Rolls-Royce

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February 19, 2015

Docket No.: 03036563
Mail Control: 585243

License No.: 44-30912-01

Laurie A. Kauffman
Health Physicist
Decommissioning and Technical Support
Branch Division of Nuclear Materials Safety

SUBJECT: R.O.V. TECHNOLOGIES INC., SUPPLY OF ADDITIONAL INFORMATION CONCERNING CHANGE OF CONTROL AND OWNERSHIP, CONTROL NO. 585243

Dear Ms. Kauffman:

This letter is in response to your letter, dated February 17, 2015 (Mail Control number 585243) in which you requested additional information to better facilitate your review of our request for the NRC's consent for a change of control and ownership to Nuclear Regulatory Commission License No. 44-30912-01.

In order to facilitate your review, please consider our answers to your questions set forth below:

1. Since NRC License No. 44-30912-01 authorizes the use of special nuclear material, you must comply with 10 CFR 70.36(b) before there is a change of control. 10 CFR 70.36(b) requires that an application for transfer of license must include: (1) the identity, technical, and financial qualification of the proposed transferee and (2) financial assurance for decommissioning information required by 10 CFR 70.25. Please submit information demonstrating the transferee's (R. Brooks Associates, Inc.) financial qualifications and financial assurance.

John Stringer, co-applicant for this request for change of Control and President of R.Brooks Associates, Inc. represents that:

With regard to the financial qualifications of R.Brooks Associates, Inc. a wholly owned subsidiary of Rolls-Royce please find annexed hereto Rolls-Royce's latest credit reports from S&P and Moody's (issued annually). You may also access the ratings by going to the S&P's and Moody's websites: http://www.standardandpoors.com/ratings/en/us/, and https://www.moodys.com/. This is public information and Rolls-Royce has no problem sharing it with the NRC. In addition to these opinions and ratings there is a plethora of financial information and statements available on the Rolls-Royce website – including financial statements and earnings releases. Please visit for more details: http://www.rolls-royce.com.

With regard to financial assurance TD Bank currently has in place a perpetual, evergreen Letter of Credit Number [redacted] for the benefit of the NRC to provide financial assurance for the cost of decommissioning the materials and activities identified in License Number 44-30912-01 issued pursuant to 10 CFR Part 30 and Part 70, that is currently in place at R.O.V. Technologies Inc. That Letter of Credit was most recently amended in 2013 to increase the amount to $459,968.00 reflective of true decommissioning costs today. TD Bank also has in place a stand-by trust agreement so that when payment is made under a letter of credit, this standby trust shall be used for the receipt of such payment.

TD Bank is aware that R.O.V. Technologies is being acquired by R.Brooks Associates, Inc. doing business as Rolls-Royce. TD bank has agreed to leave the letter of credit in place to continue to provide the financial assurance required by the Atomic Energy Act of 1954, as amended, and the Energy Reorganization Act of 1974, specifically in title 10, Chapter I, of the Code of Federal Regulations, Part 30 and Part 70, post-acquisition by Rolls-Royce under the same terms as exist today and as have been agreed as acceptable by the NRC. See attached hereto a letter addressed to Jack Judge setting forth TD Bank's agreement to leave both such instruments unchanged except for the release by TD Bank of the personal guaranty of Jack Judge upon completion of the acquisition of R.O.V. by Rolls-Royce.

2. In your letter dated October 29, 2014, you stated that the transaction will involve the direct sale of the business including the name, licensed property, facilities, and equipment, including all radiological and other equipment necessary for the administration of the radiation safety program. However, the letter did not describe a transfer of stocks. Please provide a detailed description of the direct sale including any purchase, sale or transfer of stocks.

John Stringer and John Judge, co-applicants for this Consent to Change of Control each represent that on October 29, 2014, R. Brooks Associates entered into a Stock and Asset Purchase Agreement (the "Agreement") with R.O.V., Straeker Enterprises, LLC ("Straeker"), a Vermont limited liability company, John J. Judge Trust u/a dated February 24, 2009 ("Judge Trust"), and John J. Judge, pursuant to which R. Brooks Associates (1) will acquire all of the issued and outstanding shares of the capital stock of R.O.V. from Judge Trust, and (2) will acquire the land located at 49 Bennett Drive, Brattleboro, Vermont, and all buildings and fixtures thereupon, from Straeker (collectively the "Transaction"). As the trustee and sole beneficiary of Judge Trust and sole member of Straeker, Mr. Judge is the ultimate owner and seller of both R.O.V. and the land, buildings and fixtures located at 49 Bennett Drive, Brattleboro, Vermont. The Parties expect to close the Transaction as soon as the NRC grants the approval for Change of Control.

3. Please provide a description of any provisions or conditions of the sale that would shield directors or board members of Rolls-Royce, and R. Brooks Associates, Inc.,

d/b/a Rolls- Royce from decisions involving classified or secret information, and/or from the management or control of special nuclear material.

John Stringer represents that Rolls-Royce has a strong presence in the United States, and is well-known to U.S. government agencies, including the Departments of State, Commerce, Defense and Energy. Rolls-Royce is also well-known to the Committee on Foreign Investment in the United States ("CFIUS"), having received approvals for eight acquisitions alone in the last eight years. In total, Rolls-Royce's presence in North America includes over 7,000 employees across the United States and Canada, and several of Rolls-Royce's global businesses are principally located in the United States.

