DCS revenues stagnated at €3.3 billion. New orders signed in the course of the year amounted to €4.4 billion, bringing the total forward order book to €10.1 billion.

Internally, the year was one of further integration, restructuring and strategic adaptation within the Division's four main business areas: missile systems, defence electronics, services and telecommunications. This restructuring has already produced positive results in the shape of trans-national and cross-business unit synergies, e.g. in the fields of C3I (command, control, communications and information) and ISR (intelligence, surveillance and reconnaissance), air and ballistic missiles defence and homeland security.

Revenue breakdown by market in 2002



Missile Systems

The international integration of MBDA is progressing well, with a focus on synergies through rationalisation of processes and structures and the cross-border coordination of the company's technical and commercial capabilities. With 2002 revenues of €1.8 billion (at 100%) and an order book of over €13 billion, MBDA is the clear market leader in Europe, as well as being the second-largest missile company in the world. Major programmes include the Meteor air-to-air missile, the Aster surface-to-air missile family and the Storm Shadow/Scalp EG stand-off weapon. During 2002 we agreed the creation of the Roxel company (rocket motors), a joint venture with SNPE of France, and signed an agreement with Thales, under which the two partners will produce seekers for more than 6,000 missiles. We also received a contract for €1.8 billion (at 100%) from six European nations to develop and produce the Meteor beyond visual range next generation air-to-air missile.

EADS/LFK, the German arm of the missile business, implemented a successful turnaround programme designed to secure profitability ahead of its planned integration into MBDA. Major successes included the award of the €0.5 billion contract for series production of the Taurus missile, the biggest German missile contract in more than ten years, and the roll-out of the prototype of the Roland midlife improvement programme.

Systems and Defence Electronics

With a 16% increase in order intake for the year, S&DE has achieved a strong position in the European market. It is now a key European player in UAVs (Unmanned Aerial Vehicles), covering all types from light tactical to strategic long range – in which we are working with Northrop Grumman on the EuroHawk. We have also established a joint company with Thales Netherlands to manage combat systems for naval projects including the F124/LCF frigate programme.

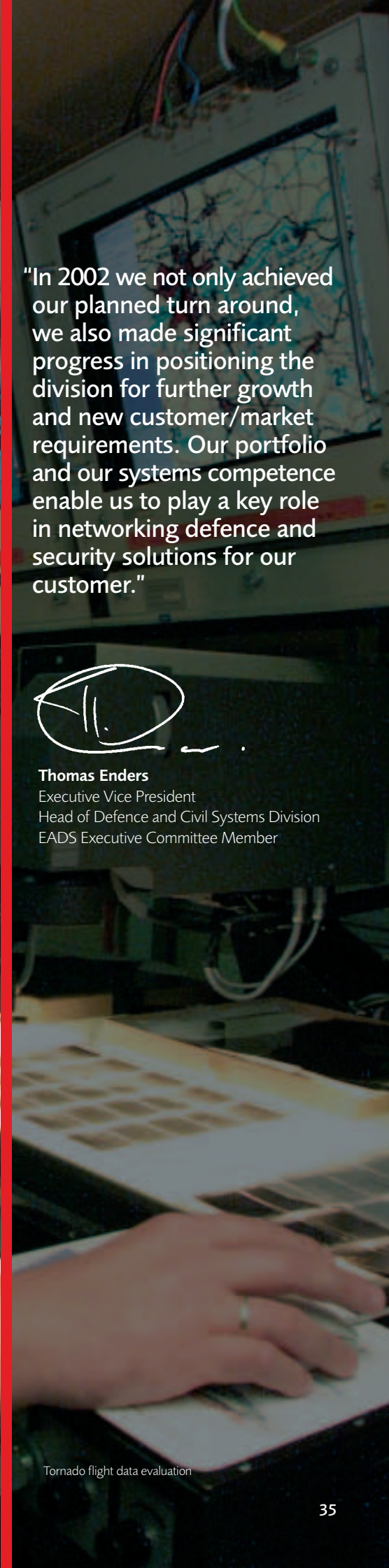
Other contracts also demonstrate our prime-contractor capabilities for full systems or subsystems. They include the K130 corvette's command and weapons control system and the Eurofighter Defensive Aids Subsystem, and more recently with Thales, the Moss Scco3 (a "system of systems" for air operations command and control for the French Air Force, including the integration of existing and next-generation subsystems).



"In 2002 we not only achieved our planned turn around, we also made significant progress in positioning the division for further growth and new customer/market requirements. Our portfolio and our systems competence enable us to play a key role in networking defence and security solutions for our customer."

A handwritten signature in white ink, appearing to read 'T. Enders', is written over a dark background.

Thomas Enders
Executive Vice President
Head of Defence and Civil Systems Division
EADS Executive Committee Member



Tornado flight data evaluation

EADS Services

The Services business unit serves the growing market in outsourced military functions such as infrastructure support and operations, equipment support, training and communications. We also provide automatic testing, systems engineering and engineering solutions.

Acting in a consortium with CSC Ploenzke and Mobilcom, we are the preferred bidder on the €6.5 billion Herkules project for the outsourcing of the Bundeswehr's communications and IT. The project should be awarded in 2003 and our share of the project would amount to €1.5 billion over the next ten years. With Aviation Defence Service Avdef (an armed forces training company in which we purchased a majority holding in 2001), and the newly-acquired GFD, we are a strong contender for the CATS (Combined Aerial Target Services) contract for the UK. GFD has also been assigned a flight operations contract – including target towing and electronic warfare (Eloka) training – by the German BWB. An additional contract will be booked in 2003 and will run from 2004 to 2008. We play a lead role for the operations part of the Airtanker consortium bidding for the 27-years FSTA (Future Strategic Tanker Aircraft) contract in the UK to provide air refuelling services to the RAF.

