Quality and Environmental Agreement for Deliveries and Services

between

Feintool System Parts Obertshausen GmbH

Ringstraße 10

63179 Obertshausen

Feintool System Parts Ohrdruf GmbH

Ringstraße 13

99885 Ohrdruf

(both companies hereinafter known as “Customer”)

and

(hereinafter known as the “Supplier”)

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1 Preface

In order to meet the constantly growing requirements of the automotive industry, we pay extremely close attention to the quality of our products and our contract processing. The high expectations and demands of CUSTOMER customers in terms of the quality of our products require a corresponding commitment on the part of our suppliers.

Our goal is to work with our suppliers to achieve a high level of quality at the best possible cost.

This can only be achieved by consistently applying and improving our existing quality assurance methods as well as developing new methods.

Quality does not depend on the size of the company; it comes from an effective quality management system. Through the effective use of statistical methods, the supplier ensures that fault-free products and contract processing results no longer need to be tested. The following Agreement represents the minimum requirements for CUSTOMER, and forms the basis for our business relationships; it is thus a

SIGNIFICANT COMPONENT OF THE PURCHASE AGREEMENT.

We expect our suppliers to take full responsibility for the quality of their products and services, in the same way that CUSTOMER has committed to doing so for its customers.

2 Quality strategy

Our goal of becoming a preferred manufacturer of vehicle components for our customers requires partnerships with outstanding suppliers. Suppliers must follow the zero-fault principle, and must consistently optimize their services in this regard.

We consider solid business practices to be the basis for a long-term partnership. We know that using the quality management system results in reduced product construction and development times, as well as increased international competitive power.

In order to achieve this, we must work constantly to improve each product, process and service. The goal is to achieve complete customer satisfaction through the timely delivery of fault-free products and services under competitive conditions.

New organizational concepts, higher product expectations and stricter regulations (Product Liability Act) require a highly efficient quality management system. As a result, we expect our suppliers to at least fulfill the DIN EN ISO 9000ff standard. These are not one-sided obligations. We believe it is our duty to further develop the partnerships with our suppliers, and we are prepared to give the suppliers technical support for introducing these practices.

The following sections contain details that require particular attention.

3 Quality assurance system evaluation by our in-house representatives

CUSTOMER reserves the right to perform an audit as per

- VDA 6.3
- DIN EN ISO 9000ff
- DIN ISO TS 16949

to determine whether the supplier's quality management meets the CUSTOMER requirements.

The results shall be shared and discussed with the supplier; if necessary, the supplier shall be obligated to take corrective measures.

4 Fundamental requirements and measures for early fault recognition/ preliminary quality-planning measures

In order to recognize the causes of faults at an early stage wherever possible, targeted quality-planning measures shall be implemented before the start of series production. The occurrence of manufacturing faults must be discovered in a timely manner so that measures can be taken to prevent and rectify them.
The timeline for rectifying the fault shall be presented to CUSTOMER.

4.1 Analysis of potential faults

In order to prevent quality losses during series production, an analysis of potential faults and their consequences (fault possibility and consequence analysis, FMEA) must be performed. A construction FMEA shall be required for parts if the supplier is responsible for their construction. A process FMEA shall be performed for all parts from the supplier, before the start of manufacturing for tools and equipment.
Upon request, CUSTOMER must be granted access to the FMEA at all times.

4.2 Plausibility evaluation

Before the bid is submitted, we expect that our technical documentation will be reviewed in terms of secured manufacturing, with consideration for our own product equipment.

4.3 Systematic use of statistical methods and procedures for process regulation

Based on the analytical findings of the FMEA, the testing procedures must include both testing features and the scope of random sampling, the testing frequency and testing resources. In addition, they must include information about the statistical process regulation, to be performed before the start of series production and for testing ongoing manufacturing. We also require that any process parameters with the potential to negatively affect the creation of the properties be monitored and documented accordingly.

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4.4 Capability checks

Consistent quality can only be achieved through a statistically capable, long-term and self-sufficient process. Non-capable processes create costs due to preventable faults. As a result, capacity checks must be performed before the start of series production for functionally significant properties that require documentation. All of the main properties of the produced parts must be statistically guaranteed to meet the requirements in the technical specifications. Properties that do not meet the standards during inspection must be rendered capable by eliminating the systematic influences.

4.4.1 Preliminary process capability (Pp, Ppk)

Preliminary process capacity inspections are short-term inspections that provide information about the performance of a new or modified process at an early stage, in terms of the requirements from drawings, product specifications, requirement specifications and so forth.