All of Rolls-Royce's operating U.S. subsidiaries including R. Brooks Associates Inc. are ultimately held by Rolls-Royce North America Holdings Inc. ("RRNAH"), which maintains a Secret-level facility security clearance pursuant to a Special Security Agreement ("SSA"), and R.O.V. likewise will fall under the SSA umbrella. R.O.V. will operate under RRNAH's existing SSA like all other U.S. subsidiaries of Rolls-Royce.

Under the management and supervision of the Government Security Committee (which consists of independent outside directors) established pursuant to the SSA, RRNAH will ensure that there will be no undue foreign influence, access, management or control from directors or board members of Rolls-Royce in connection with any classified or secret information, and/or special nuclear materials.

Sincerely yours,

John Stringer, President
R. Brooks Associates, Inc.

John J. Judge, President
R.O.V. Technologies, Inc.

MOODY'S
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# Credit Opinion: Rolls-Royce plc

Global Credit Research - 30 May 2014

*London, United Kingdom*

## Ratings

| Category | Moody's Rating |
|---|---|
| Outlook | Stable |
| Senior Unsecured -Dom Curr | A3 |

## Contacts



| Analyst | Phone |
|---|---|
| Russell Solomon/New York City | 212.553.4301 |
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## Key Indicators

**Rolls-Royce plc[1]**

| | 12/31/2013 | 12/31/2012 |
|---|---|---|
| Total Revenue (USD billions) | $24.27 | $19.27 |
| Operating Profit (USD billions) | $2.56 | $2.68 |
| Debt / EBITDA | 1.9x | 1.6x |
| Retained Cash Flow / Net Debt | 577.3% | 248.8% |
| EBIT / Interest | 10.4x | 11.6x |

Source: Moody's Financial MetricsTM

[1] All ratios are calculated using Moody's Standard Adjustments.

*Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.*

## Opinion

### Rating Drivers

- Large installed base, high services component of revenue should sustain strong operating performance

- Solid liquidity, manageable requisite pension funding support financial flexibility

- Disciplined financial policies expected to accompany prospective diversification through acquisition

### Business Profile

Headquartered in London, England, Rolls-Royce is a leading global provider of gas turbines and reciprocating engines with operations in two broad business segments - Aerospace and Marine & Industrial Power Systems. The company reported revenue of £15.5 billion for the fiscal year ended December 2013.

### SUMMARY RATING RATIONALE

Rolls-Royce's improved operating performance through the long and volatile aerospace cycle, its broad installed base as an engine supplier to a range of commercial and military jet programs, and its solid liquidity profile (2013 year-end reported net cash position of £1.6 billion) support the A3 rating. The Civil Aerospace business continues to support earnings and free cash flow growth as over half of its £6.7 billion 2013 revenue was derived from higher-margin service streams. We expect this positive momentum to continue as increasing build rates at the large airframers drive incremental revenue and aftermarket service opportunities. Higher volumes as well as recent productivity-related capital investment should accrete to the company's forward margin profile. Still, we expect heavy and ramping R&D expenditures (£531 million in 2012 and £683 million in 2013) as well as the introduction of (initially) lower-margin new engine programs to constrain operating margins at levels below the rating category median.

Rolls-Royce's Moody's-adjusted leverage profile of 1.9x at 2013 year-end, while high for the 1x-2x range typically observed for A-rated issuers, is expected to remain stable or modestly improve as a result of aforementioned forward earnings growth and is due in part to its relatively well-funded pension plan. The company has made significant discretionary contributions in recent years and has over 80% of its plan assets invested in lower-risk liability-driven portfolios. Rolls-Royce's pension-related debt (a component of Moody's-adjusted total debt) represents about 20% of total adjusted debt, a percentage that compares favorably to rating peers in the industry.

Rolls-Royce's solid liquidity and historically disciplined approach to shareholder return initiatives should provide the company with the requisite flexibility to pursue its strategy of focusing solely on core businesses and further diversifying in the reciprocating engine business, likely through acquisition. We expect the company to use cash, excess cash flow and/or non-core asset divestiture proceeds (i.e.; aero-derivative gas turbine business, IAE International Aero Engines, helicopter engine business) to fund acquisitions that complement core competencies (i.e.; Tognum/Rolls-Royce Power Systems), expand market adjacencies and/or further balance revenues away from Civil Aerospace.

## DETAILED RATING CONSIDERATIONS

### HIGH SERVICE COMPONENT OF REVENUE, LARGE BACKLOG AFFORD RELATIVE STABILITY

Rolls-Royce's revenue is increasingly derived from more stable and highly profitable aftermarket sales and services. With more than half of consolidated revenue from service contracts, the company estimates 72% of 2013 Civil Aerospace services revenue came from long-term contracts and expects this percentage will rise to more than 90% over the next decade. Profit margins on service revenue streams are high, especially compared with those for original equipment (OE). Moreover, service revenue streams are less volatile given the longer term, contractual nature of typical arrangements, and customer tendencies to defer capital expenditures (that might otherwise be directed to OE purchases) but maintain spending on services/components during recessionary periods. Incremental exposure to service-related revenue is expected to further bolster the company's margin performance.

