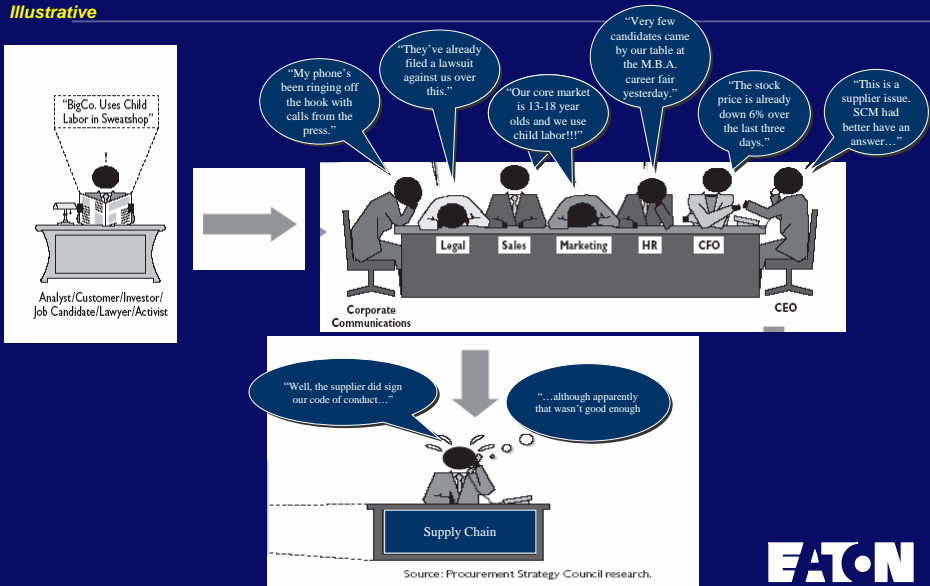


Supply Chain Continuity Planning

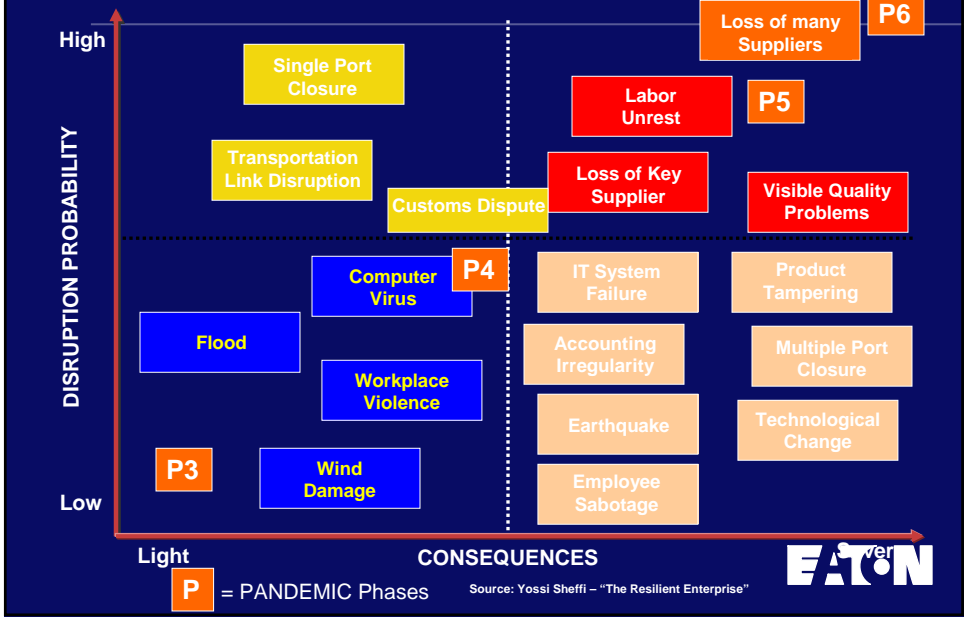
Mario Hegewald
Director, Global Logistics