In order to recognize process variations, at least 50 random samples, taken over a period of time (typically 3 to 5 parts each) must be listed in a regulation card and evaluated.

For the preliminary process capacity, **Ppk >=1.67**.

4.4.2 Process capacity (Cp, Cpk)

Consistent quality can only be achieved through a statistically capable process. For series production, a consistent process capacity of Cpk > 1.33 is required; this must be monitored and regulated on an ongoing basis.

Non-capable processes require a 100% inspection.

4.4.3 Testing-resource capacity

The supplier must ensure that the testing resources it uses can test the properties described in the technical documentation with a sufficient degree of accuracy. All testing resources shall be subject to inspections regarding the variations in the measurement system. The standards ISO 10012 Part 1 and ISO 9004 Section 13.1 describe these procedures.

4.5 Training employees in quality technology methods and their analysis

CUSTOMER expects its suppliers' personnel to be trained by qualified trainers in the use of the quality assurance technology, and the success of this training to be monitored.

Planned training measures shall be documented by way of training plans.

4.6 Environment

The supplier shall ensure that the parts and materials used for manufacturing parts correspond to the applicable statutory requirements and safety provisions for restricted, poisonous and hazardous materials, as well as the requirements regarding the environment, electricity and electromagnetic fields. This applies for the country of manufacture and acceptance. German automobile manufacturers have summarized the prohibited and undesirable materials, as well as those that must be declared, in Materials List VDA 232-101. The requirements herein shall be observed by the supplier and fulfilled on the supplier's own responsibility. The supplier hereby agrees to use energy, production materials and resources as sparingly as possible during production, and to limit waste from residual materials during construction and processing. Any waste shall be sent for ecologically appropriate reuse; if it cannot be appropriately reused, it shall be disposed of in an environmentally friendly manner. The German environmental laws (such as environmental liability, the Chemicals Act, Federal Immission Protection Act, Water Resources Act and regulations for labeling and disposing of waste) are considered a minimum requirement here. The most reliable way to fulfill all of these requirements is to use an environmental management system, e.g. as per EN ISO 14001.

The supplier shall immediately inform us of any changes to the goods, their deliverability, usability or quality caused by statutory regulations, particularly the REACH directive (EC No. 1907/2006). The same shall apply accordingly as soon as the supplier recognizes that such changes will take place.

5 Initial samples

5.1 Provision of initial samples

From the first series manufacturing run, initial samples must be presented for acceptance and/or acceptance tests in the following cases:

- before the first series delivery of a new part
- before the serial use of new tools
- before serial use after a material change
- before serial use after a tool or process change
- after a change on the basis of a drawing change
- after corrections according to our test report
- after moving the production site
- after a longer supply interruption (>1 year), excluding products for the replacement-parts market

All initial samples must be manufactured using the same processes and/or tools that will be used for later series production.

5.2 Creation of initial sample reports by the supplier

The supplier must assure itself, before delivering the initial samples, that all of the required properties correspond to the CUSTOMER requirements. This must be proven by way of the VDA-2 initial sample report or by a testing report as per PPAP. It must be taken into account that parts from multi-purpose tools are tested according to the mold and are documented separately. Properties that cannot be tested must be confirmed either by way of a plant testing certificate or an acceptance testing certificate as per EN 10204 2.3 or 3.1 B or comparable standards, or by way of testing certificates from accredited testing institutes. The established main properties must also include information about process capacity. The contents of the product shall be provided in the context of this initial sampling, using the IMDS.

5.3 Meeting the agreed sample presentation deadlines

The agreed presentation deadlines shall not have been met if faults are still found in the parts that cannot be accepted. For this reason, CUSTOMER expects the parts to be provided as samples according to the drawings and/or the agreements on the agreed date.

5.4 Scope of initial samples

The number of initial samples and their documentation shall be established by CUSTOMER according to the product (at least 10 initial samples).

5.5 Necessary information about initial samples

In order to perform the initial sample testing in a calculable way, the sampling basis (see Point 5.1) and the number of tools and molds must be precisely specified on the testing report.

5.6 Labeling parts from multi-purpose tools

Important parts from multi-purpose tools must be labeled separately per mold. These shall be determined on a case-by-case basis.

5.7 Evaluation and approval of initial samples for serial delivery

CUSTOMER shall review the initial-sample testing report for completeness and compliance with the agreed specifications. Furthermore, CUSTOMER reserves the right to cross-check the values given in the initial-sample testing report.

