Subject: Eaton HD Transmission Core Exchange Program Changes

All,

As part of our continuous effort to ensure Eaton products remain competitive and relevant to the market needs, we announced changes on September 28<sup>th</sup>, 2018 that impact the Eaton Core Exchange Program for Heavy Duty Transmissions. This letter explains in detail the scope of the change, timing and the core structure adjustments.

## **OVERVIEW:**

The Eaton Reman program will align core groups based on market demand and model family to improve operational efficiencies. Eaton will continue to have 7 heavy duty transmission core deposit values across the portfolio (\$300, \$1000, \$1500, \$2200, \$3000, \$4000 and \$6000). However, these 7 core value groups will be split into 18 sub-groups to align more closely with eligible returns, to the models that can be built from those cores being returned. The new core groups will be designated by a letter suffix following the core deposit as shown in the illustration below. Appendix A, attached to this letter, contains the list of participating heavy duty transmission models aligned with their respective core groups and sub-groups.

 CURRENT STRUCTURE
 FUTURE STRUCTURE

 CORE 300
 CORE 300 A

 CORE 1000
 CORE 1000A, CORE 1000B

 CORE 1500
 CORE 1500A, CORE 1500B, CORE 1500C, CORE 1500D, CORE 1500E

 CORE 2200
 CORE 2200A, CORE 2200B, CORE 2200C

 CORE 3000
 CORE 3000A, CORE 3000B

 CORE 4000
 CORE 4000A, CORE 4000B, CORE 4000C, CORE 4000D

CORE 6000 A

Fig. 1 - Core Structure Change

## TIMING:

The change is effective January 1<sup>st</sup>, 2019.

CO RE 6000

- Starting in January 2019, customer invoices and eligibility reports will show the new core subgroups. It is expected that core return documentation from our MWD customers are aligned with the new core sub-group nomenclature.
- Starting in January 2019, the 2018 year end core bank will be re-allocated to the updated core group/subgroup combinations.

## **CONSIDERATIONS:**

- Heavy duty transmission core values remain unchanged (\$300, \$1000, \$1500, \$2200, \$3000, \$4000 and \$6000).
- A disciplined core exchange policy will improve Reman availability, product flow, and overall program efficiency.
- One for one core exchange credits will be limited to the same core value group and the same core category subgroup.
- 2018 year end core bank will be re-allocated to the updated core group/subgroup combinations for 2019. Eligibility for 2019 will be assigned based on 2018 purchases, calculated as a percentage of units purchased within a core group, and subgroup (see example in figure 2 below).

Fig. 2 - Example of Core Bank Allocation

2019 Core Bank Allocation										
Core Value	Core Bank	2018	2018		Core Value	2019 Core	2019 Core	Model Family		
Group	Core bank	Purchase Qty	Purchase %		Group	Subgroup	Bank	Series	Speed	Torque
\$2,200	100	150	15%		\$2,200	A	15	RT/RTL/RTLO	9	1650, 1850
		450	45%		\$2,200	В	45	FRO/FROF	10	1150, 1250, 1350, 1450, 1650, 1750, 1850
		350	35%		\$2,200	С	40	RT/RTL/RTLO	13	1250, 1450, 1650
		50	5%					RT/RTL/RTLO	18	1450,1650, 1850, 2050
To	tal Units Sold	1000								