

Quality Assurance Agreement

Page:

1 Preamble	3
2 Principles	3
3 Requirements made of the quality and environment management system	3
3.1 Important suppliers	3
3.2 A-suppliers	3
3.3 Extended workbenches	3
3.4 Distributors	4
3.5 VDA – Volume 1	4
3.6 Other requirements	4
4 Other applicable documents	4
5 Auditing the supplier	4
6 Auditing sub-suppliers	5
7 Ongoing evaluation of the QM systems, review by KACO customers	5
8 Purchase sources approved by KACO	5
9 Important, critical product features and process parameters	5
10 Project planning	6
11 Quality inspections during development	6
12 Initial samples	7
12.1 Reasons for initial samples	7
12.2 Costs of the initial sampling	7
12.3 Ingredients	7
12.4 Testing and approval of the initial samples by KACO	7
13 EPC Phase (Early Production Containment)	7
13.1 Objectives of EPC	8
13.2 EPC-measures by KACO and the supplier	8
13.3 EPC exit criteria	8
13.4 The consequences of nonconformities	8
14 Series delivery	8
14.1 Quality responsibility and quality goals	8
14.2 Delivery output, emergency planning	9
14.3 Records	10
14.4 Traceability	10
14.5 Nonconformities	10
14.6 Delivery condition	10
14.7 Safety datasheets	11
14.8 Incoming goods inspection by KACO	11
14.9 KACO amendments	11
14.10 Amendments by the suppliers	11
14.11 Supplier evaluation	11
14.12 Increased freight costs	12
14.13 Spare part requirements	12
14.14 Assured quantity concept	12
14.15 Requalification test	12
14.16 Documentation duty	12
15 Complaints or problems	12
16 Controlled shipping, CSL 1, CS L2	13
16.1 Objectives of controlled shipping	13
16.2 General	13
16.3 Procedure for controlled shipping, CSL 1 or CSL 2	13
16.4 Exit criteria for controlled shipping, CSL 1 or CSL 2	13

17	Supplier development	14
18	Insurance duty	14
19	Observance of the confidentiality of operative and company secrets	14
20	Quality assurance representative	14
21	Legal remedies in the case of non-observance of the quality assurance procedure or breaches against cooperation duties	15
22	Negotiating with KACO customers	15
23	Term and termination of the agreement	15
24	Inconsistencies to other agreements	15
25	Applicable law, legal venue	15
26	Contract language	16
27	Measuring production process output	16
28	Forwarding of the KACO Quality Assurance Agreement	16
29	Final provisions	16
30	Amendments of Issue 3	16

1 Preamble

The Quality Assurance Agreement, in conjunction with all other technical documents, outlines the specifications that our suppliers and KACO need to satisfy.

The object of this Agreement is to ensure a constantly high level of quality of the services / products we supply and to reduce the number of double inspections.

This Quality Assurance Agreement applies to all suppliers of drawing parts, substances, operating media and supplies.

The supplier should be familiar with the content of the individual points and, if necessary, undertake negotiations or make agreements with the responsible KACO-purchasing office for each individual point.

This Agreement defines the contractual technical and organisational underlying conditions between KACO and the supplier that are necessary to achieve the agreed goals.

It describes the minimum requirements made of the supplier's management system with regard to ensuring quality.

In particular, this Quality Assurance Agreement defines the special requirements made of the production process and the product approval procedure.

2 Principles

The quality of our products and customer satisfaction has a high priority in our company.

The purchased products have a significant effect on the quality of our products which is why it is imperative that the products supplied to us are produced with processes that are continually improved with regard to the productivity and quality output. To ensure this, a consistent and effective quality and environment management system must be implemented.

The supplier undertakes to comply with the application legislation.

This Quality Assurance Agreement and the associated agreements have the status of customer requirements within the meaning of ISO TS 16 949 and VDA.

3 Requirements made of the quality and environment management system

The contractual parties communicate in German. Another language must be agreed separately.

The requirements made of the supplier's QM and EM system are based on the respective supplier classification, see 3.1, to 3.4 , **Fehler! Verweisquelle konnte nicht gefunden werden.** and Fig. 1: Summary of the minimum supplier requirements . The supplier is informed of its respective classification by the purchasing office.

