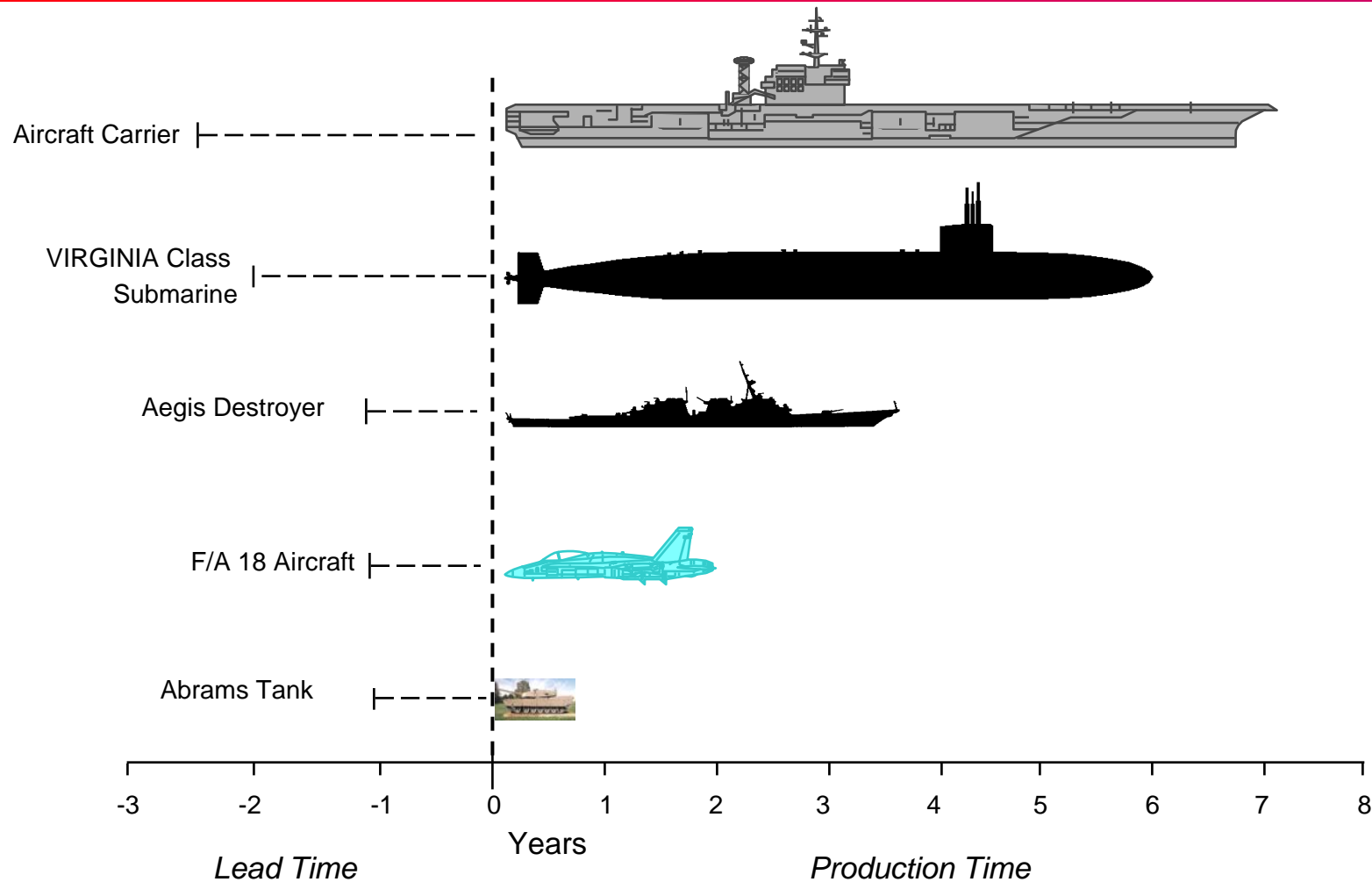


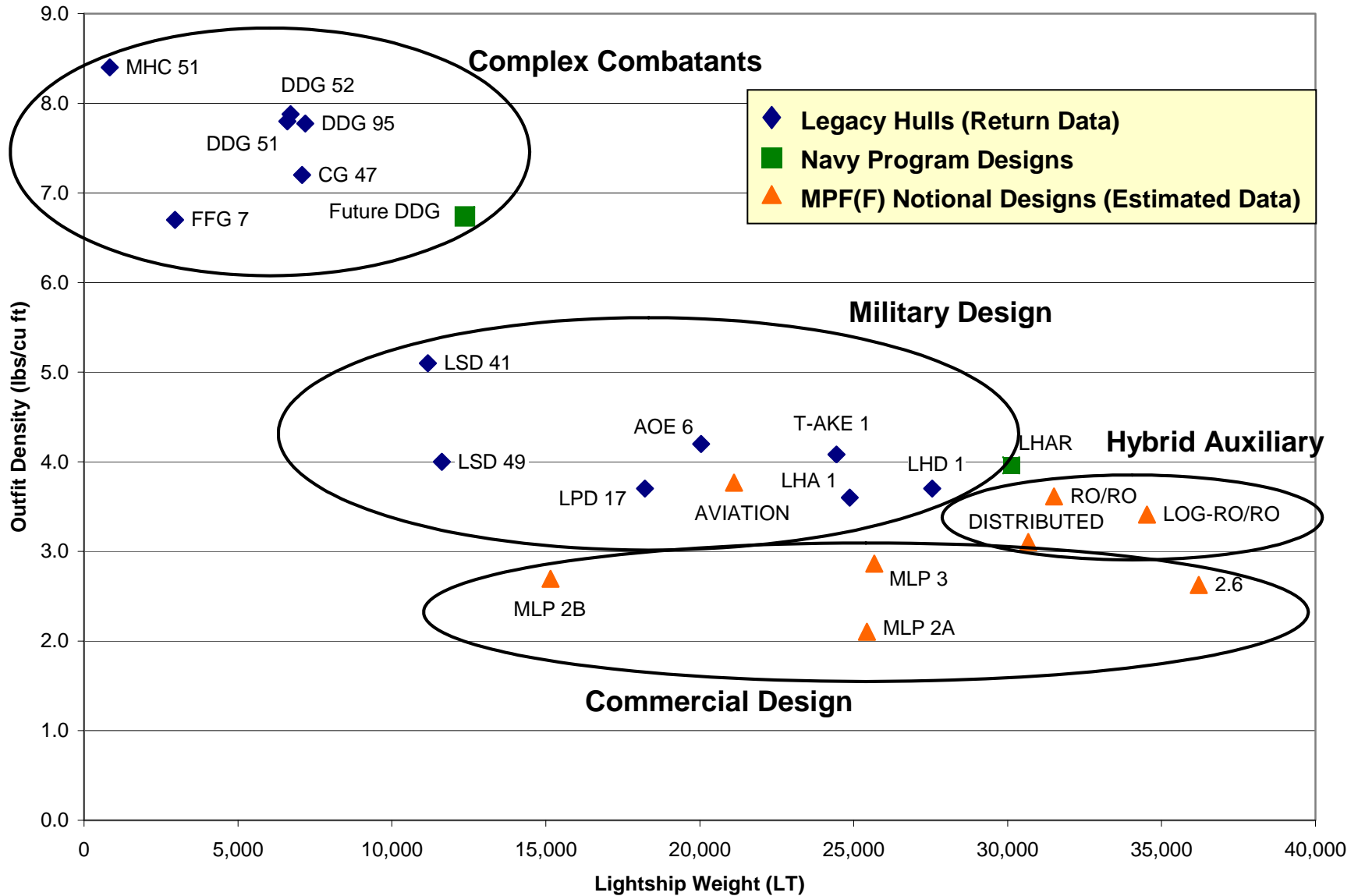
# Production Time Perspective



It takes 5-10 years to procure and deliver a Navy Combatant ship

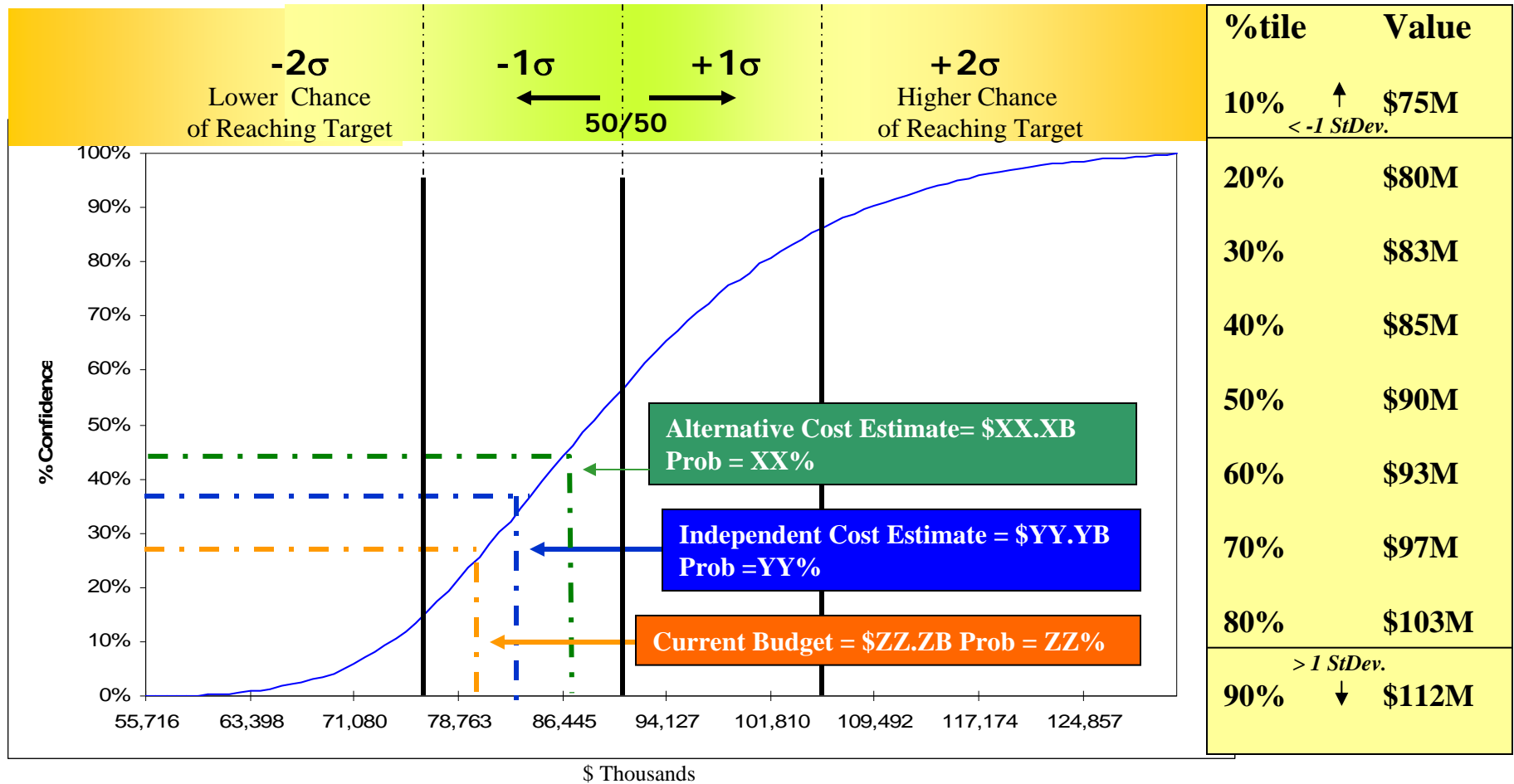


# Outfit Density vs. Lightship Weight



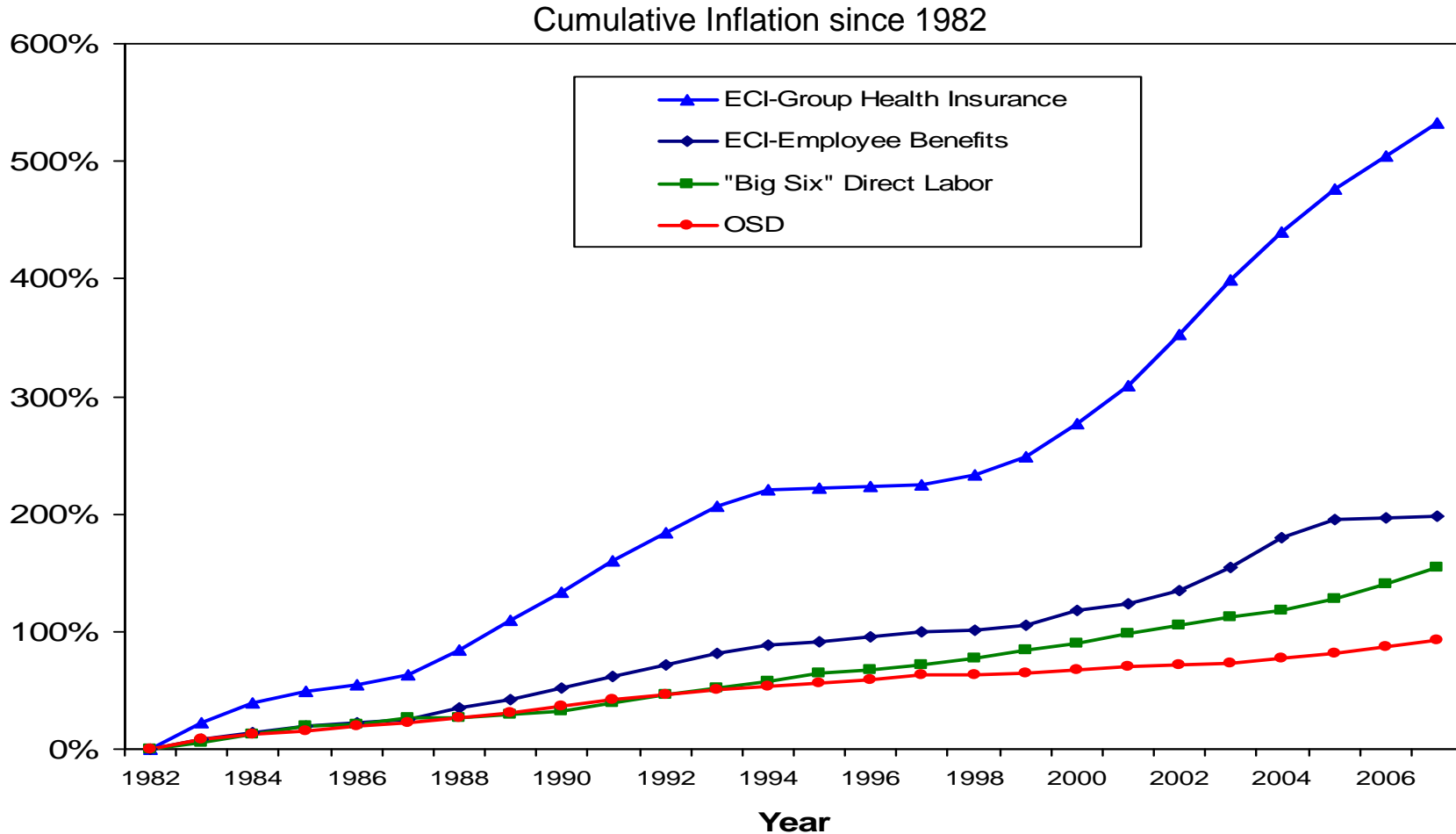


