

**Supplier Quality Assurance Contract****Supplier Quality Assurance Contract**

between

**Fabryka Łożysk Tocznych – Kraśnik S.A.**

(hereinafter FŁT-KRAŚNIK S. A.)

and

.....  
(hereinafter Supplier)**1. Purpose and scope**

The Supplier Quality Assurance Contract shall define essential requirements in relations to FŁT-KRAŚNIK S.A. suppliers. It shall ensure quality of goods and services related to goods that affect FŁT-KRAŚNIK S.A. goods or are distributed as FŁT-KRAŚNIK S.A. goods. The Quality Agreement shall include systematic planning, implementation and verification of taken actions aimed at continuous development of quality, especially in order to ensure perfect supplies quality (so-called Zero Defect Goal) and continuous improvement of provided services.

**2. Quality Management System**

The Supplier is obliged to stipulate and maintain The Quality Management System pursuant to IATF 16949 or at least ISO 9001 including economic conditions. As a confirmation, Supplier shall provide a valid certificate issued by an accredited certifying institution. After first submission of the certificate the Supplier shall report FŁT-KRAŚNIK S.A. on an ongoing basis about any changes to the validity of the certificate (no audits conducted, expiration of certificate's validity, amendment of certification method). Owing to this FŁT-KRAŚNIK S.A. is not obliged to monitor the current certification status.

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### 3. Quality records and specifications

In addition to the above standards are binding well as documents about orders FLT-KRAŚNIK S.A., for example:

- Drawings with requirements and special characteristics/ special features (FLT-KRAŚNIK S.A. standards: DIN/EN/PN, technical conditions of supplies, etc.),
- Technical Conditions for Materials, Technical Conditions for Acceptance etc.,
- Agreed testing procedures and control and measurement means,
- FLT-KRAŚNIK S.A. Customers Requirements,
- Determining and implementing quality improvement,
- Undertaking necessary and effective actions correcting in threatening quality situation,
- Specific legal requirements,
- Specific environmental protection regulations.

The Supplier shall check data given in request/order as part of his knowledge of content and completeness. In case of reasonable doubt regarding to effectiveness of executing the order, FLT-KRAŚNIK S.A. is to be informed immediately.

### 4. Initial samples

The Supplier shall follow PPAP (AIAG) OR VDA second part „Ensuring supplies quality” (PPF). Requirements. Before starting serial production of new or altered goods (except expendable tools unless otherwise agreed) the Supplier is obliged to conduct PPAP or PPF procedures in order to prove that required specifications designated by the ordering party are met. Product components shall be included in initial samples via IMDS (International Material Data System). Serial supplies shall begin only after written release of initial samples by the customer/FLT-KRAŚNIK S.A.

Initial samples shall be completed by using the same production methods and tools that were planned for initial production or foreseen for series production. First initial samples shall be taken after setting and after production of relevant quantity of prototype series.

The Supplier must be sure that samples meet the requirements of technical documentation. It means that the Supplier is obliged to outsource on his own a company to do test goods' property or and/or function if he does not own testing machines. Uncompleted test or incorrectly completed forms may lead to negative assessment of initial samples.

An exception from general obligations shall include materials and auxiliary material. In case of outsourcing e.g. heat or surface treatment, supplementary arrangements indicated in the point 18 shall be in force. The general obligation to provide information by the Supplier shall remain unaffected in case of changes pursuant to PPAP/VDA arrangements

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## 5. Changes marking

Planned changes to current production shall be reported before implementation in written form to FŁT-KRAŚNIK S.A. FŁT-KRAŚNIK S.A. shall examine the possibility of issuing approval and notify the Supplier about test results in a written form.

Changes requiring notification:

- Changes to product (construction, specification, material, significant change of tools),
- Production's relocation e.g. to another facility/affiliate,
- Changes to the production process if they concern product's characteristics,
- In case of change of materials or services supplier,
- In case of change to purchased parts,
- Changes within point 18, specific arrangements.