We won important automatic testing orders from Dassault Aviation and from the French procurement agency DGA (Délégation Générale pour l'Armement). With Honeywell and despite decreasing airlines business in US, our Test & Services activity confirmed its leading position with an important contract with Delta Airlines for a new generation of test benches.

EADS Telecom

The Telecommunications business unit completed its process of integration in a difficult market for secure communication systems, which saw many major prospective government contracts postponed until 2003.

In the field of Public Safety, important export markets like Mexico experienced slowdowns; however, programmes including the police networks Acropol in France and Sirdee in Spain made good progress. We entered in the final phase in providing improved service for the entire Acropol network in Paris, which will be extended throughout France in a programme extending to 2006. We have made an offer for our digitalised speech and data transmission system Tetrapol, a network for public authorities and security organisations in Germany. In the US, we are leading the P25 Phase II standard definition of wireless communications for safety and security and are working towards a commercial outcome through the recognition of Tetrapol 3G as a US Apco Standard.

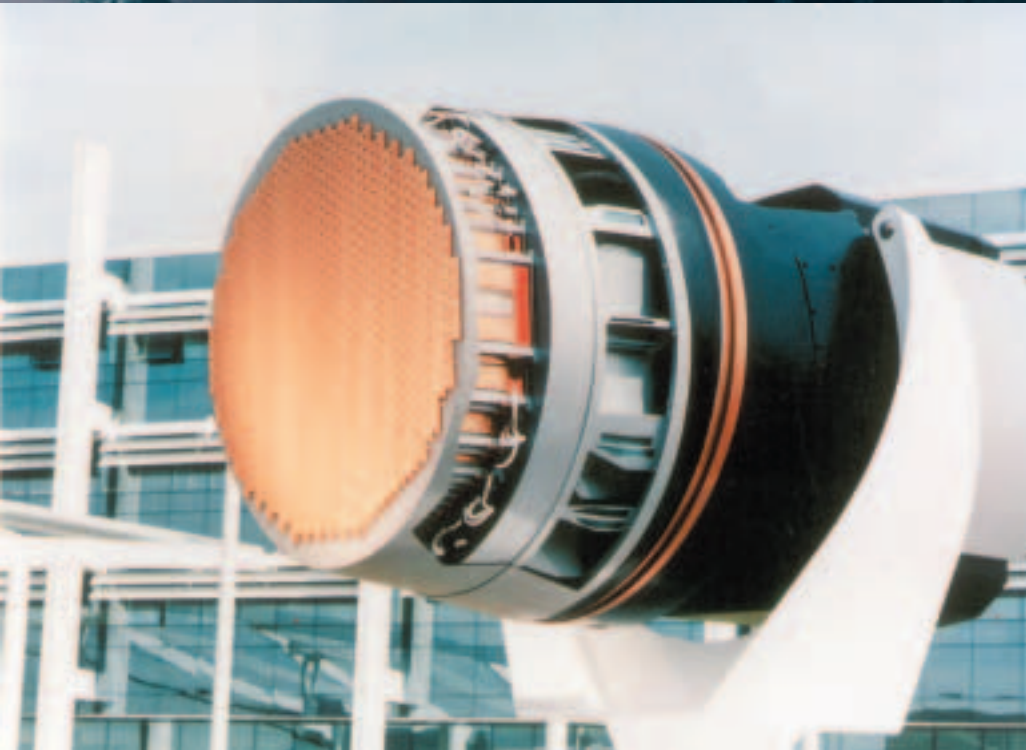
In recent defence successes, EADS Telecom has been contracted to supply over €200 million of communication equipment to the UK MoD. It is the prime contractor for the British theatre network called Twacn/Cormorant and a major subcontractor for the Bowman Communication System. In the tactical field, it has also delivered communication networks for Autoko 90, the semi-mobile tactical network of the German army. In the infrastructure field, it is deploying the French Defence Systems for garnisons, or for deployable forces. Other successes include a Stimms (Surface Towed Influence Magnetic Sweep) programme with the US, in the naval field. Despite orders delayed, the company has favourable prospects as preferred bidder in very large programmes (Herkules for the German Bundeswehr, Skynet 5 in the UK). EADS Telecom will also provide the Rapid Reaction Forces of the German army to be deployed in Afghanistan with four Tetrapol communication shelters and 1200 terminals and mobiles.

Outlook

We continue to develop our position in networking defence and security systems, investing in the technologies and skills that enable us to provide customers with complete solutions – leveraging our broad product portfolio and synergies between our business units and other EADS Divisions. After successful turnaround in 2002, the Division expects to increase EBIT in 2003. Our unique competences, together with intelligent restructuring for greater efficiency and the ramp up of our missile programmes should produce fast growing results over the next few years.



Meteor is a next-generation air-to-air missile ordered for development by six European nations, and produced by MBDA, now the world's second-largest missile company. MBDA missiles are available for virtually every mission in the defence catalogue.



Active phased array radar. EADS offers a comprehensive range of fixed and mobile air defence, radar, electronic warfare, identification, coastal surveillance and coastal protection systems.



IRIS network – a secure telecommunications network for the Mexican police force.