Quality management system

of supplies and services

(hereinafter referred to as „Document“)

of company

Automotive Group SK, s.r.o., IČ: 35 884 789,
seat Niklová 56, 926 01 Sereď, Slovak republic

(hereinafter referred to as „Purchaser“)

Aims

This Document contains the requirements of the Purchaser regarding quality assurance of deliveries (of purchased items and materials) and services provided by other persons to the Purchaser (this persons hereinafter referred to as "Seller").

Scope of application

This Document applies to all the Sellers of deliveries and services that enter the products of the Purchaser or products that are being sold as the products of the Purchaser.

Definition of terms

Terms with initial capital letters have the following meanings, unless the text of the Document indicates otherwise:

PPM – Parts Per Million (number of defective units / number of units delivered)

Standard ISO 9001 – European norm Quality Management System. Requirements (ISO 9001)

Method 8D (8 disciplines) – 8 Steps methodology suitable for resolving complains. In this case, the supplier is responsible to develop and implement corrective actions to the customer's request.

CCs – Critical Characteristic, Meaning in FMEA 9-10

SCs – Significant Characteristic, Meaning in FMEA 5-8

FMEA – Failure Modes & Effects Analysis

VDA 2 – Manual VDA. VDA 2 Quality Management in the automotive industry. The quality assurance of supplies.

PPAP – Production part approval process, manual.

Collection of „Quality Management in the automotive industry" –

The publication „Quality assurance of supplies" –

Terms with initial capital letters which are found in the text of the Document, but the Document does not define are as defined in the General Terms and Conditions of Purchaser, if the text of the Document indicates otherwise.

1. General provisions

This Document determines requirements and procedures for quality assurance, however, it does not limit the Seller's responsibility for quality which he is obliged to provide.

With conclusion of Purchase contract will be between the contracting parties that the Seller familiarized with this Document and expressed his content with their consent, when this moment, this Document becomes an integral part of the Purchase contract concluded electronically between Purchaser and Seller.

1.1. Quality aims

The highest aim of all the activities related to quality assurance is clients' satisfaction. That is why all deliveries and services of the Seller have to fully correspond to all negotiated and contractual requirements.

1.2. Quality assurance liability

1.2.1. The Purchaser has a duty toward his clients and users to assure quality of the products and services. While observing this basic rule, the Seller shall develop, realize and control all deliveries and services (for the Purchaser) in such a way that guarantees conformity with all required quality factors.

1.2.2. The Seller shall control the specification of deliveries and provided services, so that they are in accord with the relevant methods and production processes.

1.2.3. The Seller is obliged to notify the Purchaser of all the facts that are unclear to him. If there is a possibility to substitute the system / method stated in the technical documentation or the process stated by the Purchaser for the more appropriate, more cost-saving, more ecological and / or more effective process or application, the Purchaser shall be provided with relevant proposals.

1.3. Ecology provisions

1.3.1. Statutory requirements and limit values represent minimum requirements for all processes included in the production

process and apply to all services provided. Changes of statutory requirements shall be realized by the Seller without a special notice from the Purchaser.

1.3.2. In case of hazardous material delivery a declaration of security data has to be sent; transport of such material has to be secured in accordance with the national rules or provisions.

2. Quality of goods

2.1. The Seller guarantees conformity of quality of the goods supplied under the Purchase agreement with standards, technical requirements, drawings agreed with the Purchaser. Any design changes or changes in raw materials shall not be done unilaterally without prior notification and consent of both parties. The Seller confirms the compliance of each delivery by a **quality cettificate "Control report"**.

2.2. The Seller should keep to the target of quality of the goods supplied. Target quality is agreed in PPM, the value of which should not exceed 35. This PPM target is calculated individually for each unit of the goods supplied.

2.3. The Seller is obliged to maintain quality management system in accordance with the ISO 9001 or ISO TS 16 949 standard.

2.4. The goods should be identified. Identification marks should ensure complete traceability of the goods during their life cycle and should allow to determine unambiguously, which part belongs to which delivery.

2.5. If due to some hidden non-conformance of the goods with the technical documentation or in the process of their storage or use the damage is incurred to health or property of the third party, this damage has to be compensated at the Seller's costs in case these faults are caused by the Seller.

2.6. If the non-conformance of the goods with the technical documentation causes the necessity of sorting and repairing the goods, replacement of components mounted in the vehicle, causes the breakdown or idle time of the Purchaser's equipment, or damage of the vehicle because of bad quality of the components that had been installed in the vehicle, the Seller has to compensate the Purchaser for the incurred damage, documentarily proved, in the whole volume.

2.7. In accordance with the special requirements of the automobile industry, the guarantee period for supplied parts makes 60 months from the date of their installation into the Purchaser's product but not more than 66 months from the date of their delivery to the Purchaser.

3. Complaint

3.1. After discovering non-conforming goods the Purchaser makes a Notification of non-conformity and notifies the Seller via e-mail. The Seller is obliged to develop a documented analysis of reasons for non-conformity and an action plan to prevent further deliveries of non-conforming goods using the 8D procedure.