After receiving of approval, first delivery of altered products shall be marked with additional label with the inscription „altered parts” and with short description of changes including test report of initial pattern (PPAP or VDA).

## 6. Confirmation of capability

If agreed, PPAP (Production Part Approval Process) or VDA 2 PPF (Production Process and Product Approval) requirements shall be followed pursuant to agreed product characteristics and functions.

If the customer does not provide information about value of capability indicator, production departments strive to achieve following indicators values:

Characteristics values	capability indicators			
	$C_m, C_{mk}$	$P_p, P_{pk}$	$C_p, C_{pk}$	$C_p^p, C_{pk}^p$
critical $\Delta$	$\geq 1,33^*$	$\geq 1,67$	$\geq 1,33$	$\geq 1,33$
significant O	$\geq 1,33^*$	$\geq 1,55$	$\geq 1,33$	$\geq 1,33$
Shape errors, roughness, run out ect.	$\geq 1,20$	$\geq 1,40$	$\geq 1,20$	$\geq 1,20$

\*) for machines producing products for automotive industry

$C_m \geq 1,67$  i  $C_{mk} \geq 1,67$ .

If defined indicators were failed to reach, the parties shall make arrangements for taking appropriate actions.

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### 7. Requalification

Pursuant to IATF 16949 all products shall be tested in measurements, materials, functionality, in accordance to inspections plans. Results shall be available on request of FŁT-KRAŚNIK S.A.

### 8. Documentation with special archiving

Each delivery shall include documentation confirming meeting requirements defined in point 3 (e.g. certificates, tests results, capability indicator Cp, Cpk). This documentation shall be proof of conducted tests of delivered material part, done by authorised quality testing institution of the Supplier.

### 9. Deliveries and goods marking (goods acceptance)

The Supplier is obliged to perform all the deliveries pursuant to the marking included in order and arrangements. Goods shall be marked clearly in order to check its origin. Marking shall be performed in machine-readable form. The Supplier shall inform the Recipient about possible risks, if doubts about quality arise after sending goods. Material under special FŁT-KRAŚNIK.S.A. permit shall not be mixed with other materials/deliveries. The Material shall be always marked and delivered not mixed. The Supplier is responsible for packaging that ensure safety and prevent from quality defects during transport. In case of outsourcing services, the Supplier is obliged to ensure adequate and proper treatment of the delivery.

Regarding to goods entrance control in FŁT-KRAŚNIK S.A. following rules shall be in force: FŁT-KRAŚNIK S.A. shall check immediately after receiving goods if the delivered goods correspond with ordered amount and type or if any recognisable visual transport damages or other visible damages may be affirmed. If FŁT-KRAŚNIK S.A. detects during the controls or later any damage, the ordering party is to be informed immediately. Quality Control of incoming goods shall be conducted on statistical basis.

### 10. Certificates

FŁT-KRAŚNIK S.A. is entitled to request control confirmations in form of certificates from the Supplier at any time in order to authenticate meeting required characteristics.

The Supplier shall on request attach to deliveries control certificates or store them and make them available to see on request. Assigning part of delivery or series of delivery shall be possible at any time.

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### 11. Contingency plans

FŁT-KRAŚNIK S.A. Suppliers shall prepare contingency plan at least for following cases:

- Lack of power and water supplies
- IT system failure
- Staff shortages
- Failure of machines and equipment
- Loss of external service providers

Analyse shall serve to save the supply and protect FŁT-KRAŚNIK S.A. quality claims.

### 12. Audit

FŁT-KRAŚNIK S.A. and/or the FŁT-KRAŚNIK S.A. customer reserve the right, also for third parties employed by external customer or by FŁT-KRAŚNIK S.A., to conduct audits after prior notice and appointment in order to receive applicable documentation on quality management and access to premises and facilities in which ordered supplies and services are performed to check efficiency of quality management system in form of audit or other relevant actions

Reasons to conduct an audit:

- to secure the process of product manufacturing and the initial phase of series production (new products),
- quality faults,
- the optimization of processes,
- changes in processes,
- transfer of processes.

