Productivity and Efficiency improvement in Partnership

Honeywell
Is Automation a Strategic Investment Category?

Why Is Automation so Strategic?

- Piping, Vessels & Steel Structure: 6-8% Percent of CAPEX Project Spend
- Rotating Equip: 15-30% Operability Impact for Customer
- Automation
- Bulks

Honeywell
**Benefit category**                  **Value of Standardization**
Streamlined procurement               5 - 10%  project cost
Joint engineering/standardized design  10 - 20%  project cost
Improved project management            5 - 10%  project cost
Accelerated realization of benefits    15 - 30%  faster completion
Reduced capital contingency            2 - 14%  reduction
Incident avoidance                     3 - 8%   annual production
Post implementation cost savings       10 - 15% of life cycle cost

IPA Study on Automation Alliance benefits:

Basis
• IPA Benchmarking study comparing 38 Automation projects against the industry

IPA - International Profit Associates, Inc

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Honeywell Global Today

- In nearly 100 countries
- A *Fortune* 75 company – $28 billion in sales
- One of 30 select companies in the DJIA

Innovation Shared Across Businesses
119 Years of Innovation

- Invented DCS with TDC 2000®
- Redundant controller
- Digital field integration
- Smart transmitter
- Abnormal Situation Management®
- Hybrid Control / Experion PKS
- Distributed Server Architecture
- Fault Tolerant Ethernet
- Wireless
- Profit Loop
- 4-20mA
- Furnace regulator & alarm

Year:
- 1885
- 1970
- 1975
- 1976
- 1982
- 1986
- 1994
- 1997
- 2000
- 2003
- 2004
- 2005
MOL Group Companies Relationship with Honeywell

**1st HW DCS to Hungary**

**early 80’s**

HW TDC 2000/3000, TPS, Plantscape, FI, Valves
Asset value > $ 10M

**early 90’s**

TVK HW TPS systems and APC applications
Total value > $ 5M

**1996**

Slovnaft EFPA Project
HW TPS, Plantscape, FI
Asset value ~ $ 10M

**1998**

MPA contracts with MOL DUFI
25 project within 4 years, asset value > $ 20M

**1999**

Slovnaft EFPA Project

**What is next?**

**2001**

3 year service Contracts for Duna Refinery and also for Slovnaft

**2003**

EPC and MAC projects in main MOL Group sites
Value > $ 20M

**2005**

5 Year Integrated Service Agreement for the entire Group sites Value >$ 20M

1995 - 2005
MOL + TVK + Slovnaft
Installed base >100 M $
The Evolving Buyer-Seller Relationship

1870 - Present
1960 - Present
1980 - Present
1990 - Present
Typical Buying Process

Where buyers experience the greatest challenges

Buying Process Stages
Planning  Recognizing  Searching  Evaluating  Selecting  Committing  Implementing  Tracking

Vendor
Partner

Entire process: Planning through Building
What is a Partnership?

A mutually agreed long term arrangement between a customer and a supplier:

• To achieve specific business objectives
• Maximize the effectiveness of each others resources
• Relationship based on trust, dedication to common goals, and understanding of each others goals and values
• Key element of Total Quality Management
• Benefits include improved efficiency, cost effectiveness, and increased opportunity for innovation
A change of Supplier Management Philosophy

**OBJECTIVE**: Move to Strategic Supply Management by changing:

**From**
- Auctioning/price shopping
- Short-term relations
- Large and growing supply base
- Isolation
- Vendors
- Erratic performance
- Dumping
- “We’re the customer”

**To**
- Total cost focus
- Long-term commitments
- Focused business relationships
- Mutual goals/understanding
- Extension of Production
- Consistent and flexible supply of quality materials and services
- Helping
- “We’re partners in business”
How we select a partner?

- **Suppliers of Strategic Value**
  - Unique or preferred value
  - Technical innovators
  - Similar goals
  - Continuous improvement
  - Customer focus
  - Employee involvement / empowerment
  - Significant dollar or volume impact
  - Competitive from a total cost perspective
    - Service, Quality, Responsiveness, Technical Assistance, Flexibility, Stability
  - Not in competitive conflict with established alliances
### Types of Partnerships

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Full Partnership</th>
<th>Strategic Partnership</th>
<th>Master Agreement</th>
<th>Project Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship</td>
<td>Complete Trust</td>
<td>Open Disclosure</td>
<td>Known Contacts</td>
<td>New on each Contract</td>
</tr>
<tr>
<td>Sponsorship</td>
<td>Top Management</td>
<td>Management</td>
<td>Site / Regional</td>
<td>Project Agreements</td>
</tr>
<tr>
<td>Level of Commitment</td>
<td>Joint Businesses</td>
<td>Help be Competitive</td>
<td>Contractual</td>
<td>None</td>
</tr>
<tr>
<td>Support Required</td>
<td>Dedicated</td>
<td>Some Dedicated</td>
<td>Standard</td>
<td>Defined by Project</td>
</tr>
<tr>
<td>Developments</td>
<td>Done Jointly</td>
<td>With Inputs</td>
<td>Agreement Based</td>
<td>Project Based</td>
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</tbody>
</table>

**HONEYWELL**

Partnering With Honeywell

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**Types of Partnerships**

- **Full Partnership**
  - Complete Trust

- **Strategic Partnership**
  - Open Disclosure

- **Master Agreement**
  - Known Contacts

- **Project Contract**
  - New on each Contract

**HONEYWELL**
Both companies determine if a strategic business relationship is in their best interest and evaluate ability to accomplish.