CUSTOMER shall inform the supplier of the results. In the event of a positive evaluation, approval shall be granted for series manufacturing. If the sample is refused, new initial samples shall be presented within the period defined by CUSTOMER.

5.8 Approvals with conditions

If approvals are granted with conditions, the supplier shall perform the required measures within the established grace period and/or according to the established quantity. Follow-up sampling shall be performed upon request. Regardless of this, the measure shall be documented by the supplier.

5.9 Shipping initial samples

The initial samples must fundamentally be sent to CUSTOMER for approval testing using the agreed-upon shipping method.

Sample shipments shall be labeled clearly as “initial samples.” The initial-sample testing report shall be included with the initial sample parts. The delivery slip must include the quantity and the reference number of the initial-sample testing report.

6 Serial deliveries

An initial sample approval must be obtained before the first serial deliveries are shipped. In addition, the measures established with our QMS officer for rectifying any system weaknesses must have been performed. The supplier hereby agrees to ensure the traceability of its delivered products. In the event that a fault is discovered, it must be possible to limit the faulty parts/products/batches/contract processing, etc.

6.1 Delivery obligations

The supplier hereby agrees to comply 100% with the delivery times and quantities established in the delivery plans and call-off plans. If difficulties arise in the delivery, CUSTOMER must be informed immediately in order to coordinate the next steps.

6.2 Process regulations and serial tests

The supplier shall use the statistical process regulations to monitor and document the series in terms of the main properties. Drawings must be created in such a way that any changes can be recognized in a timely manner and corresponding corrections can be made to the process in order to prevent errors. For part properties that are not subject to the statistical process regulations, the supplier must perform regular random sampling. In order for a lot to be accepted, the random sampling cannot contain any faulty parts (zero-fault principle). The drawings must clearly and unmistakably show the quality history and the quality-regulating measures.

If the parts are manufactured using a non-capable process (CpK<= 1.33), a 100% test must be performed at the end. This 100% test must be performed at no additional cost until the manufacturing process has been optimized and a capacity index of CpK >= 1.33 has been achieved.

After that point, random sampling can be used.

Long-term process improvements are necessary.

6.3 Long-term tests

If the drawings and requirements include information about the long-term behavior of a part, the manufacturer must also perform these tests. The evaluation shall take place according to a meaningful statistical procedure. The test can only be waived for the supplier by way of a written approval.

6.4 Scope of random sampling and testing frequency

The properties to be tested during series production with an appropriate testing frequency shall be dependent on the controllability of the manufacturing process. The final determination regarding testing frequency and the scope of random sampling can only be made once the property is shown to be process-capable. Proper, meaningful use of the testing frequency and the scope of random sampling requires an understanding of the current quality methods.

6.5 Measures for the supplier in the event of faults

If series monitoring finds faulty parts in the random sampling, the manufacturing process must immediately be suspended. 100% of the parts manufactured since the last acceptable test must be separated out. If it is found while limiting the fault volume that faulty parts have been or could have been delivered already, our Incoming Goods and Quality Management Department must be notified immediately. The measures for rectifying faults shall be provided to CUSTOMER.

6.6 Reworking lots

The manufacturer must ensure that any rework performed does not have a negative impact on the function and safety of the parts. Reworking must be documented. Any later quality improvements must be approved by CUSTOMER.

6.7 Required product audit

In order to monitor, evaluate and if necessary improve the effectiveness of the quality assurance in a targeted way, the supplier must periodically perform audits of shipment-ready products to ensure their compliance with the technical documentation, drawings, specifications, standards, legal provisions and other established quality characteristics. The number of such inspections per year shall be established by the supplier, and shall be based on the existing work processes and systems.

6.8 Labeling the deliveries

6.8.1 Using a new drawing or specification index

If parts are manufactured using a new index, they cannot be combined with parts manufactured according to an old index. In addition, it must be ensured that parts using an old index are delivered first. If already-manufactured parts using an old index can no longer be delivered, these must be scrapped. Any use of parts with a new index must be noted separately on the delivery papers. In addition, the containers and packaging must be labeled according to the parts designation, drawing number and index unless otherwise required. The delivery papers and labeling for the goods must allow unmistakable tracing.