Also, the Defence Aerospace and Marine & Industrial Power Systems businesses now represent over half of Rolls-Royce revenues. More balanced revenue streams (including the soon-to-be wholly-owned Rolls-Royce Power Systems subsidiary), compared to the much heavier weighting of commercial aerospace during the last down cycle, are an important driver of increasingly steady operating performance. Even so, Rolls-Royce remains highly reliant upon the civil business for profits and cash flow generation. Military sales, while under some pressure of late (and which we expect to persist), are also important to the company and span a broad range of diverse, multi-year contracts including combat air (Joint Strike Fighter, Eurofighter), transport air (C-130J, A400M, V22 Osprey), trainer (Hawk), sea (UK nuclear submarine fleet, DDG-1000 multi mission destroyer) and tanker (A330 MRTT) programs. This installed diversification across multiple platforms and programs should mitigate lingering future pressure caused by an environment of sustained weakness in global defense spending.

Further contributing to revenue predictability is the sizeable backlog and well diversified revenue base, more broadly. Just under one-third of 2013 revenue was derived from China, the Middle East, and Asia (in aggregate) while European sales represented just over a third, with North America and the rest of the world representing the remainder. More than 80% of the £71 billion order backlog is for engines and services for commercial airplanes. Rolls-Royce continues to grow its wide-body market share, with higher unit price Trent engines comprising about 73% of the commercial order book. As well, Rolls-Royce is the current sole engine supplier for the Airbus A350XWB (entry-into-service expected by end of 2014), with orders for the related Trent XWB engine representing about 53% of the Civil backlog and an increasingly important program over time. With large jet production rates accelerating over the next several years, Rolls-Royce should enjoy several years of growth so long as targeted production levels are reached and sustained. Rolls-Royce's position on established programs offsets some of the risk inherent to delays on the A350XWB program.

WELL FUNDED PENSION POSITION ADDS TO FINANCIAL FLEXIBILITY

Although the company's balance sheet provision for pension liability grew to over £1 billion in 2013 from less than £800 million in 2012, its pension funding risk and underfunded position continues to be notably lower than other industry peers. This more favorable position is due to steady contributions to the main funds in the past, including recent contributions that have significantly exceeded service costs, and also in part to conservative plan asset allocation with approximately 80% of the £10.2 billion in pension assets allocated to liability-driven investment portfolios as of 2013 year-end. As a result, debt-like pension obligations that are included in Moody's standard adjustments represent only about 20% of total adjusted debt as compared to nearly 40% for some similarly rated industry peers.

Forward requisite contributions are not expected to meaningfully impact the company's liquidity profile. We expect that the company will continue to improve its funding position through contributions that modestly exceed service cost and may continue to increase its plan asset allocation to liability-driven investment portfolios in line with trends we have observed for large corporates more broadly.

CUSTOMER FINANCING PORTFOLIO COULD GROW MODESTLY, BUT EXPECTED TO BE MANAGEABLE

Rolls-Royce has some contractual obligations for financing (either leases or residual value guarantees) which could result in some increase in its customer financing portfolio. The overall net amount is likely to be relatively modest - less than several hundred million pounds - as long as third-party financing remains available. While some sources of aircraft financing (e.g.; European banks, albeit a modest return has been noted of late) have exited the market in recent years, we anticipate that other sources (e.g.; Asian banks, lessors and the capital markets, more broadly) will continue to mitigate some of this loss. Hence, we expect that Rolls-Royce's commitment should not grow meaningfully over the near term. We expect the future finance commitment to grow, however, particularly as customers start to demand financing as a condition of sale for both the current backlog and commitments on new sales.

There is flexibility at the A3 rating level for customer financing even beyond the existing contractual commitments. The bulk of Rolls-Royce's exposure at this time is in the form of residual value guarantees, which has a low near-term cash component.

SUPPLY CHAIN SUPPORT IS ANOTHER POTENTIAL EXPOSURE, ALSO MANAGEABLE

Rolls-Royce relies on its supply chain for about 70% of the value of its engines. Ultimately, Rolls-Royce retains the risk of supply chain performance, as the external supply chain can determine how well Rolls-Royce executes on its backlog and will drive operating profits. A troubled supply chain will limit Rolls-Royce's ability to control costs, primarily because of the high reliance on suppliers.

Rolls-Royce has worked to deepen and simplify the supply chain in recent years. This lessens the risk of disruption, but most of the work has been for newer engine models as there is less opportunity for big changes to suppliers of the older engines. Rolls-Royce will keep up efforts to identify suppliers that could face financial or operational difficulty; some support - operating and/or financial - to its most critical downstream suppliers is expected.

## Liquidity Profile

2013 year-end cash was just shy of £4.0 billion, exceeding 2013 year-end reported funded debt by £1.6 billion and resulting in a net cash position that was strong even relative to Rolls-Royce's historically conservative treasury policies. We expect cash balances to moderate towards more historical norms approximating £1.5 to £2.0 billion over the near term, however. The company agreed to purchase Daimler's share of the Rolls-Royce Power Systems (RRPS) joint venture for EUR 2.4 billion, and we expect that proceeds from the recently announced £985 million sale of the company's aero-derivative gas turbine and compressor business will augment excess cash balances to fund further growth in core activities both organically and through acquisition. We expect positive free cash flow generation in 2014, albeit at a modest level as ramping R&D and capital expenditures during a heavy investment phase continue to limit the company's free cash flow generating ability.