An Unwelcome Call From The CEO

Illustrative



Enterprise Vulnerability Map



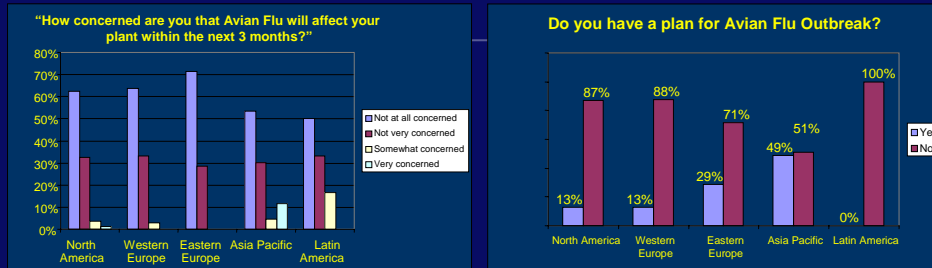
Variety of Supply Chain Risks

	Loss of Supplier Viability due to Financial Crisis	Sudden Deterioration in Supplier Performance	Rapidly Rising Commodity Price	Natural or Manmade Disaster which Shuts Down Suppliers	Unethical Supplier Behavior which Threatens Eaton's Reputation
Mitigation Toolkit	Financial Statements Solvency Analysis Third Party Data Services Open Ratings	SLAs Scorecards WISPER	Hedging, Global Market Analysis Third-Party Sources CEO Metal Report	Bus Cont Plan: Education Disaster Recovery Training Alternative Sourcing Strategies Logistics contingencies	Codes of Conduct Periodic Site Visits Image Ranking, Ethics Education and Communication
Owner	SCM	SCM	Economist, Treasury, SCM	HR, OPS, SCM, IT	SCM

SCM has to mitigate all kinds of Supply Chain Risks



Survey Results: Avian Flu Preparedness*



Selected comments from suppliers

- Preventative vaccinations/Flu shots and surgical masks for all employees at company's expense.
- Build up supply of Tamiflu for all on site employees.
- Follow CDC guidelines and rely on Government plan.
- Education around how to prevent the spread of disease/germ transfer.
- Create antibacterial cleaning stations throughout the facility.
- Directives of Italian Government are in place – they have a stock of vaccines.
- Canadian Government has a plan in place.
- Travel restrictions and keep our people out of China.

Concern and Preparedness, though low, are highest in APAC



Case Study: Penske and FedEx help in time of Crisis

Situation: Post-Katrina recovery requires huge volume of trucks to head to affected area, creating carriage shortages in the North. At the same time, Oracle implementation issues create delivery crisis for the Truck Group requiring expedited logistics services.

Continuity Solution: Penske, FedEx and the Eaton Logistics Team work together to get trucks in the right place at the right time, and service our customers without disruption.

Outcome: Successful.

Learning: Relying on and facilitating coordination between world class logistics providers to assure continuity of operations works. Pre-defined roles and responsibilities would have helped.



Case Study: Mexican Government Shuts Down Natural Gas to SLP

Situation: To affect repairs to natural gas pipelines, the Mexican Government announces a 3-day shutdown.

Continuity Solution: Substitute LNG or Propane.

Outcome: Unsuccessful. Moving from natural gas to another fuel requires extensive testing of alternative burners and processes. This takes time and money.

Learning: Anticipating this kind of a disruption and investigating and preparing contingencies is what BCP is all about. With more lead time, one of these solutions might have been implementable.



Case Study: Fuel for Jackson, Mississippi

Situation: Hurricane Katrina shuts down our Jackson, Mississippi, plant and devastates the homes of several employees. Employees can't get around because of lack of gasoline in the area.

