

Metropolis Works Facility

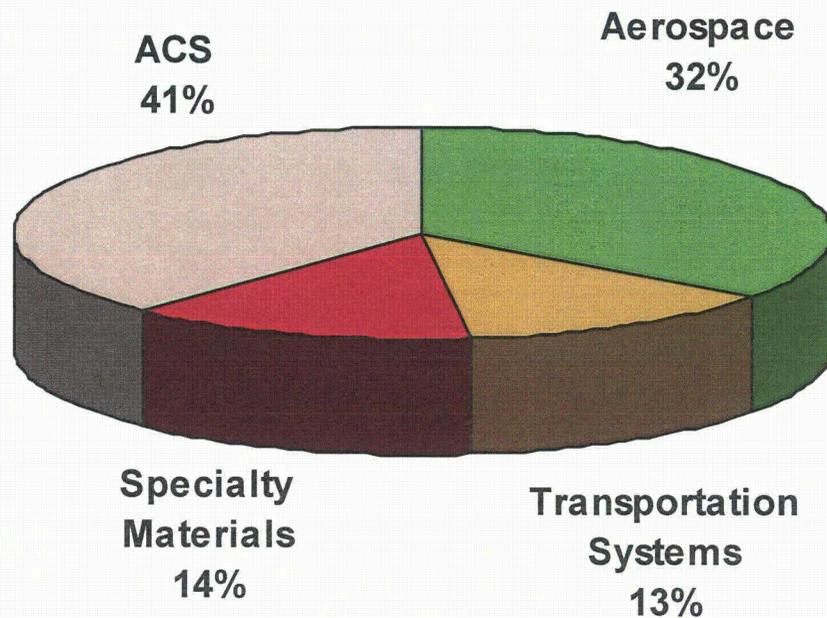
Financial Assurance for Decommissioning

March 14, 2011

Honeywell

Honeywell Today

Honeywell



Honeywell International is a Fortune 75 diversified technology and manufacturing leader, serving customers worldwide with aerospace products and services; control technologies for buildings, homes and industry; automotive products; turbochargers; and specialty materials.

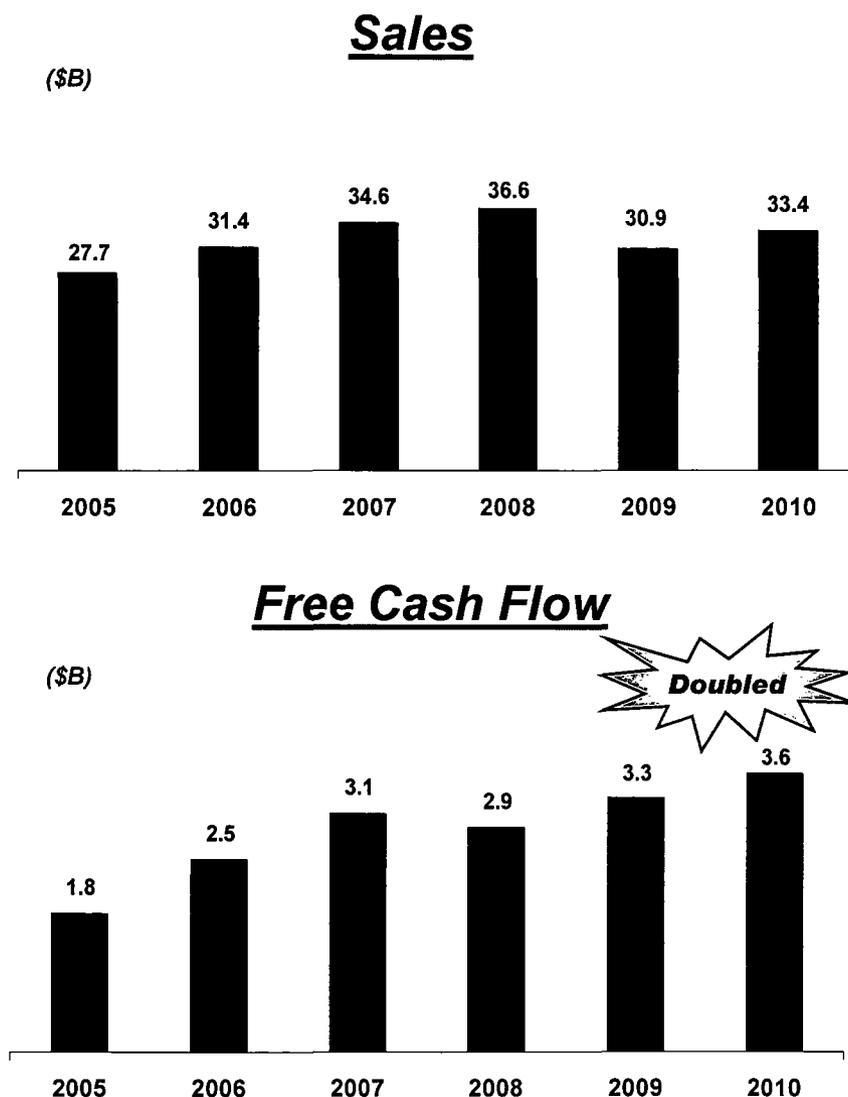
- Over 130,000 Employees Doing Business in Over 100 Countries
- Fortune 75 Company with \$35-36 Billion in Forecasted Sales in 2011

