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Exhibit R-2, RDT&E Budget Item Justification: PB 2011 Office of Secretary Of Defense **DATE:** February 2010

APPROPRIATION/BUDGET ACTIVITY 0400: <i>Research, Development, Test & Evaluation, Defense-Wide</i> BA 7: <i>Operational Systems Development</i>	R-1 ITEM NOMENCLATURE PE 1001018D8Z: NATO AGS
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COST (\$ in Millions)	FY 2009 Actual	FY 2010 Estimate	FY 2011 Base Estimate	FY 2011 OCO Estimate	FY 2011 Total Estimate	FY 2012 Estimate	FY 2013 Estimate	FY 2014 Estimate	FY 2015 Estimate	Cost To Complete	Total Cost
Total Program Element	22.471	68.923	93.885	0.000	93.885	83.182	83.579	181.633	252.668	Continuing	Continuing
P018: NATO AGS	22.471	68.923	93.885	0.000	93.885	83.182	83.579	181.633	252.668	Continuing	Continuing

A. Mission Description and Budget Item Justification

This project is the U.S. share of the cost for the North Atlantic Treaty Organization (NATO) to acquire ground surveillance capability-based on the U.S. Global Hawk (GH) Block 40 Unmanned Aircraft System (UAS).

The North Atlantic Council (NAC) validated the requirement in 1995 for a NATO-owned and operated core air-to-ground surveillance capability supplemented by interoperable national assets. Since then, the Major NATO Commanders have consistently made Alliance Ground Surveillance (AGS) their number one equipment acquisition priority.

- October 1997, NATO Conference of National Armaments Directors (CNAD) approved AGS NATO Staff Requirement (NSR).
- April 1999, NATO Washington Summit Defense Capabilities Initiatives (DCI) included need for a NATO-owned and operated core system for ground surveillance.
- September 2001, Reinforced NAC (RNAC) re-affirmed need for a NATO-owned and operated AGS capability by 2010 and to move forward with the program.
- November 2002, NATO Prague Summit approved Prague Capabilities Commitment (PCC) that includes an airborne ground surveillance capability.
- December 2003, AGS Steering Committee approved in principle the merger of NATO AGS and the Trans-Atlantic Cooperative AGS Radar (TCAR) sensor projects.
- May 2004, Following a competitive Project Definition Study, CNAD endorsed the Trans-Atlantic Industrial Proposed Solution (TIPS) consortium's selection as the program of record to enter the Design and Development Phase and directed that the TCAR sensor development project be integrated into the AGS program.
- May 2004, AGS Steering Committee approved an updated Master Schedule supporting a 2010 Initial Operating Capability (IOC) with Full Operational Capability (FOC) by 2013.
- November 2005, Risk Reduction Study (RRS) was completed providing the Nations a higher degree of confidence in six areas of concern: program management; harmonization with other pending NATO aircraft programs; interoperability with existing national systems; compatibility with the NATO intelligence, surveillance and reconnaissance architecture; integration of the TCAR sensor; and affordability.
- April 2006, CNAD approved release of a Request for Proposal (RFP) to industry for the Design and Development (D&D) phase, including a mixed fleet (manned and unmanned) and development of at least one radar for either, with a total procurement Not to Exceed of ~3.3B (Base Year Euros equivalent to \$5.4B Then Year dollars).
- October 2006, AGS Industries (AGSI, former TIPS consortium) formally submitted a proposal compliant with the RFP. CNAD agreed that the proposal, as submitted by AGSI, would form the basis for negotiations of the D&D contract and tasked the AGS Support Staff (AGS3) to begin negotiations with AGSI.

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- May 2007, Contract negotiations with AGSI were completed. Total value of the D&D contract was ~545M (Then Year Euros equivalent to \$763M Then Year dollars) for the system design activity (to be funded by all participating nations) plus ~385M (Then Year Euros equivalent to \$539M Then Year dollars) for the radar development activity (to be funded by six nations, including the U.S.). The period of performance was 31 months after award and the contract prices were valid until December 1, 2007.
- June 2007, The AGS Funding Documents Program Memorandum of Understanding (PMOU), Design & Development Supplement, and the TCAR Implementing Arrangement (IA)) were released to nations for final staffing, leading to their approval and signature. Target completion date was the Fall CNAD meeting in October 2007.
- July 2007, At an Extra-ordinary CSC meeting, Canada, France, Germany, and The Netherlands indicated they could not support the Program of Record due to affordability. The CSC recommended ceasing work on the Program of Record in favor of a UAV only capability based on an Off-The-Shelf Global Hawk (OTS-GH) equipped with the U.S. Multi-Platform Radar Insertion Program (MP-RTIP) sensor. This capability was previously endorsed by the user, Supreme Headquarters Allied Command Europe (SHAPE).
- September 2007, CSC directed AGS3 to revise the procurement strategy and update the funding documents and the NATO Management Organization Charter for the re-structured program.
- June 2008, NATO AGS Program Memorandum of Understanding released for national staffing.
- October 2008, Request for Proposal for NATO AGS prime development contract released to industry.
- June 2009, U.S. signs the NATO AGS PMOU. Including the U.S. signature, 13 of 15 participating nations have signed the PMOU.
- September 3, 2009, PMOU in effect.

