

Alpha maintains a cost-cutting tracking tool on its intranet, including detailed information on each cost-cutting initiative by business unit.

- The tool includes information on best practices to facilitate cross-business unit idea generation and transfer.
- Alpha tracks both action status and financial impact and generates the following reports: year to date, run rate (savings of the past three months multiplied by four), project to date (cumulative since the beginning of Step Change), and P/L effective (savings in the last 12 months).
- The information shown in the reports is user-group specific and depends on access rights.

## KEEPING A CLOSE EYE

### Step Change Project Controlling Tool Home Page

### Step Change Project Controlling Tool Report

Home		Measure		Report		Configuration									
USA-Division PT															
General Information		Action Completion Progress				Financial Impact-Run rate (recurring items)-project to date									
BA	Total full year cost savings 2005	Status	# measures	# completed	# red	# yellow	# green	Currency	Total cost savings (target)	Total cost savings (actual)	Total cost savings actual/target	Head count reduction (target)	Head count reduction (actual)	Head count reduction actual/target	Savings in personal expenses (target)
PTDT		●						KUSD			100%			100%	
PTHV								KUSD			100%			100%	
PTMV								KUSD			100%			100%	
PTPS		○						KUSD			100%			100%	
PTPT		●						KUSD			100%			100%	
PTUA								KUSD			100%			100%	
PTVA		●						KUSD			100%			100%	
								KUSD			100%			100%	

<sup>1</sup> Pseudonym.



Alpha's monitoring tool allows users to drill down by division or geographical area to gain further clarity on detailed cost-cutting performance metrics.

- To ensure results are comparable, Alpha aligns its project controlling tool to its internal reporting data items.

## ZOOMING IN

### Step Change Project Controlling Tool Report

*Drill-Down Report by Division*

Click on country  
STEP Change ->

Click on division  
STEP Change ->

Click on BA  
STEP Change ->

USA-BAAATCE														
General Information			Action Completion Progress					Financial Impact-Run rate (recurring items)-project						
BAU	Total full year cost savings	Status	# measures	# completed	# red	# yellow	# green	Currency	Total cost savings (target)	Total cost savings (actual)	Total cost savings actual/target	Head count reduction (target)	Head count reduction (actual)	Head count reduction actual/target
USEBA-ATCE		●						KUSD			100%			100%
USINY-ATCE		●						KUSD			100%			100%
USSAP-ATCE								KUSD			100%			100%

### Step Change Project Controlling Tool Report

*Drill-Down Report by Country*

Click on country  
STEP Change ->

Click on BA  
STEP Change ->

Click on USA  
STEP Change ->

BAATCE-USA														
General Information			Action Completion Progress					Financial Impact-Run rate (recurring items)-project						
BAU	Total full year cost savings	Status	# measures	# completed	# red	# yellow	# green	Currency	Total cost savings (target)	Total cost savings (actual)	Total cost savings actual/target	Head count reduction (target)	Head count reduction (actual)	Head count reduction actual/target
USEBA-ATCE	13320	●						KUSD			100%			100%
USINY-ATCE	240	●						KUSD			100%			100%
USSAP-ATCE	888							KUSD			100%			100%

<sup>1</sup> Pseudonym.



Alpha provides clear guidelines on the definition and quantification of savings initiatives.

- Requires that cost reductions are lasting and only accounts for them if they reflect a productivity increase.
- Ensures cost savings are not double counted.

# SAVING PRINCIPLES



## Definition and Quantification of Savings Initiatives

It is not the intention of these guidelines to define exact rules for individual savings measures or which assumptions have to be taken. Step Change strongly depends on your intimate knowledge of the business, and there is full confidence in your realistic planning of those initiatives to which you are committed. Nevertheless, we offer our support through a constructive discussion of planned initiatives and underlying assumptions. Furthermore, we will publish those questions and answers that could be of potential interest for other business units.

All cost reductions that fulfill the following general criteria are considered as net cost savings under Step Change:

- The benefit has to be lasting. One-off items neither influence the cost base you are deducting your savings from nor will they be deducted from future savings.
- The baseline for Step Change cost reduction is the actual 2012
- Two cost base.
- All cost items above EBIT line are in the project scope.
- Cost transfers from one organizational unit to another unit will not be considered as net cost savings (e.g., internal transfer of head counts).
- Reductions of COS will only be accounted for if they reflect a productivity increase:
  - If a business declines by 50% and the COS will be reduced by 60%, only 10% are productivity increase and real savings.
  - BAUs with double-digit growth will be reviewed individually.
- Only net-cost-savings projects approved after 1 October will be considered as Step Change initiatives.
- Allocations have to be 100% complete by 30 June—annual lower run rate achieved.
- Changes in accounting procedures do not qualify as Step Change savings (e.g., changes in depreciation method or provisions).
- Savings will only be accounted for in the business unit that is directly responsible for the cost.
  - Example: A business area cannot define initiatives to reduce cost allocated to the business area but originated in a service function. The definition of such initiatives must take place in the respective service function.
- Should any operating unit be (partially) shut down or sold, the only resulting net cost savings to be accounted for is the negative EBIT (contribution) caused by that (part of the) business. The calculation of EBIT should include revenues and costs, which will disappear by the closing/sale..