A Large, Diversified Multinational Company

Strong Financial Performance

Honeywell

- Cash and Cash Equivalents
 - \$2.7B at December 31, 2010
- Significant Free Cash Flow
 - \$3.6B in 2010 and over \$3.5B forecast in 2011
- Stable Long Term Credit Rating
 - A, A2 over 17 years
- Access to Capital Markets
 - \$1.4B of debt issued in 2011
 - \$2.8B Committed Five Year Credit Facility
- Low Decommissioning Liabilities
 - \$735M total decommissioning liability (nuclear and non-nuclear)
 - Includes \$186M at MTW



Financial Assurance for Decommissioning

Honeywell

- **10 C.F.R. § 40.36(e) – Self-Guarantee available for licensees that satisfy the financial test in Appendix C to Part 30.**
- **Part 30, Appendix C.II.A criteria:**
 - Tangible net worth = 10 x total decommissioning liabilities
 - Assets in U.S. = 90% of total assets or 10 x total decommissioning liabilities
 - Bond rating of AAA, AA, or A for S&P, or Aaa, Aa, A for Moody's
- **Part 30, Appendix C.II.C: If the licensee no longer meets the requirements of Appendix C.II.A, the licensee must immediately notify the Commission of its intent to establish alternative financial assurance.**

Self-Guarantee Is Preferred Mechanism

Background on MTW Self-Guarantee

Honeywell

- **Starting in 2007, Honeywell no longer met the financial test in Appendix C**
 - Tangible net worth was not 10 times the total decommissioning cost guaranteed by Honeywell
 - However, satisfied test if the intangible asset of goodwill was included in the net worth calculation
- **Sought (and received) an exemption that permitted inclusion of goodwill in financial test in 2007**
- **Similar financial conditions existed in 2008, 2009, and 2010**
- **NRC published proposed decommissioning rulemaking on January 22, 2008 (73 Fed. Reg. 3812)**
 - Rule would permit licensees to consider intangible asset of goodwill in financial test calculations

Honeywell Satisfies Alternate Financial Test

History of Exemption Requests

Honeywell

- **First Exemption Request**
 - Honeywell request dated December 1, 2006
 - NRC granted exemption in May 11, 2007
- **Second Exemption Request**
 - Honeywell request dated April 11, 2008
 - NRC granted exemption in August 22, 2008
- **Third Exemption Request**
 - Honeywell request dated April 1, 2009
 - NRC initially denied exemption on December 11, 2009
 - DC Circuit reversed NRC denial on December 21, 2010
 - Current status: pending

Precedent for Granting Exemption

New Exemption Request

Honeywell

- **Exemption from 10 CFR § 40.36(e) requiring licensee using self-guarantee to satisfy financial test in Part 30, Appendix C**
 - Honeywell will continue to rely on bond rating, total asset, and the adjusted net worth test
 - Exemption will be based on the end-of-2010 financial data
- **Timing of Exemption request: within 30 days of NRC decision on pending exemption request**
 - D.C. Circuit: “another exemption request would be pointless until the Commission adequately explains the reasons for rejecting Honeywell’s third request”
 - License amendment request will be based on the end-of-2010 financial data.