The Seller shall react to the claim of the goods, which are not-conformed with the specification, without delay and in the following manner, unless otherwise agreed:

1. immediate confirmation of the receipt of the claim
2. within 48 hours a notice should be sent to the Purchaser, containing the following points:
   a) a description of non-conformity
   b) the reason of non-conformity (if it was detected within 48 hours)
   c) immediate start of limiting measures (damage limiting)
   d) corrective measures (liquidation of the reason)
   e) preventive measures to prevent recurrence
   f) time / date of the realization of the measures and a person responsible for their realization.

3.2. The Seller is obliged by the Purchaser's demand to install additional 100% control post for the criteria set by the Purchaser.

3.3. The Seller is entitled to send a representative to confirm or dispute the quality issue. The Seller should notify the Purchaser about the arrival of the representative within 5 (five) working days of receipt of the Notification of non-conformity.

3.4. Should there be disagreement between the Seller and the Purchaser in evaluation of the quality of the supplied goods, the Purchaser submits samples of the goods in question to an independent expertise to the authorized organization determined by the Purchaser. Decision of the independent organization is considered to be final and mandatory for both parties. Expenditures for the expertise are borne by the party in fault.

3.5. As a general rule, each month or at least each half a year the Purchaser makes the Notification of non-conformity for the parts found to be unsatisfactory during the month and sends a claim to the Seller supported by:
- ✓ Notification of non-conformity
- ✓ calculation of losses and the Purchaser's invoice.

3.6. The Purchaser is entitled to submit a claim on quality of the goods during warranty period determined in the paragraph 2.7 of this Document. The following documents should be attached to the claim:
- ✓ Notification of non-conformity

- ✓ calculation of losses.

3.7. The Seller is obliged to accept the claim or notify the Purchaser of disagreement with the claim within 10 (ten) working days of receipt of the claim and Notification of non-conformity. If the Seller doesn't respond to the claim within 10 (ten) working days of receipt, the claim is considered accepted by the Seller.

3.8. If the Seller accepts the claim, the claim should be satisfied by reducing the sum to be paid for the next delivery by the amount of the claim or by bank transfer in the amount of the claim to the Purchaser's bank account within 10 (ten) working days of receipt of the claim.

3.9. The Seller is obliged to collect the non-conforming goods within 30 (thirty) days of receipt of the claim. After this period the Purchaser may utilize the goods in question without Seller's consent.

3.10. The Purchaser has the right to hold an audit of the production site, product and Quality Management System of the Seller and his sub-sellers. The Seller is obliged to guarantee access of representatives to the production site and should submit to the Purchaser all the documentation related to Quality Management System and quality of goods.

3.11. In case the Purchaser detects discrepancy in the quantity of goods with the data in the shipping documents, he is obliged to inform the Seller about this fact within 7 (seven) working days of the detection date.

3.12. In the case mentioned in paragraph 3.11, purchase price is reduced by the value of the missing amount including losses suffered by the Purchaser – transportation costs and customs costs for not delivered parts.

3.13. *Detection of non-conformity of the incoming goods*

The Purchaser is entitled to:

a) return the goods at the Seller's costs
b) ask the Seller for control of the goods or reimbursement of control costs (20 €/hour for an internal employer of Purchasing department or involvement of sorting company on Purchaser (or customer) request.
c) receive the reimbursement of additional costs for purchasing substitute goods

3.13.1. Detection of non-conformity by the Purchaser's client

The Purchaser is entitled to refer the reimbursement costs to the Seller, if the costs relate to non-conformity of the products.

3.14. *Complaints and aims*

All complaints shall be collected and evaluated by the Seller. If needed,

these data will be compared with the Purchaser's data.

3.15. In case the assortment of goods delivered in any lot doesn't comply with the assortment fixed by the Contract, the Purchaser has the right not to pay for it. If the goods in question are paid before, the Purchaser has the right to demand repayment of the sum paid or to reduce the sum to be paid for the next delivery in the amount of the sum paid. The Purchaser in this case has the right for compensation of the losses suffered connected with customs duties paid and transportation costs for the goods which don't comply with the assortment fixed by the Contract.

3.16. The Purchaser's payment for and/or acceptance of the goods shall not relieve the Seller from any of his obligations, representations and/or warranties under this Document.

3.17. The Purchaser is authorized to charge a fee 250€ for each claim.

4. Preliminary product quality planning

The Seller has to thoroughly follow basic principles of faults prevention (not faults detection). This duty results from the systematic planning of quality.

4.1. Producibility and contract analysis

The Seller has to analyze each contract with regard to its producibility. In this sense, producibility means, that it is possible to produce the required products in conditions of serial production without any limits, especially regarding technical and commercial requirements, e.g.:

a) capacities and amounts
b) deadlines or deadlines agreed
c) prices
d) brief description of the product
e) drawings
f) specifications
g) process capabilities, i.e. qualification for CCs and SCs

Feasibility has to be proved for all new and changed projects. Any concerns have to be reported to the Purchaser as soon as possible.