Honeywell Account Manager; Sales Manager; Business Unit Head

**Decision:** Is this a mutually beneficial strategic business relationship opportunity?

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Jointly clarify opportunity and strategic initiatives

Integrated Honeywell and Customer team plus Six Sigma facility for workshop

Workshop using Six Sigma tools

**Decision:** Does the team feel there is justification (value vs. cost) to continue? Are sponsorship and resources attainable?

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Prepare joint Strategic Business Plan

Integrated team, multiple work sessions around common objective, with focus on completion of business plan

Business Plan template, deliverables, and documentation as well as best practices

**Decision:** Do you have support and are you ready for roll-out? Complete final DPA and gain approval from executive sponsors

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Formalize relationship, celebrate success, and jointly roll-out new relationship and business plan

Alliance Managers, at minimum, schedule global meetings

Articulate business plan, success criteria, and measurement system. Verbalize what benefits strategic business relationship is bringing to particular business unit or LOB

**Decision:**

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Refresh strategic business relationship

Jointly reclarify opportunity and initiatives

Review Business Plan and update. Where are you in relationship top your vision?

Integrated team with Greenbelt – certified facilitator

Complete a fast-track version of Inquire and Select phases. Once per year minimum
Partnering With Honeywell

Achieving Best In Class’ Performance - Partnering

- Preferred Control Supplier for 19 of the 25 largest HPI companies in the world.
- Strategic Alliances with 18 of the 25 largest HPI companies in the world
  - Executive Advisory Boards
  - Joint Product Development
  - Technical Steering Committees
  - User Input Committees

Elf Amoco Shell Hoechst Celanese Phillips BASF B.P. Ashland ConocoPhillips

Proctor & Gamble ExxonMobil DuPont Union Carbide Hershey Tennessee Eastman Himont Chevron Petro - Canada
Case study 1

Customer: Multinational Metallurgical company

OBJECTIVES

Deliver competitive advantage and measurable benefits by providing improved process automation through a long term, co-sourced service agreement.

Why they choose a Strategic Partner?

- Process Control has potential to limit variability and assist plants in running closer to practical limits
  - Both production rate and processing efficiencies
- Potential savings > US $40M
- Additional intangible savings from making real time process information available
  - Difficult to define, fundamental to competitive advantage
- The ability to realize benefits has been constrained
  - Lack of skilled resources
  - Availability of funds required to implement a common process control infrastructure and a common application portfolio

Why Honeywell?

- Customer does not have the expertise to exploit process control technology alone
- Honeywell is a recognized expert in process control
- Customer has a solid history with Honeywell
- Honeywell had a business model that addressed many customer issues
Cost and benefits

Payment/Benefit Curve
Annual

Net Benefits > $40M
over the 10 years
Case study 2

Strategic Automation Partnership: Achieving & Sustaining Operational Excellence

Customer:
Integrated Multinational Oil&Gas Company
Programs

Program 1 - Capital Projects: Design for Ops Excellence
- Engage Customer PM in FEL2/3; Establish the strategy
- Honeywell as Main Automation Contractor
- Honeywell delivers world-class talent (proven)
- Strong focus on interface management (elim risk)
- Key Transition Periods strategy (elim risk)
- Institutionalize the Program (6Sigma repeatability)
- VALUE: Project Predictability, Operability of Design

Program 2 - Operation Excellence: Achieve the Promise
- Strategy for business, process, equipment, and people effectiveness
- Focus on both technology & work processes
- Reservoir to Sales meter;
- VALUE: 4-8% improvement in asset performance

Program 3 - Lifecycle operation: Sustaining Lifecycle Ops Excellence
- Remote support; joint teams; multi-site coordination
- Drive standardization & knowledge sharing network
- Create a collaborative environment
- Best Practice everything!!! Drive common work processes
- Institutionalize the program
- VALUE: Sustain & grow Program 1&2 benefits globally
Benefits of the Strategic Partnership

HARD BENEFITS

• Successful project execution; eliminate PMs risk
  – Predictability of schedule & budget; Design for Operability, aligned with global sites
• Streamline procurement, legal – standardization training, spares, leverage buying power
• Early commitment means best talent from FEL to lifecycle ops – consistent talent project after project
• Solid planning in FEL2/3, aligned thru lifecycle ops due to early involvement, & strategy definition
• Project execution is low risk, leveraging proven design, resources – value log maintained for each project
• Smooth execution thru commissioning & startup transitions via focus
• Get to peak operational efficiency on time or before in Year 1
• Optimized OpEx Costs over the life of the facility (high operability, reliability)

KEY SOFT BENEFITS

• Programmatic Relationship Planning
  – Joint initiatives around specific solutions to align/drive value/benefits
  – Upstream global programs; multi-project planning
• Leveraging Six Sigma (project execution, Fieldbus, Loop Management) to eliminate project risk
• Priority access to R&D
• KPI’s to measure effectiveness of relationship – in association with value creation (vs pure cost savings)
• Annually align HON initiatives with Customer corporate business objectives
• Alliance Executive Sponsors to ensure commitment level on both sides
Thank You