New certificates and amendments to the certification status must be sent voluntarily to KACO.

3.1 Important suppliers

New and existing important suppliers undertake to introduce and maintain a quality management system (QM system) acc. to ISO/TS 16949 and DIN EN ISO 14 001 and to arrange for this system to be certified by an accredited certification body.

The KACO purchasing office decides about the acceptance of the certificates.

A process audit by KACO acc. to VDA with at least an AB classification is a prerequisites for new important suppliers.

3.2 A-suppliers

New and existing A-suppliers must be certified according to DIN EN ISO 9001.

New A-suppliers require a brief supplier assessment without nonconformities acc. to SD_S910_27 and an accepted environment self-disclosure acc. to SD_S350_01. The brief assessment is performed by the QS of the consumer plant.

3.3 Extended workbenches

New extended workbenches are approved by the work preparation office, the QS management of the consumer plant and the responsible purchasing office, if a classification of at least AB was achieved in the process audit.

3.4 Distributors

Manufacturer certificates will be accepted; the distributor must have and maintain a certified QM system acc. to DIN EN ISO 9001. In the case of a new distributor, a brief assessment without nonconformities acc. to SD_S910_27 and an accepted environment self-disclosure acc. to SD_S350_01 is required. The brief assessment is performed by the QS of the consumer plant or the material laboratory.

KACO requirements for suppliers	Important supplier	A-supplier distributors	Extended workbench
Recognition of Technical Delivery Conditions, (Quality Assurance Agreement RD_S530_01)	X	X	X
Certification ISO 9001	X	X	
Certification ISO TS 16949	X		
Certification ISO 14001	X		
Process audit VDA 6.3, at least AB classification	X		X
Brief assessment by KACO SD_S910_27		X	
Environment self-disclosure SD_S530_01		X	X

Fig. 1: Summary of the minimum supplier requirements

3.5 VDA – Volume 1

The supplier undertakes to introduce a system in accordance with VDA – Volume 1 at KACO's request.

3.6 Other requirements

The responsible KACO purchasing office can agree further requirements with the supplier.

4 Other applicable documents

Further to point 3, the suppliers must also provided the following specified documents in the latest valid version as agreed:

- VDA documentation
- AIAG documentation
- SD_S530_01, environment information from the supplier
- SD_S910_27, brief supplier assessment

If KACO has defined any special customer requirements, the supplier will review these and make an agreement with KACO about their realisation.

5 Auditing the supplier

The supplier agrees that KACO or KACO customers may perform an audit (brief assessment, system, process or product audit) after prior notification has been given. To this end, the supplier will grant KACO, KACO customers or persons commissioned by KACO unrestricted access to all production facilities, testing areas, warehouses and connected areas

and also access to all quality-relevant documents during normal working hours. The person performing the audit is authorised to make copies of the quality-relevant documents and to take these with him.

Acceptable restrictions by the supplier relating to company secrets will be observed.

6 Auditing sub-suppliers

The supplier has a duty, if commercially possible, to make agreements with its own sub-suppliers, which allow KACO or KACO customers to perform audits at the respective sub-supplier's premises in the event of quality problems caused by services or products provided by the sub-supplier. In particular, KACO or KACO customers must be allowed an insight into the following:

- the production process
- all quality assurance measures and organisational units
- the documentation.

Acceptable restrictions by the supplier relating to company secrets will be observed.

With this Agreement, KACO undertakes to keep secret all information relating to the sub-supplier which it has become party to during the audit.

7 Ongoing evaluation of the QM systems, review by KACO customers

Important suppliers

KACO reviews the effectiveness of the QM system acc. to VDA Vol. 6.3 (process audit) every 3 years and draws up a report.

If the supplier has an ISO TS 16949 certificate, this interval can be increased to 5 years. KACO accepts suppliers if they have at least an AB classification acc. to VDA Vol. 6.3.

A-suppliers, distributors

The evaluation acc. to SD_S910_27 is performed every 5 years; no nonconformities are allowed here.

Regardless of the schedules, KACO is entitled to perform a results-based audit at the supplier's premises.

As agreed, the supplier will grant KACO customers the same access as KACO. The know-how of the suppliers is protected appropriately.

If the supplier does not achieve the required classification / results, it will undertake to take action to remedy the problems within a reasonable timeframe.