Rolls-Royce re-financed its credit facilities during 2011 with a new £1.0 billion revolving credit facility due 2016. In the 2012, the maturity of the facility was extended to 2017, and in 2013 it was extended again to 2018. More than ample headroom should remain under the fixed charge financial covenant. There is also a EUR 300m revolving credit facility available to RRPS, which expires in 2018. Additionally, its near-term unsecured forward obligations are relatively modest, with $83 million of 6.55% notes due in 2015 and £200 million of 7-3/8% notes due in 2016.

£200 million of EIB loans were repaid earlier this year (February 2014).

### Rating Outlook

The stable rating outlook reflects the expectation of solid operating results as the commercial markets continue grow, and that any increased exposures for customer financing and/or to the supply chain will be manageable, with credit metrics remaining comfortably supportive of the A3 rating level. Moreover, the outlook incorporates our expectation that the company will maintain a strong liquidity profile and conservative financial policies (including quick restoration of the same if temporarily utilized for acquisition purposes and before pursuing further large investment initiatives).

### What Could Change the Rating - Up

Upward rating momentum could occur if strong excess liquidity is expected to be maintained, free cash flow coverage improves and solid interest coverage (EBIT-to-Interest above 10x) and profitability (margins of at least 10%) are sustained.

### What Could Change the Rating - Down

Deterioration in credit metrics, particularly interest coverage (EBIT-to-Interest below 5x) and/or Debt-to-EBITDA (above 2.5x) at sustained weak levels, could pressure ratings down. A sharp increase in customer financing calls and/or negative free cash flow over an extended time period could also pressure ratings, as could a material erosion in liquidity or a radical shift to more aggressive shareholder return initiatives and financial policies, more broadly.

### Other Considerations

The LTM and forward grid-indicated scores of A1 from the grid contained in the global Aerospace and Defense methodology are two notches higher than the A3 senior unsecured rating for Rolls-Royce, driven by the company's very robust Retained Cash Flow-to-Net Debt and strong EBIT-to-Interest sub-factor scores, reflecting in part its historically conservative financial policies. The grid-indicated score is also supported by Rolls-Royce's large order book which enhances the perceived degree of revenue predictability.

The actual rating of A3 continues to be supported, nonetheless, by the company's exposure to the highly cyclical commercial aerospace industry, with a long investment cycle needed for programs, and the related free cash flow profile which remains relatively weak during a particularly heavy investment phase at present and as expected. The A3 rating also allows some incremental flexibility for modest-sized acquisitions as expected over time to further balance revenues away from Civil Aerospace.

## Rating Factors

**Rolls-Royce plc**

| Global Aerospace / Defense Industry [1][2] | Current LTM 12/31/2013 | | [3]Moody's 12-18 Month Forward View As of May 2014 | |
|---|---|---|---|---|
| **Factor 1: Scale (25%)** | | | | |
| a) Total Revenue (USD billions) | $24.3 | A | $23.7 | A |
| b) Operating Profit (USD billions) | $2.6 | A | $2.2 | A |
| **Factor 2: Business Profile (20%)** | | | | |
| a) Competitive Position | A | A | A | A |
| b) Expected Revenue Stability | A | A | A | A |
| **Factor 3: Leverage and Coverage (35%)** | | | | |
| a) Debt / EBITDA | 1.9x | A | 1.8x | A |
| c) Retained Cash Flow / Net Debt | 577.3% | Aaa | 114.4% | Aaa |

| | | | | |
|---|---|---|---|---|
| e) EBIT / Interest | 10.4x | Aa | 10.3x | Aa |
| **Factor 4: Financial Policy (20%)** | | | | |
| a) Financial Policy | A | A | A | A |
| **Rating:** | | | | |
| a) Indicated Rating from Grid | | A1 | | A1 |
| b) Actual Rating Assigned | | A3 | | A3 |

[1] All ratios are calculated using Moody's Standard Accounting Adjustments. [2] As of December 31,2013; Source: Moody's Financial Metrics [3] Represents Moody's forward view not the view of the issuer and does not incorporate significant acquisitions and divestitures

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# Rolls-Royce PLC

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# Rolls-Royce PLC

**Business Risk:** SATISFACTORY

Vulnerable — Excellent

**Financial Risk:** MINIMAL

Highly leveraged — Minimal

| a | a | a |
|---|---|---|
| Anchor | Modifiers | Group/Gov't |

CORPORATE CREDIT RATING

**A/Stable/A-1**

## Rationale

The combination of a "satisfactory" business risk profile and a "minimal" financial risk profile can yield an initial analytical outcome ("anchor") of either 'a' or 'a-'. In the case of Rolls-Royce, we assess the anchor at 'a', reflecting Rolls-Royce's stronger competitive position relative to other companies with similar business and financial risk assessment descriptors.

Our ratings and outlook on Rolls-Royce are unaffected by the company's announcement that it will repurchase £1 billion of its shares. We understand that the buyback is subject to the completion of the sale of its energy gas turbine and compressor business to Siemens AG. Rolls-Royce management expects the transaction to close before the end of 2014 and to use the proceeds of about £985 million to finance the share buyback. As such, the transaction allows the company to remain within the range of the credit metrics we deem commensurate with the current rating and is consistent with the company's financial policies.

| Business Risk: Satisfactory | Financial Risk: Minimal |
|---|---|
| • Leading position in the civil and defense aircraft engine industries.<br>• Substantial order backlog covering more than five years of revenues.<br>• Increasing revenues from recurring engine servicing activities, which offset the effects of more cyclical engine sales.<br>• Highly competitive and cyclical nature of the industries in which the group operates.<br>• Declining defense spending worldwide, limiting earnings growth prospects for contractors. | • Strong balance sheet.<br>• Strong credit metrics for the rating, supporting headroom for moderate acquisitions.<br>• Conservative financial policy.<br>• High spending on research and development and capital expenditure. |

## Outlook: Stable

The stable outlook reflects Standard & Poor's Ratings Services' view that U.K.-based global power systems provider Rolls-Royce PLC will continue to generate solid operating cash flow on the back of steady operating margins, and maintain a "minimal" financial risk profile characterized by average funds from operations (FFO) to net debt of at least 60% throughout the economic cycle.