The results of an audit and knowledge acquired during the inspection of the plant shall be treated as confidential and shall not be disclosed to third parties by FŁT-KRAŚNIK S.A., unless it concerns the clients of FŁT-KRAŚNIK S.A. who are entitled to audit the Supplier pursuant to § 12, or it was expressly agreed to provide such information.

Should it be necessary, from the perspective of the activities of FŁT-KRAŚNIK S.A., the Supplier shall undertake to immediately prepare a plan of corrective actions, to implement this plan on time, and to inform FŁT-KRAŚNIK S.A. about it.

Every Supplier of FŁT-KRAŚNIK S.A. shall be responsible for monitoring the quality and project deadlines and for constant development of their contractors' skills. FŁT-KRAŚNIK S.A. reserves the right to audit sub-suppliers together with the Supplier.

### 13. Hazardous Substances

One shall comply with the provisions of Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), in particular the ones concerning labeling, packaging, material safety data sheet and restrictions of production and use.

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In accordance with the REACH regulation, each employer shall be obliged to evaluate the products, preparations and substances he uses in order to assess their potential risk. In this meaning, he shall be obliged to inform Offices, clients and plant employees.

In order to properly document this fact, the Supplier shall be obliged to provide a duly completed Material Safety Data Sheet pursuant to Regulation (EC) No 1907/2006 (REACH), as amended, with every PPAP or with first delivery once for each product classified as a hazardous substance, preparation or product in the meaning of REACH regulations. If based on these examinations, there is a need for a new evaluation of these products, FŁT-KRAŚNIK S.A. shall be provided, without prior call, with a completed Material Safety Data Sheet.

For products which are not classified as hazardous substance, the preparation or product in the meaning of REACH regulations, the Supplier shall be obliged to confirm FŁT-KRAŚNIK S.A. about this factual state of the product for given raw material, on call from FŁT-KRAŚNIK S.A. Such confirmation may be made e.g. by providing a properly completed Material Safety Data Sheet. Additionally, the lists of PPAP/VDA for materials requiring declaration shall be followed. On call from FŁT-KRAŚNIK S.A., the Supplier shall show individual components with respect to their type and range, in writing, or pass it on through IMDS.

**14. Reliability of Supplies**

The Supplier shall be obliged to a 100% ability to perform a delivery (in terms of quality and dates) maintaining required quality. In case of a derogation from this principle, one should take proper actions in consultation with FŁT-KRAŚNIK S.A. The Reliability of the delivery shall be measured at regular intervals. In case when unacceptable discrepancies occur, the Supplier shall be called upon to take corrective action.

**15. Complaints, corrective actions**

In case when any faults or defects occur, the Supplier shall receive a test report together with a detailed defect description (a model, if possible, or photographs). The Supplier shall be obliged to perform a gap analysis and the analysis of their reasons with help of problem solving techniques such as 5-Why and Ishikawa diagram. The Supplier shall be also obliged to inform FŁT-KRAŚNIK S.A. about introduced remedial and preventive measures and to confirm their effectiveness in form of 8D report.

- After receiving a complaint, the Supplier should take short-term measures in order to take corrective actions and notify FŁT-KRAŚNIK S.A. about it in 24 hours.
- FŁT-KRAŚNIK S.A. shall be notified about long-term corrective actions within 10 working days.
- FŁT-KRAŚNIK S.A. should be notified about the performing of corrective actions and their effectiveness analysis. Should it not be possible to meet the deadline, one shall notify the person responsible for complaints in the office of FŁT-KRAŚNIK S.A. in order to get approval.

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The inventory being complained about shall be immediately blocked in order to prevent next delivery. In case of faulty deliveries, the Supplier shall, in emergency mode, deliver appropriate amount of spare parts in a way that was agreed upon with FŁT-KRAŚNIK S.A., or carry out additional work or sorting. Should the type and frequency of failure occurrence allow for sorting/additional work, the faulty parts shall be re-examined by the Supplier in a period of time agreed upon with FŁT-KRAŚNIK S.A., or they shall be sorted. Should the Supplier not be able to perform such actions, FŁT-KRAŚNIK S.A. may (with prior notice to the Supplier) perform sorting on their own, or commission the sorting to an external company, on the Supplier's cost. FŁT-KRAŚNIK S.A. reserves the right to issue an invoice to the Supplier for all the costs related to the complaint (in particular costs of the line downtime) when it is proved that the Supplier carries responsibility for them.