# Representative SCN Compiled Cost Risk Curve





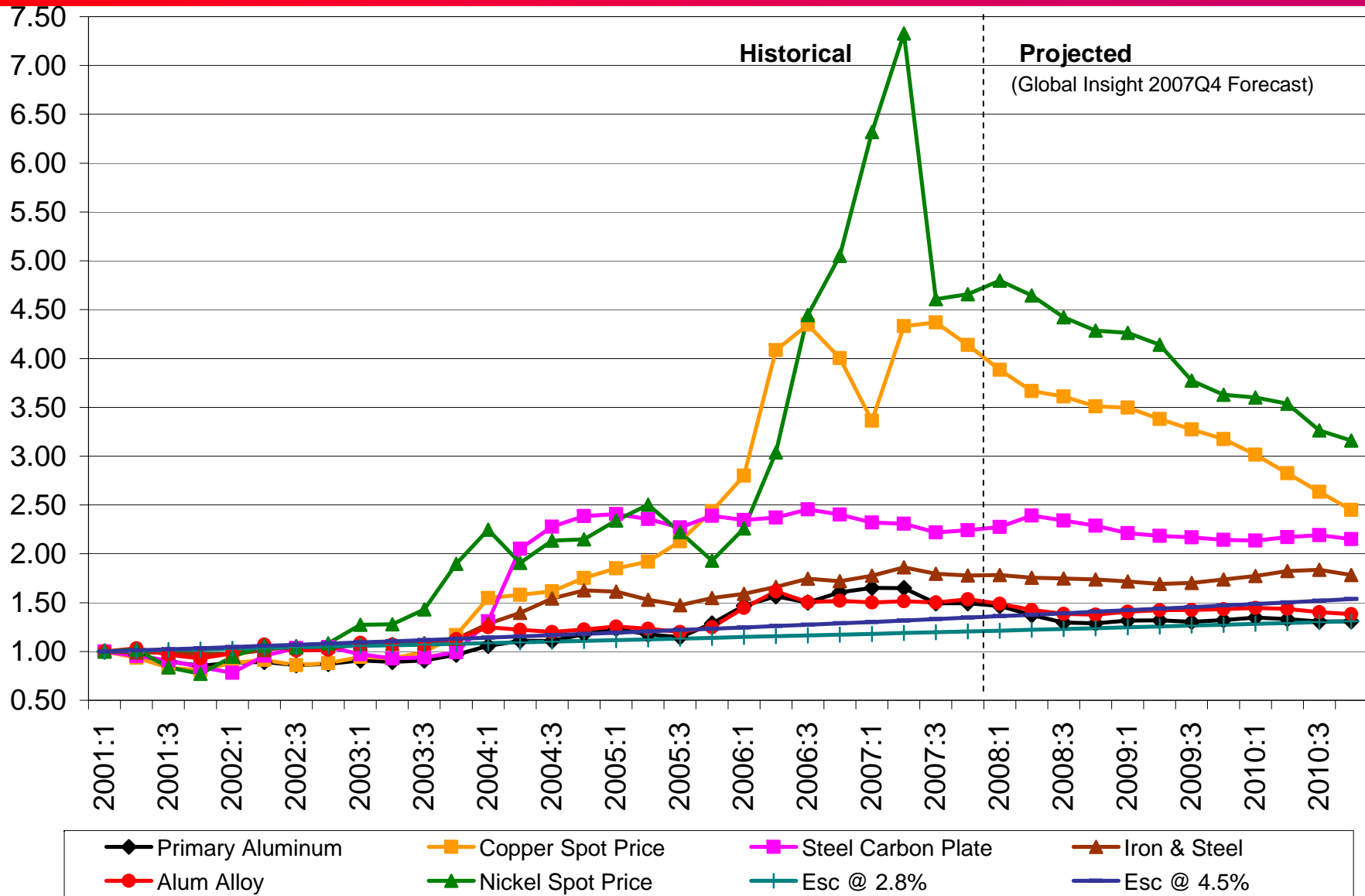
# Labor/Overhead Cost Inflation



**National Effects of Health Care, Pension Loads influencing higher costs than those recognized by OSD/OMB policy**



# Commodity Inflation Historical and Projected



Source: Bureau of Labor Statistics Producer Price Indices and LME Spot Prices; Global Insight 2007Q4 Projection; updated 1/18/08