In our view, Rolls-Royce currently has very solid credit metrics which allow the group a fair degree of headroom in terms of acquisitions. This headroom will become more restricted once Rolls-Royce makes the payment to Daimler AG for its Rolls-Royce Power Systems (RRPS) stake. Daimler--Rolls-Royce's joint-venture partner--announced its intention to sell its 50% stake in RRPS.

### Downside scenario

A rapid decline in FFO to debt to 60% or lower would, in our opinion, signal a more aggressive financial policy and would put downward pressure on the ratings. A decline in FFO to debt could occur on the back of a significant increase in payments to shareholders or additional large debt-funded acquisitions.

### Upside scenario

Against the backdrop of uncertain growth prospects in Rolls-Royce's industrial and marine end markets, as well as declining defense spending globally, we see a positive rating action as unlikely in the next two years.

# Standard & Poor's Base-Case Scenario

## Assumptions

- Low-single-digit percentage growth over the next three years.
- Relatively steady EBITDA margins of about 17% on a fully Standard & Poor's-adjusted basis.
- Continued spending on capital expenditures (capex) and research and development (R&D) at 2013 levels, in line with the group's public guidance.
- Modest debt reduction over the next three years.

## Key Metrics

| | 2013A | 2014E | 2015E |
|---|---|---|---|
| Reported EBITDA, (bil. £). | 2.3 | 2.2 – 2.5 | 2.3 – 2.6 |
| S&P's-adjusted FFO-to-debt (%) | N.M. | 100 – 160 | 100 – 160 |
| S&P's-adjusted FOCF-to-debt (%) | 544 | 15 - 25 | 15 - 25 |

*Fully Standard & Poor's-adjusted. A--Actual. E--Estimated. N.M.—Not meaningful

# Company Description

Rolls-Royce PLC is one of the three largest aircraft-engine manufacturers in the world. The group operates as a global business providing integrated power systems; it is focused on four main market sectors: civil aerospace, defense aerospace, marine power, power systems for the onshore and offshore oil and gas sectors, and the electrical power industry. Rolls-Royce's customers include Boeing, Airbus, Lockheed Martin, and the Royal Navy.

In 2014, the group has re-aligned its reporting segments under two broad categories, namely 'Aerospace' and 'Marine and Industrial Power Systems' (MIPS). The sub-segments Civil and Defense Aerospace will be reported under the 'Aerospace' division while Marine, Energy and Nuclear and Power Systems will be reported under MIPS. Nuclear submarines (earlier part of 'Marine') will now be reported as part of 'Energy and Nuclear' sub-segment.

## Business Risk: Satisfactory

We assess Rolls-Royce's business risk profile as "satisfactory" under our criteria. This assessment reflects our view of the group's strong market positions in the civil and military aviation industries, its high share of more-stable aftermarket sales, and fairly diverse earnings base. We consider these factors to be partly tempered by the group's profitability, which we assess as "fair" reflecting the group's higher exposure to foreign exchange risk compared to its U.S.-based peers, and the relatively young age of its engine portfolio resulting in R&D expenses making up a higher share of its cost structure, which is typical for the early stages of an engine lifecycle.

The change in business risk profile assessment is underpinned by the formalization of our assessment of profitability in the new criteria framework. As per the criteria guidance, we estimate Rolls-Royce's earnings volatility against the backdrop of the aerospace and defense industry expected norm.

In March 2014, German automotive maker Daimler--Rolls-Royce's joint-venture partner--announced its intention to sell its 50% stake in RRPS to Rolls-Royce. Rolls-Royce has had operational control over RRPS since its inception through the acquisition of Tognum AG in 2011. RRPS has been fully consolidated in Rolls-Royce's accounts since 2013, reflecting its high level of operational integration. We believe that full ownership of RRPS would allow Rolls-Royce to better leverage its technological potential and geographical footprint, thereby slightly enhancing its growth prospects and operating efficiency.

### S&P Base-Case Operating Scenario

In our opinion, solid demand for civil aerospace engines should offset the decline we expect in the military segment, on the back of reduced U.S. defense spending. We expect demand in the industrial and marine segments to remain broadly flat.

Most commercial aircraft manufacturers and suppliers will likely see increased revenues in 2014. But the need to hike investments to raise production rates as well as the hurdles inherent in boosting production and introducing new models will likely constrain earnings and cash flow in the sector.

U.S. defense budgets have been declining since 2011, and we expect them to level off in 2014, providing more stability to defense contractors. However, we also expect defense contractors' revenues to continue declining this year as previous cuts work through the system.