Contractual acceptance of the order is considered a confirmation of producibility.

4.2. Project plan, milestone plan

For the purpose of project planning and realization planning the Seller shall create a project plan or milestone plan.

The project plan contains the following milestones:

a) preparation of FMEA design (if the development is realized by the Seller)
b) preparation of FMEA for production and serial production
c) preparation of control and management planning for pre-production and serial production (including critical characteristics - CCs - and significant characteristics - SCs - regarding dimensions, material, function and life cycle)
d) planning and realization of controls, measurements and testing of equipment (including proving of control, measurement and testing of equipment)
e) production of a prototype (if inevitable)
f) production of a pre-production sample (including documentation about actual values of the product)
g) determination of the device capability and process capability (for CCs and SCs)
h) realization of initial sample control (including reports on control, presentation of sampling according to the Purchaser's request, usually according to VDA 2 or PPAP)
i) beginning of production and fulfilment of the system.

4.3. Planning of controls and realization of controls, measurements and testing of equipment

4.3.1. Systematic planning and realization of control and realization of measurements and testing of equipment ensure, that regarding new/or changed products, production processes etc.:
a) all significant characteristics related to quality were recorded
b) control and testing processes, which are being used, as well as their frequency, are suitable
c) controls, measurements and testing of equipment were properly planned and are available for the beginning of pilot production.

4.3.2. Significant characteristics related to quality are included in drawings, product description and specifications. Critical and significant characteristics of the products, which have to be specially taken into account in the cases of controls, measurements and equipment testing, shall be determined in co-operation (the Purchaser), taking FMEA finding into consideration.

4.3.3. Control and management planning shall contain at least the following information:

a) identification data (e.g. producer, design, drawing number, version of technical revision, what is the subject of the required documentation, made out by, user, date)
b) control and testing characteristics (at least all CCs and SCs)
c) significant process parameters
d) controls, measurements and testing tools
e) frequency of controls and testing
f) method of controls and testing
g) type of control and testing (quantitative and qualitative)
h) sample size or 100% control
i) corrective measures in case of non-conformity
j) person responsible for realization of corrective measures.

4.3.4. Control, measurement and testing equipment has to be prepared or purchased by the Seller and it shall take economic and production aspects into account.

4.4. (canceled)

4.5. *Proving of process qualification and qualification (pre-serial production and serial production)*

4.5.1. For the purpose of early informing about qualification for serial production - if possible in the time of preparation of production - it is inevitable to make analysis of process qualification. By means of process qualification analysis it is possible, based on mathematical and statistic evaluation procedures, to evaluate conformity of the process with specific quantitative requirements. These analyses give information about where and in what extent operations or processes are to be improved before the beginning of serial production.

4.5.2. Selection and specification of characteristics which have to be proven by means of process qualification shall be done by agreement with the Purchaser. These characteristics include at least all critical and significant characteristics.

4.5.3. Before the preliminary sample control, a process capacity has to be evaluated during at least three hours or 300 parts and has to include at least one process change. Qualification of all CCs and SCs has to be confirmed by the producer of the components which were produced under the conditions of serial production.

4.6. *Sample control*

4.6.1. The aim of sample control is - before the beginning of serial production - to prove the fulfilment of quantitative requirements

stated in the drawings and specifications. This control is used for the purpose of eliminating systematic faults before the beginning of serial production or before receiving permission for serial production.

4.6.2. Sample control has to be done according to PPAP or VDA 2 provisions stated in the publication "Delivery Quality Assurance" (part 2 of the collection "Quality Management in Automobile Industry"). There are two types of samples:

a) "other samples" are products and materials which were not produced under the conditions of serial production in full extent
b) "input samples" are products and materials which were produced under the conditions of serial production in full extent and by using operational resources of serial production

4.6.3. The basic requirement for successful control of input samples is based on the precondition that reports of input sample control are correct and fully filled out, as stated in the VDA publication or PPAP procedures.

4.6.4. If input sample control was not successful due to non-conformity of the first parts, the Seller by agreement with the Purchaser shall make a written plan of corrective measures, stating a planned date of realization and a responsible person for each corrective measure. Beside that, a date of the repeated input sample control shall be agreed.

5. Other provisions

5.1. This Document comes into force and effect on the date of its issue to the Sellers.

5.2. Should a provision of this Document become unexecutable, they shall be substituted by executable provisions, which will comply with the purpose of this Document at the time of his publication. The remaining provisions of this Document shall remain unaffected.

5.3. The Purchaser is entitled to modify this Document at any time. Seller has the option to express to changes of this Document within 7 days of receipt (in electronic form). In the event that the Seller does not respond within the required time to the changes of this Document, it is understood that agrees with the changes.

5.4. The provisions of this Document shall prevail over the provisions of the General Terms and Conditions of the Purchaser.

In Sereď on

za Automotive Group SK, s.r.o.