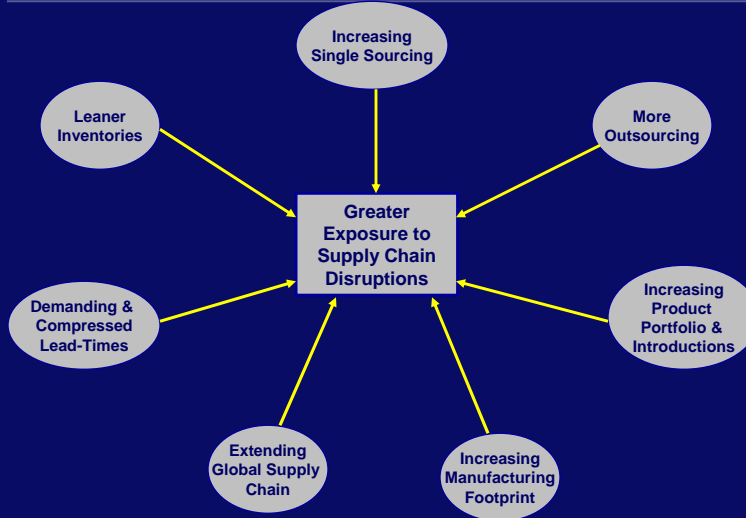
Continuity Solution: Set up temporary gasoline station inside plant with fuel trucked in from the North.

Outcome: Successful. Though unanticipated, Team Indirect was able to locate equipment and fuel to place in Jackson, helping employees with personal recovery activities and in getting the plant back up.

Learning: Continuity plans anticipating food, water, and fuel disruptions should be created for all of our plants.



With an extending global footprint, Eaton's supply chain faces a number of risks ...



EATON

Eaton has established an Enterprise Risk Management (ERM) Strategy to identify, address and mitigate risks

"A strategy implemented at every level of the organization designed to identify potential events that will adversely affect the corporation and to manage risk to levels deemed acceptable by the World Business Team and Board of Directors."



EATON

Global Logistics

Supply Chain Continuity Planning - Early Warning & Recovery

Impact Summary



Risk avoidance, constant monitoring, and business continuity planning are elements of Eaton's ERM

Action Plan / Key Strategies

- A1 Develop approach to identify, prioritize, and mitigate supply chain disruptions
- A2 Publish emergency response and crisis management guidelines
- A3 Create risk mitigation approach that supports the global sourcing strategy
- A4 Work with suppliers to help them develop business continuity programs that assure continuation of supply
- A5 Strengthen logistics continuity plans with global logistics partners

Expected Outcomes

- Emergency Response & Crisis Management Guidelines to minimize effects of supply chain disruptions
- Pandemic Preparedness Plan
- Supply continuity plan for suppliers of critical parts
- Warehousing & inventory positioning strategy that buffers supply disruptions
- Risk exposure database that provides early warning indicators of supply disruptions



Supply Chain Continuity (SCC) is a key ERM program that focuses on the external supply chain

Eaton Board Mission Statement: "Make Eaton's supply chain more capable to identify, withstand and recover from disruptions"

- o Protect the reputation, credibility and image of Eaton
- o Protect and sustain Eaton's supply chain to support business operations and achieve strategic objectives
- o Reduce the potential impact duration of the supply chain disruption
- o Reduce total cost of the issue, incident or crisis
- o Maintain positive relationships with key stakeholders, customers and suppliers
- o Communicate quickly and accurately with key audiences