### Peer comparison

**Table 1**

**Rolls-Royce PLC -- Peer Comparison**

| **Industry Sector: Aerospace & Defense** | **Rolls-Royce PLC** | **United Technologies Corp.** | **General Dynamics Corp.** | **Airbus Group** | **BAE Systems PLC** |
|---|---|---|---|---|---|
| Rating as of June 9, 2014 | A/Stable/A-1 | A/Stable/A-1 | A/Stable/A-1 | A/Stable/A-1 | BBB+/Stable/A-2 |
| | **--Average of past three fiscal years--** | | | | |
| (Mil. Mix curr.) | £ | $ | $ | € | £ |
| Revenues | 12,932.7 | 59,508.0 | 31,802.7 | 54,954.7 | 17,084.7 |
| EBITDA | 2,059.2 | 9,921.7 | 4,586.2 | 4,293.4 | 2,593.7 |
| Funds from operations (FFO) | 1,701.9 | 6,974.5 | 3,061.9 | 3,417.8 | 1,824.8 |
| Net income from cont. oper. | 1,512.7 | 5,168.3 | 1,568.7 | 1,242.0 | 825.0 |
| Cash flow from operations | 1,597.5 | 7,282.8 | 3,214.2 | 3,357.1 | 1,477.8 |
| Capital expenditures | 797.0 | 1,333.0 | 449.3 | 2,470.0 | 351.3 |
| Free operating cash flow | 800.5 | 5,949.8 | 2,764.9 | 887.1 | 1,126.4 |
| Discretionary cash flow | 450.5 | 4,195.8 | 2,045.9 | 543.5 | 490.4 |
| Cash and short-term investments | 685.7 | 1,286.3 | 937.2 | 1,300.0 | 437.3 |
| Debt | 504.3 | 18,765.2 | 3,795.5 | 0.0 | 4,909.3 |
| Equity | 6,146.4 | 28,761.8 | 13,041.0 | 10,093.0 | 3,830.3 |
| **Adjusted ratios** | | | | | |
| EBITDA margin (%) | 15.9 | 16.7 | 14.4 | 7.8 | 15.2 |
| Return on capital (%) | 21.7 | 19.7 | 21.9 | 21.3 | 16.3 |
| EBITDA interest coverage (x) | 18.2 | 8.0 | 10.7 | 5.7 | 5.7 |
| FFO cash int. cov. (X) | 34.0 | 10.0 | 25.3 | 10.4 | 12.2 |
| Debt/EBITDA (x) | 0.2 | 1.9 | 0.8 | 0.0 | 1.9 |
| FFO/debt (%) | 337.5 | 37.2 | 80.7 | N.M. | 37.2 |
| Cash flow from operations/debt (%) | 316.8 | 38.8 | 84.7 | N.M. | 30.1 |
| Free operating cash flow/debt (%) | 158.7 | 31.7 | 72.8 | N.M. | 22.9 |
| Discretionary cash flow/debt (%) | 89.3 | 22.4 | 53.9 | N.M. | 10.0 |

N.M.--Not Meaningful.

## Financial Risk: Minimal

We assess Rolls-Royce's financial risk profile as "minimal" under our criteria. The main factors contributing to this assessment are the group's strong and relatively stable cash generation, and our perception that its liquidity management is robust.

## S&P Base-Case Cash Flow And Capital Structure Scenario

We anticipate that Rolls-Royce will maintain its high levels of capital and R&D spending in line with public guidance. As such, we expect the group will generate neutral Standard & Poor's-adjusted discretionary cash flow over the next 24 months. Against a backdrop of steady earnings, we believe that Rolls-Royce will progressively increase shareholder remuneration over the medium term.

Rolls-Royce's cash flow generation exceeded our base-case forecast for 2013, with earnings largely in line with our expectation. With more than £4 billion of cash and equivalents and only £2.3 billion debt reported on Dec. 31, 2013, we consider that Rolls-Royce's credit metrics have significant headroom to accommodate the approximately £2.1 billion that Rolls-Royce has agreed to pay Daimler to acquire its stake in RRPS. On a fully Standard & Poor's-adjusted basis, Rolls-Royce posted debt to EBITDA of 0.1x and FFO to debt significantly in excess of 100% on Dec. 31, 2013. On the same date, fully adjusted debt was a modest £180 million, taking into account our adjustments for £843 million of operating leases and about £200 million of post-retirement liabilities, and after deducting the fair value of interest-rate hedges and surplus cash allowing for a 25% haircut applied in line with criteria.

## Financial summary

**Table 2**

**Rolls-Royce PLC -- Financial Summary**

**Industry Sector: Aerospace & Defense**

| | --Fiscal year ended Dec. 31-- | | | | |
|---|---|---|---|---|---|
| | **2013** | **2012** | **2011** | **2010** | **2009** |
| Rating history | A/Stable/A-1 | A/Stable/A-1 | A-/Positive/A-2 | A-/Stable/A-2 | A-/Stable/A-2 |
| **Company status: Public** | | | | | |
| **(Mil. £)** | | | | | |
| Revenues | 15,513 | 12,161 | 11,124 | 11,085 | 10,414 |
| EBITDA | 2,763 | 2,087 | 1,329 | 1,365 | 1,286 |
| Funds from operations (FFO) | 2,290 | 1,767 | 1,049 | 1,080 | 1,122 |
| Net income from continuing operations | 1,367 | 2,321 | 850 | 539 | 2,221 |
| Cash flow from operations | 2,044 | 1,383 | 1,365 | 1,354 | 958 |
| Capital expenditures | 1,062 | 647 | 682 | 564 | 476 |
| Free operating cash flow | 982 | 736 | 683 | 790 | 482 |
| Discretionary cash flow | 565 | 418 | 368 | 524 | 232 |
| Cash and short-term investments | 1,078 | 649 | 330 | 797 | 741 |
| Debt | 180 | 497 | 835 | 0 | 0 |
| Equity | 6,713 | 5,996 | 5,730 | 4,678 | 4,502 |
| **Adjusted ratios** | | | | | |
| EBITDA margin (%) | 17.8 | 17.2 | 11.9 | 12.3 | 12.3 |
| Return on capital (%) | 26.9 | 22.3 | 14.7 | 19.3 | 22.3 |
| EBITDA interest coverage (x) | 19.5 | 20.1 | 14.3 | 13.3 | 15.1 |