The supplier must notify its certification body of any complaints relating to the its QM system.

8 Purchase sources approved by KACO

If contractually agreed, the supplier must purchase products, materials or services from purchase sources that have been approved by KACO.

This does not relieve the suppliers from their responsibility to check the quality of the purchased products, materials or services themselves.

9 Important, critical product features and process parameters

In principle, all product features and process parameters must be satisfied. Special attention must be paid during planning and realisation to the important, critical product features and

process parameters because any nonconformities can seriously effect the assembly properties, the function or the quality of subsequent production steps and statutory regulations.

The identification is performed as follows:

Important product features with [W1], important process parameters with [P1]

Critical product features with D [W1], critical process parameters with D [P1]

These are defined by KACO in the drawings, specifications. The supplier reviews these specifications and completes its own analyses with regard to the important features, critical features, e.g. by means of design, process FMEAs, etc.

QS- Standard

The QS specifications stated in the drawings relating to the statistical capability indices apply to important, critical process parameters, product features.

If other non-statistical analysis procedures for these features are selected by the supplier, these need to be approved by the KACO quality assurance via the production control plan.

QS standard	Preliminary process capability, machine capability Ppk-Index, Cmk-Index	Ongoing process capability Cpk-Index
QS 2	No process capability requirement (stability must be proven)	No process capability requirement (stability must be proven)
QS 3	$\geq 1,33$	$\geq 1,0$
QS 4	$\geq 1,67$	$\geq 1,33$
QS 5	$\geq 2,0$	$\geq 1,67$
QS 6	$\geq 2,33$	$\geq 2,00$
QS 7	$\geq 2,67$	$\geq 2,33$

Fig. 2: QS standard

The supplier, also in cooperation with the KACO development department, defines the special features for the functions, the use and the production of the parts and treats these like features defined by KACO.

10 Project planning

KACO gives the suppliers the project-specific deadlines, which the supplier uses to create a systematic plan in a project management process acc. to AIAG (APQP) and agrees this with KACO in an early stage of the proceedings. The KACO purchasing office will be informed promptly of any deviations.

The KACO purchasing office defines any procedures, e.g. VDA-Vol. 4, that differ from this.

11 Quality inspections during development

Based on the respective progress of the project, tests and assessments including capability examinations for dimensions, materials, functional and application suitability need to be performed; these tests must always state the target and actual values and be enclosed with the delivery as agreed (see VDA Vol. 2 or AIAG). This also applies to the production of samples, test samples and initial samples.

In the case of nonconformities, appropriate error analyses (process/tool/material/function) need to be performed.

In the case of an acceptance test, all nonconformities need to be recorded by the supplier in the test report with reasons and also with the permission of the quality representative from KACO approving these nonconformities.

Data feedback and modifications to drawings are imperative for approved nonconformities.

12 Initial samples

Initial samples are products that are completely manufactured using series operating equipment and under series conditions.

At least 300 initial sample parts (see KACO-order) must be manufactured by the supplier under series conditions. These must be analysed acc. to APQP or acc. to the requirements of the responsible purchasing offices and must be coordinated with the KACO quality assurance.

The supplier must perform and document analyses for all special features relating to the suitability of the systems used and make these available to KACO during initial sampling.

If the initial sampling is performed acc. to PPAP, this also includes documenting the results in English on the original documents.

The performance of the initial sampling must be approved by the responsible purchasing office for procedural-technology products.

Every delivery of initial samples must be clearly marked on the packaging with "INITIAL SAMPLE" and also in the delivery papers.

12.1 Reasons for initial samples

- New, modified parts
- After a fault has been rectified, if a part is available
- Use of other designs or materials than those that were approved
- New tool
- Overhauling or modification of existing tools
- Modification of production procedures, methods
- Relocation of tools and production equipment
- A change of supplier of parts, materials
- Longer standstill of production (> 12 months)
- If KACO has demanded that deliveries are stopped due to a quality problem

PPAP, submission level 3, applies as standard. Any other sampling procedures and submission levels will be agreed by the KACO purchasing office in separate contracts.

Individual agreements need to be made for procedural-technology products.

12.2 Costs of the initial sampling

The costs for the initial sampling must be borne by the party that triggered the production of the initial samples.

