



Northrop Grumman Space & Mission Systems Corp  
**Space Technology**  
One Space Park  
Redondo Beach, California 90278

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BG (ret.) Shmuel Keren  
Director of Israel Directorate of Defense Research & Development (MAFAT)  
Ministry of Defense  
Hakirya  
Tel Aviv, Israel

Dear BG Keren:

Thank you for the time you have taken last week to discuss Skyguard with me, for your insightful comments, and for clarifying the urgency with which your organization is looking for a timely and affordable solution to the constant threat of rocket attacks. And finally I want to thank you for your letter dated Dec. 3, 06, and for the opportunity you afforded us to meet with your technical experts and the rocket defense evaluation team headed by BG (ret.) Jacob Nagel.

I want to take this opportunity to assure you once more that our company is fully committed to providing Israel with a rocket defense system. In response to your request we are now prepared to offer performance, cost and schedule assurances for our Skyguard defense system.

I believe that BG (ret.) Jacob Nagel and his evaluation team are now essentially in agreement with us as to the projected performance of Skyguard, especially in terms of the protected area or coverage, and that in principle a single Skyguard unit can defend a town like Sderot or Ashkelon. Two units for each defended city may be preferable, to provide redundancy and enhance system availability and salvo performance in inclement weather. If a decision is made by Israel to order Skyguard, it will be subjected to mutually agreed acceptance criteria to validate its performance.

As for cost and schedule, single unit, for initial deployment, will be provided at a price of \$177M in 18 months. Our preference would be to provide three units at a price of \$310M within 24 months from date of order. All this at a firm fixed price subject to meeting agreed performance requirements. Additional units will cost \$40 to \$50M depending on how many are ordered and at what intervals. Northrop Grumman would be prepared to move forward at its own expense upon commitment by Israel to Skyguard in order to save time. We would be further prepared to accept schedule penalties (and incentives), should there be any deviations from these delivery schedules.

We remain convinced that Skyguard is the best answer for rocket defense. Skyguard is the only proven system available within 18 months that can accommodate new technologies such as solid state lasers or low cost missiles if they become available. We believe that the best answer is to deploy Skyguard, continue development of these alternative technologies and to insert them in the flexible Skyguard system architecture if they work. We hope very much to have the opportunity to deploy this system in Israel.

To meet Israel's requirement for rapid operational deployment we plan to team with IAI to ensure timely integration and compatibility with the IDF sensor and C3I infrastructure. The best of Israeli sensor and C3I technology from other Israeli firms, including Rafael, will be incorporated, as and if desired by the MoD.

Our recommendation is to move immediately now to the operational deployment phase with laser firing units incorporating tested technologies that are inserted within a proven acquisition and tracking sensor network, with firing solutions and command/control infrastructure that can be used not just for lasers but also for projectiles and guns, if such systems are developed and proven to be cost-effective. Northrop Grumman has done such integration of kinetic energy weapons in Iraq. Similarly, in addition to projectile/gun systems, if a new type of laser is developed and proven advantageous, it can be integrated in Skyguard with most of the existing weapon remaining intact. Given this open, adaptable approach, the Skyguard integrated defense system accommodates future evolution by providing ready, critical and mandatory infrastructure. It provides open system development options, thereby fully mitigating technical risks.

Thank you again for the opportunity to present our Skyguard proposal to you.

Please let us know if we can provide further information to you.

Warmest regards,

A handwritten signature in black ink that reads "Mike McVey". The signature is written in a cursive, slightly slanted style.

Mike McVey  
Vice President, Directed Energy Systems