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**Table 2**

| Rolls-Royce PLC -- Financial Summary (cont.) | | | | | |
|---|---|---|---|---|---|
| FFO cash int. cov. (x) | 41.9 | 36.0 | 22.8 | 18.2 | 18.0 |
| Debt/EBITDA (x) | 0.1 | 0.2 | 0.6 | 0.0 | 0.0 |
| FFO/debt (%) | 1,268.9 | 355.1 | 125.7 | N.M. | N.M. |
| Cash flow from operations/debt (%) | 1,132.6 | 278.1 | 163.5 | N.M. | N.M. |
| Free operating cash flow/debt (%) | 544.1 | 148.0 | 81.8 | N.M. | N.M. |
| Discretionary cash flow/debt (%) | 313.0 | 84.1 | 44.1 | N.M. | N.M. |

N.M.--Not meaningful.

## Liquidity: Strong

We expect Rolls-Royce to maintain "strong" liquidity over the next 12 months. The group generates solid cash flow that comfortably covers its capex and shareholder remuneration requirements, and has minimal near-term debt maturities. We anticipate that sources of liquidity will exceed uses by at least 1.5x for the next year, and that sources would exceed uses even if EBITDA were to fall by 30%. We believe that Rolls-Royce has sound relationships with banks and good standing in the capital markets, underpinned by successful debt placements in recent years.

**Principal Liquidity Sources**

- Surplus cash of about £3.2 billion, excluding our 25% haircut as of Dec. 31, 2013.
- Rolls-Royce has access to an undrawn £1.0 billion revolving credit facility. In addition, its subsidiary, RRPS, has access to a separate €300 million RCF.
- FFO of about £2.0 billion-£2.2 billion over the next 12-months, and up to £2.25 billion in 2015.

**Principal Liquidity Uses**

- Capex (including an R&D component) of about £1 billion-£1.1 billion per year for the next two years.
- Ongoing dividends including payments to minority shareholders in the range of £400 million-£430 million over the next two years, in line with 2013 levels, and our forecast of modest earnings growth.
- An approximately £2.1 billion payment to Daimler for the RRPS stake, based on the €2.4 billion value agreed with Daimler AG.

### Debt maturities

As of Dec. 31, 2013:

2014: about £200 million

2015: about £55 million

2016: about £300 million

2017: €75 million

2018: Nil

2019 and thereafter: £1.8 billion

## Covenant Analysis

| Compliance Expectations | Requirements |
|---|---|
| Rolls-Royce's bank facilities limit the group's interest cover ratio. With the actual ratio of about 40x as of Dec. 31, 2013, we expect the company to maintain an ample cushion over the medium term. | None. |

## Other Modifiers

Analytical modifiers do not affect the rating, resulting in an 'A' corporate credit rating on Rolls-Royce.

## Ratings Score Snapshot

**Corporate Credit Rating**

A/Stable/A-1

**Business risk: Satisfactory**

- **Country risk:** Intermediate
- **Industry risk:** Intermediate
- **Competitive position:** Satisfactory

**Financial risk: Minimal**

- **Cash flow/Leverage:** Minimal

**Anchor:** a

**Modifiers**

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)
- **Liquidity:** Strong (no impact)
- **Financial policy:** Neutral (no impact)
- **Management and governance:** Strong (no impact)
- **Comparable rating analysis:** Neutral (no impact)