12.3 Ingredients

Substances that are subject to prohibitive statutory application may not be used in the product. Also, the KACO prohibited substances list, see KACO website <http://www.kaco.de/>, must be observed. You can download our prohibited substances list under the heading "AGB/Download". The supplier has a duty on the first day of each month to review whether there are any changes to the prohibited substances list compared to the previous month. KACO will state the current status of the list.

The composition of the materials used needs to be entered by the supplier into the IMDS system (International Material Data System – <http://www.md.system.com>). The IMDS-ID-number is stated on the covering sheet of the sampling report. Any other differing procedures must be agreed first with the KACO purchasing office.

12.4 Testing and approval of the initial samples by KACO

The quality assurance of the consumer plant reviews the EMPB documents. The test decision is recorded on the initial sample covering sheet and applies to all consumer plants.

13 EPC Phase (Early Production Containment)

After KACO has approved the initial samples, an early production containment is performed by the supplier. This involves the supplier applying the additionally agreed assurances and tests.

13.1 Objectives of EPC

The EPC has the following goals:

- Reduction of the risk for the supplier, KACO and its customers.
- Raising the level of confidence that all supplied products satisfy the KACO requirements.
- Prompt identification of quality problems at the supplier's company and not at the premises of KACO or its customers.
- More involvement of the top management in the event of problems and their visualisation

13.2 EPC-measures by KACO and the supplier

Unless otherwise defined by the KACO purchasing office, the following measures need to be defined and performed by KACO and the suppliers during the PPAP:

- If demanded by the EPC, KACO defines the schedule or quantity plan and any other requirements
- The supplier specifies the personnel responsible for the EPC process.
- The supplier draws up a written testing plan for the EPC-phase (this may be an extra plan or a part of the series testing plan) including additional measures, controls in the production process (machine settings, equipment, processing, reference parts, tolerance samples, staff qualifications, maintenance, surroundings)
- The supplier plans subsequent controls that are separate and independent of the normal production.
- If the supplier identifies nonconformities, it quickly undertakes immediate action and improvement measures.
- The supplier defines additional measures relating to the identity and test status (e.g. EPC-label).
- The supplier assures the quality of the material, parts by means of additional measures.
- The supplier uses the measures defined by KACO, such as identification of the packaging labels, markings etc.

13.3 EPC exit criteria

If the defined conditions regarding the quantity, time and/or results are achieved by the suppliers and KACO, production with the normal series level can be continued.
The agreements and the agreed requirements from KACO must be observed.

13.4 The consequences of nonconformities

If performance errors by the supplier occur in the agreed EPC phase, this may lead to KACO assigning a special classification, e.g. "Controlled Shipping Level (CS)".
If KACO discovers product-specific nonconformities, the EPC status must be continued and measures for reaching the exit criteria defined.

14 Series delivery

14.1 Quality responsibility and quality goals

The supplier must use statistical methods to create controlled and capable conditions with the goal of achieving and maintaining the required level of quality and achieving continual improvement.

The supplier must perform suitable quality tests to ensure that the products satisfy the defined quality requirements.

The testing scope and frequency must be oriented on the level of potential error effects (FMEA), the importance of the feature and the achieved process capability.

If the required capability is not achieved, a 100% test automatically becomes necessary. At the same time, the supplier must initiate action to achieve the required level of capability. The supplier must inform KACO immediately about the actions and also provide a schedule.

The supplier must keep continuous records of the tests that are performed. After giving prior notification, KACO is entitled to review the test documentation at any time during normal working hours.

KACO is entitled to demand verification of compliance with important properties by means of a test certificate from the supplier. In the case of individual assemblies or materials, these must comply with the requirements of DIN EN 10204, 3.1. It must be possible to allocate the test certificate to a batch.

In the event of process malfunctions and quality nonconformities at the supplier's company, the causes need to be analysed, improvement measures initiated and their effectiveness reviewed.

Notification of any changes to production procedures, test procedures, testing processes, materials or delivered parts by sub-suppliers or the relocation of production sites must be sent by the supplier promptly to the KACO purchasing office before these events occur so that the further course of action can be discussed and if necessary approved by KACO.