In the event that the previously occurring faults in the deliveries occur again, this fact may serve as a basis for performing the following actions:

- Discontinuing the realization of next deliveries, to the moment when the Supplier proves that he has prevented the risk that next failures should occur,
- Signing an agreement that the Supplier is taking part in the compensation of self-caused actual and formal costs (loss of the Company's good image), caused by delivering faulty material,
- Alternatively – immediately terminate material deliveries, without the Supplier's right to legal or financial claims.

### 16. Compliance / Code of conduct

FŁT-KRAŚNIK S.A. is aware of its meaning for the society and its liabilities against trading partners, associates and co-workers. The purpose of clear rules shall be to ensure the ethical management of entrepreneurship which is focused on value and abides by the law. Their purpose shall also be to take responsibility of the entrepreneurship's every activity.

FŁT-KRAŚNIK S.A. also expects such sense of responsibility from their trading partners – especially from their Suppliers.

### 17. Specific Arrangements

The Suppliers of parts/workpieces subject to heat treatment shall be required to comply with the requirements of CQI – 9 Special process: Heat Treat System Assessment.

### 18. Qualitative Objectives

Just as FŁT-KRAŚNIK S.A. shall be obliged against its customers, the Supplier of FŁT-KRAŚNIK S.A. shall be obliged to minimize defects, pursuant to "Zero Defects" rule.

This shall be proved by certain indicators, such as: internal analysis of the PPM rate, complaint rate and/or defect cost analysis.

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**19. Settlement of Disputes**

Any situation forcing FŁT-KRAŚNIK S.A. to carry out special activities on behalf of the Supplier in order to solve problems concerning the delivery, shall be considered a dispute.

The Intervention of FŁT-KRAŚNIK S.A. may arise from the Supplier's inadvertence (desisting from the action aiming at solving the problem – see clause 16 (repeated occurrence of faults)), or may also be agreed upon between the parts.

In the event that there is an inadvertence on the side of the Supplier (desisting from the action aiming at solving the problem), all additional costs incurred by FŁT-KRAŚNIK S.A. and arising from the delivery of faulty material shall be charged to the Supplier.

In such case, the costs charged to the Supplier shall be the subject of negotiations.

**20. Final Provisions**

Changes and additions to this contract shall require a written form.

Should FŁT-KRAŚNIK S.A. be obliged to fulfill quality requirements exceeding the provisions of this Quality Agreement (QA) towards their customers, the Supplier shall undertake to examine such requirements and to accept them.

Both the Supplier and FŁT-KRAŚNIK S.A. agree that in relation to the provisions of this Agreement, the existing or arising of a need to adapt or change its content shall be possible. The Parties of this Agreement shall undertake to cooperate in this regard, and to make every reasonable effort in order to take such needs into considerations.

This Agreement shall be concluded for an indefinite period of time and apply together with Agreement/Contract for Deliveries and may be terminated by any of the Parties within a period of 3 months counted from the end of the month in which the Agreement was terminated. The termination of the agreement shall not relieve the Supplier from the responsibility for the material delivered during the term of the agreement.

This Agreement shall not relieve any of the Parties from their up to now obligations and liabilities within the law.

The Agreement has been prepared in two identical copies, one for each party, both of them being equally authentic. The Agreement becomes effective on the day of its signing.



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21. Documents applicable together with this Agreement:

- ISO 9001
- IATF 16949
- PPAP
- CQI 9
- VDA part 2 Production Process and Product Approval (PPF)
- VDA part 6.3 Process Audit

On behalf of the **Receiver**

On behalf of the **Supplier**

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Date:

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(Receiver's seal)

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(Supplier's seal)