**Stand-alone credit profile : a**

# Reconciliation

**Table 3**

**Reconciliation Of Rolls-Royce PLC Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. £)**

| | --Fiscal year ended Dec. 31, 2013-- | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Rolls-Royce PLC reported amounts** | | | | | | | | | | |
| | **Debt** | **Shareholders' equity** | **Revenues** | **EBITDA** | **Operating income** | **Interest expense** | **EBITDA** | **Cash flow from operations** | **Dividends paid** | **Capex** |
| Reported | 2,371.0 | 5,605.0 | 15,513.0 | 2,335.0 | 1,535.0 | 58.0 | 2,335.0 | 2,040.0 | 60.0 | 1,172.0 |
| Standard & Poor's adjustments | | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Interest expense (reported) | -- | -- | -- | -- | -- | -- | (58.0) | -- | -- | -- |
| Interest income (reported) | -- | -- | -- | -- | -- | -- | 15.0 | -- | -- | -- |
| Current tax expense (reported) | -- | -- | -- | -- | -- | -- | (327.0) | -- | -- | -- |
| Operating leases | 843.0 | -- | -- | 152.5 | 57.8 | 57.8 | 94.7 | 94.7 | -- | -- |
| Postretirement benefit obligations/deferred compensation | 199.0 | 409.8 | -- | 71.0 | 71.0 | 26.0 | 26.2 | 62.2 | -- | -- |
| Surplus cash | (3,233.0) | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Capitalized development costs | -- | -- | -- | (110.0) | 20.0 | -- | (110.0) | (110.0) | -- | (110.0) |
| Share-based compensation expense | -- | -- | -- | 79.0 | -- | -- | 79.0 | -- | -- | -- |
| Dividends received from equity investments | -- | -- | -- | 99.0 | -- | -- | 99.0 | -- | -- | -- |
| Non-operating income (expense) | -- | -- | -- | -- | 15.0 | -- | -- | -- | -- | -- |
| Reclassification of interest and dividend cash flows | -- | -- | -- | -- | -- | -- | -- | (43.0) | -- | -- |
| Non-controlling Interest/Minority interest | -- | 698.0 | -- | -- | -- | -- | -- | -- | -- | -- |
| Debt - Fair value of interest rate hedges | 1.0 | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| EBITDA - Add back adjustments to underlying profit | -- | -- | -- | 136.0 | 136.0 | -- | 136.0 | -- | -- | -- |
| EBIT - Share in earnings from joint ventures and associates | -- | -- | -- | -- | 160.0 | -- | -- | -- | -- | -- |
| Dividends - redemption of C shares | -- | -- | -- | -- | -- | -- | -- | -- | 357.0 | -- |
| Total adjustments | (2,191.0) | 1,107.8 | 0.0 | 427.5 | 459.8 | 83.8 | (45.2) | 3.8 | 357.0 | (110.0) |

**Table 3**

**Reconciliation Of Rolls-Royce PLC Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. £) (cont.)**

**Standard & Poor's adjusted amounts**

| | Debt | Equity | Revenues | EBITDA | EBIT | Interest expense | Funds from operations | Cash flow from operations | Dividends paid | Capex |
|---|---|---|---|---|---|---|---|---|---|---|
| Adjusted | 180.0 | 6,712.8 | 15,513.0 | 2,762.5 | 1,994.8 | 141.8 | 2,289.8 | 2,043.8 | 417.0 | 1,062.0 |

## Related Criteria And Research

### Related Criteria

- Criteria - Corporates - Industrials: Key Credit Factors For The Aerospace And Defense Industry , March 25, 2014
- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013

### Related Research

- The Gap Between Global Aerospace Companies And Defense Contractors Narrows, May 15, 2014

**Business And Financial Risk Matrix**

| | Financial Risk Profile | | | | | |
|---|---|---|---|---|---|---|
| **Business Risk Profile** | **Minimal** | Modest | Intermediate | Significant | Aggressive | Highly leveraged |
| Excellent | aaa/aa+ | aa | a+/a | a- | bbb | bbb-/bb+ |
| Strong | aa/aa- | a+/a | a-/bbb+ | bbb | bb+ | bb |
| **Satisfactory** | a/a- | bbb+ | bbb/bbb- | bbb-/bb+ | bb | b+ |
| Fair | bbb/bbb- | bbb- | bb+ | bb | bb- | b |
| Weak | bb+ | bb+ | bb | bb- | b+ | b/b- |
| Vulnerable | bb- | bb- | bb-/b+ | b+ | b | b- |

**Ratings Detail (As Of June 24, 2014)**

| | |
|---|---|
| **Rolls-Royce PLC** | |
| Corporate Credit Rating | A/Stable/A-1 |
| Senior Unsecured | A |
| **Corporate Credit Ratings History** | |
| 13-Apr-2012 | A/Stable/A-1 |
| 17-Jun-2011 | A-/Positive/A-2 |
| 12-Jun-2006 | A-/Stable/A-2 |
| **Related Entities** | |
| **Rolls-Royce Holdings PLC** | |
| Senior Unsecured | A |
| **Rolls-Royce & Partners Finance Ltd.** | |
| Issuer Credit Rating | A-/Stable/A-2 |

| Ratings Detail (As Of June 24, 2014) (cont.) | |
|---|---|
| Senior Secured | A- |

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

**Additional Contact:**

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*February 19, 2015*

JOHN J. JUDGE JR.
R.O.V. TECHNOLOGIES INC.
49 BENNETT DR.
BRATTLEBORO, VERMONT 05301

RE: Standby Letter of Credit

Dear Jack:

You have provided us with certain information and reviewed with us the current negotiations for the sale of 100% of the shares of R.O.V. Technologies, Inc. ("ROV") to R Brooks Associates, Inc. a wholly owned subsidiary of Rolls-Royce Control Systems Holding Company. The existing Letter of Credit #[redacted] amendment 5 (LC) in favor of U.S. Nuclear Regulatory Commission expires in December 2015. A copy of the LC is attached along with the last amendment dated September 17, 2013. You currently provide a personal guaranty of the LC.

We are preparing a modification agreement to the LC Loan Agreement waiving the transfer of ownership covenant and stating our willingness to release your personal guaranty upon notice from both yourself and authorized individuals under ROV's new ownership that the sale to R Brooks Associates, Inc. is completed.

The terms of the Loan Agreement, Note, Security documents and Master Letter of Credit agreement otherwise remain unchanged. The terms of the Letter of Credit # [redacted] amendment 5 will also remain unchanged

Very truly yours,
TD BANK, N.A.

By: ______________________
Carl M. Lynde
*Senior Relationship Manager /Vice President*

ACCEPTED on this 19 day of February, 2015:

R.O.V. Technologies, Inc.

By: ______________________ Title President