If nonconforming parts are discovered during production at KACO, at KACO customer companies or afterwards during the warranty period, the failed parts from the supplier are recorded part by part. The failure rate in ppm for assessing the supplied quality is calculated as follows:

Goals for the ppm-rate:

Failure rate in ppm = $\frac{\sum \text{nonconforming parts}}{\sum \text{delivered parts}} * 1,000,000$

$$\text{Ausfallrate in ppm} = \frac{\sum \text{fehlerhafte Teile}}{\sum \text{angelieferte Teile}} * 1.000.000$$

Year	2008	2009	2010	2011
Maximum ppm – Rate				

The goals stated in 14.1 are a measure for the level of achievement of the continuous quality improvement. They are taken into consideration when issuing future orders and in price negotiations.

The agreement of the goals stated in 14.1 does not affect the supplier's liability for warranty claims or claims for damages due to faults in the delivery, unless other provisions have been expressly agreed in writing. Unless anything else has been agreed in writing, the supplier is also liable for any faults, even if the error frequency lies within the framework of the agreed goals.

The supplier is responsible for all measures that are necessary to assure the required level of quality. The supplier undertakes to deliver fault-free contractual objects (zero-error requirement).

KACO can agree quality goals jointly with the supplier for specific products. This also includes defining what measures need to be taken if these goals are not achieved.

14.2 Delivery output, emergency planning

The supplier undertakes to deliver the contractually agreed number of units on the agreed date, i.e. it agrees to satisfy the delivery output to 100%.

The supplier draws up an emergency plan, which it will hand over to KACO on request, for ensuring that deliveries to KACO are maintained even in the face of problems in the fields of production, products, logistics, procurement, IT and environment.

14.3 Records

Quality data must be recorded for all areas by the supplier and presented to KACO for review on request.

The SPC application and assessment of attributive features must be performed in compliance with AIAG and VDA.

In the case of attributive assessments, the acceptance figure of the random sampling must always be zero.

As required by KACO, the quality data must be made available (stability, statistical indices, test certificates).

The archiving periods for test records and material analyses for products is at least 15 years. Development and approval documents, tool records must be archived during the active period plus 1 year.

14.4 Traceability

The supplier must ensure clear assignment of the materials and parts it purchases, the production batches and delivered batches to be able to provide a discharge of responsibility. The supplier must also ensure that its sub-suppliers also do this.

If a nonconformity is discovered, the traceability system must allow the quantities of the affected parts / products / product batches to be contained. KACO will inform the supplier which data it believes the supplier must provide for traceability purposes. This does not relieve the supplier from its duty to create its own effective traceability process.

14.5 Nonconformities

If the product or the production process differs from the approved product or process, the supplier must obtain approval from KACO or arrange for the nonconformity to be approved before production is continued.

Deliveries of products that differ from the target quality (product, process) may only be delivered to KACO after KACO has issued a written approval. The supplier applies for a special approval via the purchasing office.

The deliveries may only be made for the period or in the quantity defined in the special approval. Every delivery must be marked with the agreed identification.

14.6 Delivery condition

The product must be packed by the supplier so that it is adequately protected against dirt, damp and transportation damage.

The shipping type, packaging type and number of transportation and storage units must be agreed with the KACO purchasing office.

The supplier identifies every transport and storage unit as follows for:

Commercial products:

- | | |
|-------------------------------------|---|
| ■ Manufacturer | ■ Best-before, storage information if necessary |
| ■ Trade name | ■ Safety and hazard information if necessary |
| ■ Batch identification | |
| ■ Production, test or shipping date | |
| ■ Quantity | |

Also if produced according to KACO specifications:

- | | |
|----------------|----------------------------|
| ■ Ident number | ■ Drawing amendment status |
|----------------|----------------------------|

14.7 Safety datasheets

Safety datasheets that comply with the valid legal requirements of KACO must be provided, however at least for the first delivery or in the case of amendments or a hazard-relevant assessment of the delivery object.

14.8 Incoming goods inspection by KACO

KACO will immediately review the delivery papers after the products have been received to check whether the delivery contains the ordered type in the ordered quantity (ident-check). Also, the delivery is examined for any external transportation damage.

If KACO discovers any damage or errors during the above-mentioned inspections, it will immediately notify the supplier. If KACO discovers any damage or errors during further processing, KACO will also send out notification immediately.