Bond Rating And Total Assets Assure Adequate Funding

- **Goodwill is an intangible asset that reflects the cash generating potential of a business**
 - Goodwill is calculated using Financial Accounting Standards and audited annually for impairment
- **Tangible net worth equals shareholder equity less goodwill and other intangible assets**
 - Shareholder equity represents \$10.8B
 - As the intangible asset of goodwill increases, tangible net worth necessarily decreases
 - There is no direct relationship between tangible net worth and net worth or tangible assets
- **Put simply, tangible net worth is poor indicator of financial health for Honeywell**

Goodwill Is A Measure Of Future Earnings

Honeywell Balance Sheet

Honeywell

December 31, 2010

(dollars in millions)

Current Assets	\$ 15,011	Liabilities	\$ 27,047
Long Term Assets	\$ 22,823	Shareowners' Equity	\$ 10,787
	<u>\$ 37,834</u>		<u>\$ 37,834</u>

US Assets	\$ 24,581
Foreign Assets	\$ 13,253
	<u>\$ 37,834</u>
Tangible Assets	\$ 23,663
Intangible Assets	\$ 14,171
	<u>\$ 37,834</u>

Shareowners' Equity	\$ 10,787
Less: Intangible Assets	\$ (14,171)
Tangible Net Deficit	\$ (3,384)
Add: Goodwill	\$ 11,597
Adjusted Net Worth	<u>\$ 8,213</u>

Significant Intangible Assets Distort Test

Exemption Justification

Honeywell

- **Financial test aims to reflect financial stability and ability to meet decommissioning obligations**
- **“Tangible Net Worth > 10 x Decommissioning Cost” test is unnecessary for Honeywell**
 - Commission: test is “exceptionally stringent” and “conservative”
 - There are other means of demonstrating ability to pay
- **Significant free cash flow available**
 - \$3.3B in 2009
 - Over \$3.6B in 2010.
- **Bond rating provides better guide to financial strength**
 - Requires higher minimum rating than required for parent guarantee
 - HON rating may be higher than issuer of surety or letters of credit

Decommissioning Funding Is Available

Strong (and Improving) Financial Performance

Honeywell

(in millions)	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
NRC Decommissioning Cost Using Self-Guarantee	\$157	\$156	\$156	\$156	\$187
Other Decommissioning Amount Using Self-Guarantee	\$498	\$68	0	0	0
Total Decommissioning Amount Using Self-Guarantee	\$655	\$224	\$156	\$156	\$187
Goodwill	\$8,403	\$9,175	\$10,185	\$10,494	\$11,597
Tangible Net Worth	\$70	(\$1,451)	(\$5,265)	(\$3,697)	(\$3,384)
Adjusted Net Worth	\$8,473	\$7,724	\$4,920	\$6,780	\$8,213
Assets in the United States	\$20,300	\$21,300	\$22,500	\$22,800	\$24,600
Ratio (Traditional)	0.1	-6.5	-33.8	-23.8	-17.4
Ratio (Alternate Test)	12.9	34.5	31.5	43.5	44.6
Free Cash	\$2,200	\$3,100	\$3,100	\$3,300	\$3,550
Bond Rating (S&P)	A	A	A	A	A
Bond Rating (Moody's)	A2	A2	A2	A2	A2
Exemption Granted?	Yes	Yes	Pending	N/A	TBD

Significant Free Cash Flow Available

Honeywell

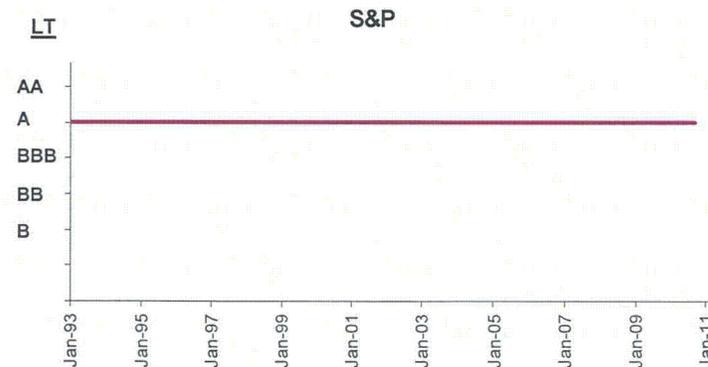
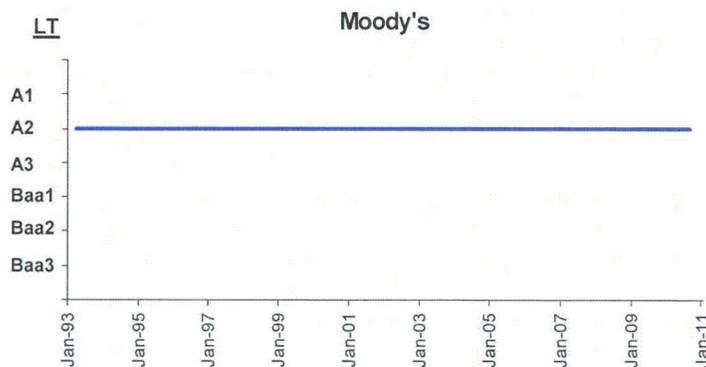
(\$M)