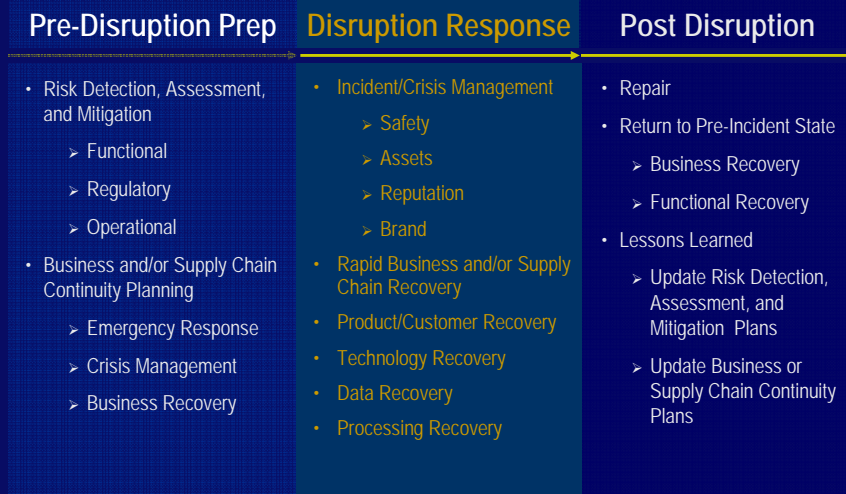
<u>Risk Categories</u>	Supplier Financial Viability	Supplier Performance	Commodity Price Escalation	Ethical Issues	External Supply Continuity
<u>Eaton Processes & Systems</u>	Regular Review of Financial Statements Open Ratings	Scorecards WISPER	Hedging, LTA's, Global Market Analysis	Codes of Conduct, Periodic Visits, Annual Ethics Letter, Image Ranking	Supply Chain Continuity Plan: 1. Logistics Risk Mitigation Strategies 2. Emergency Response & Crisis Management 3. Alternative Sourcing Strategies 4. Organization Development
<u>Leading Supporting Functions</u>	Ops, Treasury, Finance, IT, Supply Chain Leaders				

Prevention and Early Warning Focus

Business Resumption Focus



All of Eaton's ERM Strategy programs focus on the following three key elements ...



Supply Chain Continuity Management Three Important Distinctions



Supply Chain continuity requires part-level risk analysis and mitigation



Supply Chain Emergency Response / Crisis Management Requirements Guideline

Established an emergency response / crisis management requirements guideline which addresses:

- Stratification of response (from plant to division to group to corporate) based on impact of event
- Supply Chain Communication guidelines
- People, process and technology requirements to address emergencies

Business Recovery

Ensure ability to serve customers; Requires ability to establish substitute or replacement parts, raw materials, manufacturing capability, etc. Pre-planning is the key to success.

Crisis Management

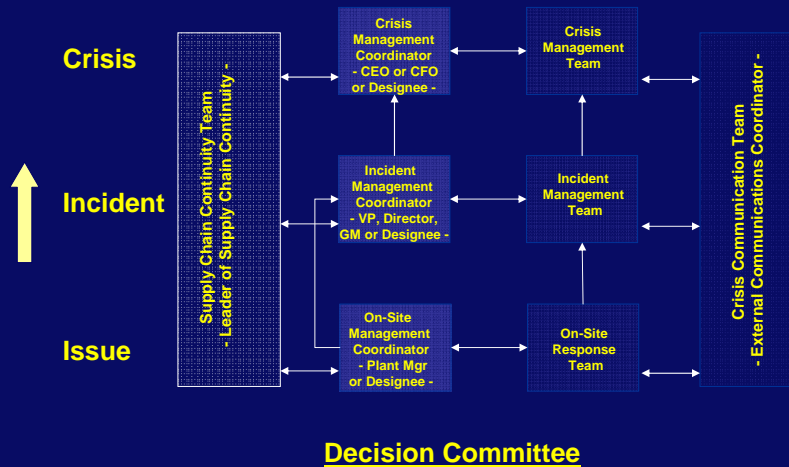
Protect brand, public image, reputation; Primary responsibility resides at the local level with regional or WHQ participation as necessary

Emergency Response

Protect life, secure assets; Primary responsibility resides with the local incident response teams