KACO does not have any duty toward the supplier to perform more tests than those stated above or any further notification duties. If due to the above-mentioned, KACO is relieved from its obligation to give notice of defects, the supplier will not file an objection against the delayed submission of the complaint.

14.9 KACO amendments

The supplier will be notified in writing of any amendments to drawings or specifications.

The supplier creates an initial sample supplementary report for the amendments performed if these are not commercial products.

Any amendments (material, tools, processes, procedures etc.) planned by the supplier need to be approved by KACO before delivery.

14.10 Amendments by the suppliers

The supplier is not allowed to make amendments to products, processes, technical data, specifications, materials, quality criteria, schedules, delivery quantities, or to relocate production sites. The same also applies to agreements that unexpectedly cannot be satisfied, not even if the nonconformities are only discovered after delivery.

KACO must always be informed promptly.

The supplier always undertakes to obtain written approval from KACO.

If the supplier intends to amend processes, sub-suppliers, sites etc. it must notify KACO promptly and agree this beforehand with the KACO purchasing office. The consequences of the amendment to the design, function, output, shelf-life, production, assembly, delivery capability and prices must be assessed.

All changes to the product and product-relevant amendments in the process chain to the approved sampling status must be documented by the supplier in a product history.

If an amendment is not approved, KACO is entitled to cancel the order at any time within 6 months after it has become aware of the change.

The costs incurred by KACO caused by a non-approved amendment will be borne by the supplier. Other legal claims are not excluded.

Also, the KACO purchasing office must be informed of any mergers, acquisitions, incorporations and serious organisational changes. KACO reserves the right in these cases to verify the maintenance and effectiveness of the agreed management systems.

14.11 Supplier evaluation

The supplier receives a regular evaluation of its deliveries from every KACO division. The evaluation comprises the quality of the delivery object, delivery output (schedule, quantity) and flexibility.

If KACO receives complaints or notification of problems from its customers that can be traced back to the supplier, the supplier is informed and the supplier evaluation amended accordingly.

The supplier undertakes to achieve an A-classification for its quality and delivery output.

14.12 Increased freight costs

Please register all incidents involving excess freight costs and the costs to the responsible KACO purchasing office every six months.

14.13 Spare part requirements

The supplier must guarantee that spare parts will be available for at least 15 years.

The supplier also undertakes to obtain approval from KACO at least 12 months in advance if a product is discontinued or if it is known that a product will be discontinued or no longer available and the deliveries for this period must be secured. Sub-suppliers must also undertake to observe this.

14.14 Assured quantity concept

In the case of damaged tools and/or machine problems, the supplier will take suitable action to ensure that the supply of products to KACO is assured (e.g. faster, contractually promised access to tool-makers or machine servicing by the respective manufacturer). To avoid process interruptions, the supplier undertakes preventive maintenance/servicing.

14.15 Requalification test

The supplier performs an annual requalification inspection acc. to ISO TS 16 949 for every delivery object and documents the results in the same manner as the original sampling procedure. The results must be made available to the KACO purchasing office on request.

If the original sampling results are not achieved, the supplier informs the KACO purchasing office.

In the case of assemblies and other materials, the supplier agrees the type and scope of the requalification inspection with the KACO purchasing office.

14.16 Documentation duty

The supplier must keep quality records that can be analysed and that allow clear allocation to the respective product, production location and production date.

Quality records must be stored in a safe place where they can be easily found at any time. On request, they must be made available to KACO at short notice. The verification documents must be stored for a period of at least 15 years. In the case of parts or features whose documentation is subject to special archiving regulations (DmbA) and which are marked accordingly, the VDA 1 process 'Keeping verification, a guide for the documentation and archiving of quality requirements' must be observed.

15 Complaints or problems

In case of a complaint or problem at KACO or one of its customers, the supplier will be sent the following information:

- Consumer plant
- Designation (if necessary amendment status)
- Ident number
- Type and scope of the complaint
- Affected substances, parts, services
- Necessary immediate action

The supplier processes the complaint or problem using the KACO 8-D-report. The supplier's own 8-D-report forms will be recognised if they contain the information required by KACO.