	<u>2009</u>	<u>2010</u>
Cash Flow from Operations	\$3,946	\$4,203
Capital Spending	(609)	(651)
Free Cash Flow	<u>\$3,337</u>	<u>\$3,552</u>
Legacy Spending		
Environmental Payments	(\$318)	(\$266)
Asbestos, Net of Insurance	(140)	(22)
Total	<u>(\$458)</u>	<u>(\$288)</u>

Free Cash Flow Available For Decommissioning

Power of the Bond Rating

- **Bond rating is independently reviewed and regularly revised.**
- **Effective measure of financial stability.**
 - A company that has had a rating of A (Moody's) in the three prior years has a default rate of less than 0.39% (1983-2009).*
 - For ratings of A or better (Moody's), there have only been defaults in 6 of the last 50 years.
- **Mechanisms in place to alert NRC in event of deteriorating finances**
 - Notify NRC within 20 days if rating ceases to be in any category of A or above for Moody's and S&P (Part 30, Appendix C.III.E).
 - Triggers requirement to seek alternate financial assurance within 120 days (Part 30, Appendix C.II.C).



* Moody's Special Comment, Default and Recovery Rates, 1920-2009 (Feb. 2010).

Exemption Justification (continued)

Honeywell

- **Letter of Credit/Surety costs shareholders with no corresponding benefit to NRC/public**
 - Cost of approximately 100 basis points annually
 - Significant and inefficient use of bank line of credit
 - Savings of ~\$1.5 million/year for MTW
 - Honeywell's credit rating may be better than entity issuing letter of credit
- **Honeywell's annual savings greater than the \$730k annual savings for all licensees used in rulemaking to justify the original self-guarantee provisions**

Alternative Methods Are Costly

Exemption Justification (continued)

Honeywell

- **NRC proposed decommissioning rule published on January 22, 2008 (73 Fed. Reg. 3812)**
 - Would require minimum "tangible net worth" of \$21 million
 - Relies on EPA analysis that looked at a \$10 million minimum *net worth* requirement (not *tangible net worth*)
 - Focused on disposal facilities where asset being decommissioned was primary source of income
 - Minimum tangible net worth inconsistent with treatment of goodwill as an asset
- **Minimum tangible net worth not meaningful indicator for Honeywell**
 - Annual revenue > \$33 billion; net worth > \$10 billion
 - Free cash flow forecast \$3.5 to \$3.7 billion in 2011

Minimum Tangible Net Worth Not Necessary

Summary of Exemption Request

Honeywell

- **Requesting continued relief from outdated and overly-conservative financial test criteria**
 - 10:1 tangible net worth/total decommissioning cost test does not accurately reflect financial stability
- **Decommissioning funding available when needed**
 - Significant free cash flow (over \$3.5B forecast 2011)
- **Bond rating is better guide to financial strength and stability (“A” or better)**
- **Minimum tangible net worth test is not relevant to Honeywell circumstances**
- **Annual savings > \$1.5 million**

Exemption Extension Should Be Granted

Other Financial Assurance Activities

Honeywell

- **Existing surety bond needs renewal by April 9, 2011**
- **Seeking to reinstate self-guarantee before term ends**
 - April 1, 2009, request filed "more than 30 days prior to the expiration" of the prior exemption and request still pending
- **Honeywell submitted updated self-guarantee information on March 8, 2011**
 - Same language and format as prior self-guarantee (other than updated cost estimate and exemption background)
- **Independent of NRC decision on pending request**
 - If NRC grants exemption, then reinstated self-guarantee would remain in place
 - If NRC denies exemption, then would have 120 days to put in place an alternate financial assurance mechanism

Seeking to Reinstate Self-Guarantee

Questions/Comments

Honeywell