6.8.2 Listing the batch number on delivery slips

For delivered lots that require batches, the batch number must be included on the delivery slips and accompanying paperwork. This ensures that the affected production quantity can be determined in the event that faults are discovered. For goods/parts provided by CUSTOMER, the supplier shall also assign its own batch for each manufacturing order. The procedure shall be coordinated with CUSTOMER.
Upon request by CUSTOMER, the supplier shall define and deliver single batches.

6.9 Sub-suppliers

The supplier shall be fully responsible for all delivered products that were manufactured by sub-suppliers. That means the supplier must take consistent quality assurance measures with its sub-suppliers, for instance by performing FMEAs (see 4.1), process capacity checks and statistical process regulations, and must provide the corresponding monitoring.

In the event of complaints, the supplier shall also be obligated to take corresponding measures with its sub-supplier and monitor compliance. In the event of a change in sub-supplier, initial sampling must be performed.

6.10 Changes to the manufacturing process

Before changes are implemented, the supplier must perform checks to ensure compliance with the drawing requirements and specifications, and perform initial sampling (see 5.1).
Before any change to the materials, process or system, this must be confirmed in writing by CUSTOMER.

6.11 Inspecting the delivered parts

The supplier shall be fully responsible for the quality of the delivered parts. For this reason, incoming deliveries shall only be checked by random sampling according to the applicable random sampling rules. This reduces the incoming goods inspections at CUSTOMER (skip-lot process). Any deviations shall be agreed separately. A processing fee shall be charged for any complaints. Any costs incurred by the customer shall be passed on to the supplier. The fulfillment of quality assurance measures by the supplier ensures that no incoming goods inspection is required at CUSTOMER. In this regard, CUSTOMER shall be expressly freed from the inspection and complaint obligations as per § 377 HGB.

7 Evaluating the delivery

The supplier shall be informed of each complaint. CUSTOMER requires that this fault notification be immediately followed by corresponding fault rectification measures and measures to prevent further faulty deliveries. The implemented measures shall be reported in writing. Each complaint shall be evaluated and correspondingly documented. The overall evaluation shall be performed regularly and sent to the supplier. Suppliers with a B or C evaluation must provide the CUSTOMER Purchasing Department with proof of corrective measures within an appropriate period of time. In the event of non-fulfillment, CUSTOMER reserves the right to use alternative suppliers. VDA procedure 1 shall apply.

8 Parts requiring documentation (D parts)

Parts requiring documentation are those that affect safety.

D parts and D properties shall be clearly indicated in the documentation (drawings and specifications).

The supplier shall be obligated to record the testing results in an appropriate format and to keep these in duplicate, in a fire-safe location, for 20 years. Copies of these records and instructions shall be provided to CUSTOMER upon request.

9 Confidentiality

The supplier and CUSTOMER shall only use the documents and information obtained in conjunction with this Agreement for the purposes of this Agreement, and shall keep these confidential from third parties, exercising the same care as with their own corresponding documents and information, if the other partner has described them as confidential or has a clear interest in keeping them confidential. This obligation shall begin as of the initial receipt of the documents or information, and shall end 36 months after the end of the Agreement.

The above confidentiality obligation shall not apply to information, conversation contents and incidents that were demonstrably

- already publicly known at the time they were shared with the partner receiving them or become publicly known after that point without any violation of the present obligation, or
- already known to the partner receiving them before being disclosed by the other partner, or
- legally shared by third parties with the partner receiving them, or
- developed by the partner receiving them, independently from the information shared by the other partner.

10 Liability

Liability shall be determined according to the agreements underlying the delivery.

Furthermore, this Quality and Environmental Agreement shall be considered a supplement to the CUSTOMER purchasing conditions and is thus fully legally effective. Individual clauses of this Agreement shall not apply to the extent that they are in conflict with the higher-ranking purchasing conditions.

11 Quality assurance officer

Each party to the Agreement shall provide the other party in writing with the name of a quality assurance officer, who shall coordinate the execution of this Agreement and make or implement any associated decisions. Any change in officers shall be reported immediately in writing.

12 Term of the Agreement

This Agreement can be terminated by either party to the Agreement with three months' notice to the end of the calendar month, by way of a registered letter.

13 Applicable law

The legal relationships associated with this Agreement shall exclusively be subject to German substantive law.

14 Partial invalidity

If individual parts of this Agreement should be or become invalid, regardless of legal grounds, this shall not affect the validity of the other provisions.

.....	.....
City, date	City, date
.....	.....
(Signature / company stamp, supplier)	(Signature / company stamp, CUSTOMER)