The supplier informs KACO about the immediate action within 4 working hours after receiving notification of the complaint or within the time period defined by KACO.

KACO is informed about any medium to long-term action in agreement with the responsible KACO quality assurance office.

When faulty products are returned, the delivery papers and the packaging units must be enclosed with a note about the reworking that has been performed and they must also bear the KACO test report number.

If there is a fault with a large risk potential, the supplier allows KACO, the KACO customers and their customers access to all processes and allows them to perform an audit.

Statutory or contractual agreed rights of KACO resulting from warranty for defects claims and / or liability due to the provision of this section 16 are not affected.

16 Controlled shipping, CSL 1, CS L2

16.1 Objectives of controlled shipping

In the case of serious deviations from the agreed quality or delivery output, the controlled shipping procedure should be applied to achieve the original goals.

16.2 General

Controlled shipping is a KACO requirement made of the suppliers which provides for additional tests for sorting out nonconforming products as the examinations of the real causes of the error have not yet been effectively concluded.

KACO can demand that the supplier's certification body is informed about the status from Level 2 onwards.

KACO defines the exit criteria.

The supplier bears the costs of the controlled shipping.

16.3 Procedure for controlled shipping, CSL 1 or CSL 2

KACO informs the supplier about the defined controlled shipping status, the level classifications and the underlying data.

There are two controlled shipping levels:

- Level 1 (CSL1)

Triggers for Level 1 could be: Repetitive complaints, KACO estimates that an error (duration, significance, delivery) could pose a serious risk for KACO and / or its customers, failures in the field, internal / external supplier data.

Level 1 comprises a problem-solving process and an additional testing process. The supplier defines the test process at its site so that no faulty products reach KACO.

The additional tests need to be performed by staff independent of the production who have been named to KACO.

- Level 2 (CSL 2)

If the action taken in Level 1 is not effective, further action can be demanded by KACO.

Triggers for Level 2 could be: Nonconformities in the status of Level 1, new information about the trigger of CSL1.

Level 2 comprises the requirements of Level 1 and additional tests by KACO or a third party that represents KACO's interests. The contracted third party must be approved by KACO. These additional tests can be performed as defined by KACO at the supplier's premises or at another appropriate location.

KACO, KACO agents or the KACO customers can check for themselves the status of the work on site.

16.4 Exit criteria for controlled shipping, CSL 1 or CSL 2

The following exit criteria must be achieved for Level 1:

- The data from 20 work days shows that the action has been realised effectively. The time from when the corrective action was realised is examined.
- The documentation shows that the real causes of the errors have been recognised.

- The documentation shows that the corrective action has been realised effectively.
- Relevant documents have been reviewed and updated (FMEA, test plan, process flow chart, process documents, staff training, etc.)
- Relevant statistical data is available.
- The additional KACO requirements have been satisfied.

The exit criteria of CSL 1 and the following listed below need to be satisfied for CSL 2:

- All measures in the plan of action must be concluded
- The review of the effectiveness of all measures of the plan of action has been confirmed by KACO, a KACO agent or the KACO customers.

Additional criteria may also be defined in addition to the given criteria.

17 Supplier development

If the supplier does not meet the KACO requirements (supplier evaluation, process audit, brief assessment, etc.), KACO helps the supplier to fulfil the specifications.

To provide support and help coordinate the introduction and application of quality techniques, we offer, on request, training courses, e.g. process orientation, 300-SP.

Information about training courses are available from the purchasing departments.

18 Insurance duty

The supplier has a duty to conclude an expanded product liability insurance policy with a total coverage for personal injury / damage of at least 2.5 million € / per case; this must be maintained as long as this Agreement is valid.

If an insurance claim is made, the supplier and KACO have a duty to mutually inform each other about all circumstances and incidents connected with the insurance case.

19 Observance of the confidentiality of operative and company secrets

The contractual parties mutually agree to keep confidential all information and know-how they have been given by the other partner and not to make this information available to third parties without the other partner's written approval or to use this information for purposes other than that for which the information was provided. This commitment also covers all operative and company secrets that are conveyed during audits or which becomes known as the result of an audit. This does not apply to information

- a) that is or has become generally accessible or
- b) that was given to the recipient by a third party authorised to do so without asking for confidentiality, or
- c) that the contract partner can prove it was already party to before the receipt date.