B. Program Change Summary (\$ in Millions)

	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011 Base</u>	<u>FY 2011 OCO</u>	<u>FY 2011 Total</u>
Previous President's Budget	27.274	74.485	0.000	0.000	0.000
Current President's Budget	22.471	68.923	93.885	0.000	93.885
Total Adjustments	-4.803	-5.562	93.885	0.000	93.885
• Congressional General Reductions		0.000			
• Congressional Directed Reductions		0.000			
• Congressional Rescissions	0.000	0.000			
• Congressional Adds		0.000			
• Congressional Directed Transfers		0.000			
• Reprogrammings	0.000	0.000			
• SBIR/STTR Transfer	-0.749	0.000			
• Other Program Adjustments	-0.054	-5.562	93.885	0.000	93.885
• FY09/10 RDT&E Omnibus Reprogramming	-4.000	0.000	0.000	0.000	0.000

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P018: NATO AGS	22.471	68.923	93.885	0.000	93.885	83.182	83.579	181.633	252.668	Continuing	Continuing
Quantity of RDT&E Articles											

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- September 3, 2009, PMOU in effect.

B. Accomplishments/Planned Program (\$ in Millions)

	FY 2009	FY 2010	FY 2011 Base	FY 2011 OCO	FY 2011 Total
NATO AGS <i>FY 2009 Accomplishments:</i> <ul style="list-style-type: none"> - North Atlantic Council selected Sigonella, IT as the North Atlantic Treaty Organization (NATO) Alliance Ground Surveillance (AGS) Main Operating Base. - Allies agreed to provide NATO common funding for NATO AGS operations and support phase. - Released the request for proposal for a single, 2-phase contract consisting of a Design, Development, and Demonstration (DD&D) Phase and a Production Phase for a two-orbit, Unmanned Air Vehicle (UAV)-only, ground surveillance capability. Dialogue with industry and industry proposal started. 	22.471	68.923	93.885	0.000	93.885

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C. Other Program Funding Summary (\$ in Millions) N/A		
D. Acquisition Strategy The U.S. signed a multi-national Program Memorandum of Understanding (PMOU) committing the U.S. government to NATO-derived cost shares of the AGS prime contract consisting of a Design, Development & Demonstration and Production of the NATO AGS system. The NATO AGS procurement strategy is consistent with NATO AGS PMOU provisions and includes award of a fixed price contract to the Northrop Grumman Corporation prime contractor.		
E. Performance Metrics Not applicable for this item.		

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Exhibit R-3, RDT&E Project Cost Analysis: PB 2011 Office of Secretary Of Defense **DATE:** February 2010

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Product Development (\$ in Millions)

Cost Category Item	Contract Method & Type	Performing Activity & Location	Total Prior Years Cost	FY 2010		FY 2011 Base		FY 2011 OCO		FY 2011 Total	Cost To Complete	Total Cost	Target Value of Contract
				Cost	Award Date	Cost	Award Date	Cost	Award Date	Cost			
NATO AGS PRIME CONTRACT	SS/FFP	NORTHROP GRUMMAN CORPORATION MELBOURNE, FL	19.000	14.438	Apr 2010	91.885	Sep 2011	0.000		91.885	0.000	125.323	Continuing
NATO AGS MISSION SECURITY	SS/CPAF	NORTHROP GRUMMAN CORPORATION MELBOURNE, FL	0.000	45.000	Jan 2010	0.000	Sep 2011	0.000		0.000	0.000	45.000	Continuing
NATO AGS INTEROPERABILITY	SS/TBD	U.S. AIR FORCE DAYTON, OH	0.000	6.000	Apr 2010	0.000	Sep 2011	0.000		0.000	0.000	6.000	Continuing
Subtotal			19.000	65.438		91.885		0.000		91.885	0.000	176.323	

Remarks

Management Services (\$ in Millions)

Cost Category Item	Contract Method & Type	Performing Activity & Location	Total Prior Years Cost	FY 2010		FY 2011 Base		FY 2011 OCO		FY 2011 Total	Cost To Complete	Total Cost	Target Value of Contract
				Cost	Award Date	Cost	Award Date	Cost	Award Date	Cost			
NATO AGS MANAGEMENT SUPPORT	C/CPFF	U.S. AIR FORCE DAYTON, OH	3.471	3.485	Sep 2010	2.000	Sep 2011	0.000		2.000	0.000	8.956	Continuing
Subtotal			3.471	3.485		2.000		0.000		2.000	0.000	8.956	

Remarks

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Exhibit R-4, RDT&E Schedule Profile: PB 2011 Office of Secretary Of Defense		DATE: February 2010
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	FY 2009				FY 2010				FY 2011				FY 2012				FY 2013				FY 2014				FY 2015							
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4				
PMOU IN NATIONAL STAFFING	■	■	■	■	■	■	■	■																								
CONTRACT AWARD																																
DESIGN, DEVELOPMENT AND DEMONSTRATION PHASE																																
PRODUCTION PHASE																					■	■	■	■	■	■	■	■	■	■	■	■

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Exhibit R-4A, RDT&E Schedule Details: PB 2011 Office of Secretary Of Defense **DATE:** February 2010

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Schedule Details

Event	Start		End	
	Quarter	Year	Quarter	Year
PMOU IN NATIONAL STAFFING	1	2009	4	2010
CONTRACT AWARD	4	2010	4	2010
DESIGN, DEVELOPMENT AND DEMONSTRATION PHASE	4	2010	4	2010
PRODUCTION PHASE	4	2013	4	2015

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