# Material Inflation – How does industry use recent history?

## Company X vs Navy

- Company X projects 10.4% annual inflation based on Steel Vessel Material Index growth from Sep 2003 – Jun 2006 period (historical data)
- Navy uses independent assessment to project future inflation

	<b>Company X</b>		<b>Navy</b>	
	<b>Steel Vessel Material Index</b>		<b>Material Inflation FY2006-2008</b>	
	Reflects BLS Historical Actuals Sep 03 - Jun 06		Reflects 2006 BLS actuals and projections based on GI 2006Q4 Forecasts	
<b>Commodity</b>	<b>Cost Weighting</b>	<b>Inflation (Annualized)</b>	<b>Cost Weighting</b>	<b>Inflation (Average Annual)</b>
Steel	45%	20.2%	7%	3.8%
General Purpose Machinery	40%	4.7% *	50%	3.5%
Electrical Machinery	15%	0.2%	(Included in General Purpose Machinery)	
Electronics	Not Included		39%	2.8%
Engineering Labor/Services	Not Included		4%	3.2%
<b>Composite Material Inflation</b>	<b>10.4%</b>		<b>3.2%</b>	
			(OSD avg 2006-08 = 2.7%)	

\* Annual Steel Inflation: FY2004 = 24.2%; FY2005 = 16.6%; FY2006 = 4.9%