If one of the contractual partners recognises that secret information has become known to a third party or a confidential document has been lost, it will immediately inform the other partner. The duty of secrecy also applies even after the end of this Agreement.

20 Quality assurance representative

The supplier gives KACO the name of a quality assurance representative who will coordinate the performance of the quality assurance tasks and the associated decisions that need to be taken or initiated.

Company :
Name :
Function :
Telephone :
E-mail :

Notification must be given in writing of any change of agent.

21 Legal remedies in the case of non-observance of the quality assurance procedure or breaches against cooperation duties

In the event that:

- a. the supplier does not fulfil important requirements of the contractually agreed quality assurance procedure or
- b. the supplier refuses, without any legal basis, to provide contractually owed important information or
- c. the supplier refuses, without any legal basis, to perform an agreed audit or an audit that KACO is entitled to demand or
- d. the supplier breaches other important cooperation duties

In this case KACO is entitled to do the following regardless of its statutory claims:

- a. Refuse to accept ordered goods until the supplier satisfies its cooperation duties or can verify that it has complied with the agreed quality assurance procedure or it has informed KACO about specific corrective action with regard to the negative results established during the audit.
- b. Terminate all or parts of the series delivery contract after the unsuccessful expiration of a period of grace.
- c. Demand replacement for the additional costs incurred by KACO for an incoming goods inspection due to the above-mentioned contractual breaches.

This does not apply if the supplier is not responsible for the above-mentioned contractual breaches.

If the supplier has breached this Agreement for reasons other than those mentioned above, the contractor will be due all statutory claims regardless of any other agreed claims.

22 Negotiating with KACO customers

All questions between the KACO customer and the supplier regarding the product, the production and procurement process, the use or any problems will be answered by KACO. Direct negotiations and agreements with the customer are only allowed after prior agreement with KACO.

23 Term and termination of the agreement

This Quality Assurance Agreement comes into effective for an indefinite period when signed by both contractual parties. It can be terminated by any of the contractual parties with a six-month period of notice of to the end of the month.

The right to termination without notice for important reasons is not affected.

The termination must be made in writing and sent by registered post with a return receipt.

In the case of delivery agreements concluded before the end of the term of this Quality Assurance Agreement, the specifications of this Quality Assurance Agreement also apply even after the end of the term of this Quality Assurance Agreement until the end of term of the delivery agreements.

24 Inconsistencies to other agreements

If this Agreement is inconsistent to other agreements (e.g. skeleton delivery agreements, confidentiality agreements etc.), the regulations of the other agreements take precedence over the regulations of this Agreement.

25 Applicable law, legal venue

In addition to the provisions of this Quality Assurance Agreement, only the laws of the Federal Republic of Germany will apply.

Legal venue is Heilbronn.

26 Contract language

The contractual parties will communicate in German. Another language must be agreed.

27 Measuring production process output

Please submit to us the qualitative output measurements of your production, such as e.g. productivity, target deviation costs, scrap, SPC index, delivery output, quality costs, customer complaints, through-flow times, machine utilisation levels, etc.

28 Forwarding of the KACO Quality Assurance Agreement

The supplier must forward the content of these technical delivery conditions to its own suppliers and ensure that they observe this Agreement; also the supplier must check that it is implemented effectively.

29 Final provisions

Any amendments or supplements to this Agreement must be made in writing. This also applies to this clause.

If any of the provisions of this Agreement should be wholly or partially invalid, this will not affect the effectiveness of the remaining provisions. The parties will attempt to agree quickly on a new provision that best approximates the original commercial intention of the invalid provision.

The same also applies if there is a gap that needs to be closed.

The supplier confirms that it is aware of the following regulations:

- **VDA 1**, 'Keeping verification, a guide for the documentation and archiving of quality requirements
- **VDA 2**, Securing the quality of deliveries
- **VDA 4**, Securing quality during product realisation – methods and procedures
- **VDA 4.3**, Project planning
- **APQP, PPAP** and the associated specifications,
- **APQP** (Advanced Product Quality Planning)
- **GADSL**, Global Automotive Declarable Substance List

Central purchasing office

Quality and environment management

A. Keicher

H. Veitz

30 Amendments of Issue 3

Completely revised