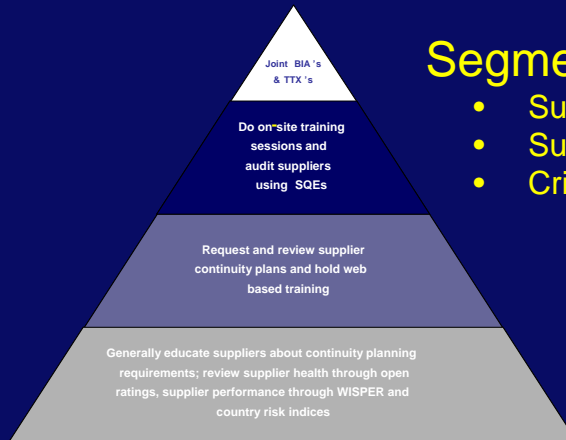
EATON

SC Emergency Response & Crisis Mgt. Escalation Communication Tree



EATON

... help our suppliers with business continuity planning (BCP) ...



Segmentation Process

- Supplier Spend
- Supplier Performance
- Critical Parts

50% Reduction of the Right Suppliers Critical



International Trade Logistics risks

Event Risks

- Regulatory
- Political
- Reputation

Operational Risks

- Supply continuation
- Inventory access
- Systems support
- Process continuation
- Human capital availability

Risk Management

Events

- Loss of Right to Operate
- Loss of Trade preferred status
- Shipment loss
- Shipment delay
- Port closure – labor
- Port closure – physical

Mitigation

Monitoring

Intervention

Crisis Management

Resumption



Preemptive actions and mitigation to ensure our right to operate

Tactics:

Limit number of international logistics business partners
Leverage relationships for influencing decisions and prioritized handling
Utilize flexible carrier and port selection processes
Design local stock VMI programs
Participate in Trade Initiatives – C-TPAT, ISA



Current Benefits:

- Leveraged control and influence over activities
- Fewer visibility portals
- Resilient global supply chain technology and support
- Operational flexibility
- Strategic buffer supplies closer to demand points
- Recognition and preferential treatment as a secure and compliant trader



Gaps to close 2006-2007:

- Align international logistics with LLP strategy (ongoing through Q4 2007)
- Enhance and improve border crossing processes (Q3 2006)
- Develop technology interfaces with partners (ongoing)
- Define common VMI strategies and programs (Q1 2007)
- Full ISA roll-out to remaining 3 groups (Q4 2006)
- C-TPAT validation and Mexico development (Q4 2006)

Notes: LLP = Logistics Lead Provider; C-TPAT = Customs Trade Partnership Against Terrorism; VMI = Vendor Managed Inventory; ISA = Inland Security Agreement



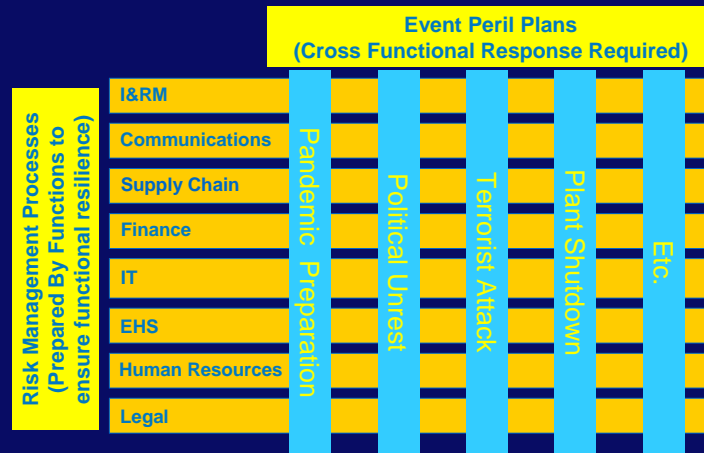
Lead Logistics Providers (LLP) are key to our logistics risk mitigation strategy

Our LLP strategy provides:

- **Assets:** Size and scale necessary to secure transportation resources during times of crisis
- **Systems/Information:**
 - Ability to “see” inventory in transit
 - Access to early warning indicators
 - Global event management from North America
- **People:** Geographically diverse resource footprint and on-the-ground help



SCCP Requires Coordination and Collaboration



EAT•N

Questions

EAT•N