Quality Assurance Agreement with Packaging Material Suppliers

between

 Schaeffler supplier no.:

 UPIK/DUNS no.:

 (hereinafter referred to as the "Supplier“)

and Schaeffler Technologies AG & Co. KG

Industriestrasse 1 - 3

91074 Herzogenaurach

Germany

 (hereinafter referred to as the Customer)

**Preamble**

The competitiveness and position of the Schaeffler Group in the world market is decisively determined by the quality of our products. Faultless quality and reliability of the packaging materials purchased from our suppliers or associated services have a corresponding influence. Quality requires a timely and effective quality management system that also includes the supplier.

This *Quality Assurance Agreement with Packaging Material Suppliers (QAA)* is a contractual statement of the fundamental technical and organizational conditions governing all deliveries and services to the Schaeffler Group (i. e. Schaeffler AG and all companies in which the Schaeffler AG directly or indirectly hold a majority interest) that are required in order to achieve the intended quality objective of "zero defects". It describes the minimum requirements that are placed on the supplier’s quality management system.

The conclusion of this Quality Assurance Agreement represents an indispensable step for a future business relationship with the Schaeffler Group.

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# The supplier’s responsibility for the quality of his products and services

The supplier is responsible for providing products and services that are free from defects and in accordance with the technical documents agreed in writing (see *Section 3.1*). He must check that the documents are complete and correct and, where necessary, request further information from the customer. When implementing packaging material developments, the supplier must be aware of the requirements placed on the product and obtain information from the customer if any issues are unclear.

If the supplier places orders with subsidiary suppliers, he must also implement the requirements of this *Quality Assurance Agreement with Packaging Material Suppliers (QSV)* in relation to his subsidiary suppliers.

The quality strategy of the supplier must be oriented towards continuous improvement of his products and services. The objectives are “zero defects”, 100 % delivery reliability and the reduction of costs.

The supplier has unrestricted responsibility for the product or service supplied by him.

# Quality management system

## General

In order to qualify for classification as a strategic supplier to the Schaeffler Group and thus special consideration when orders are placed, certification to ISO 9001:2000 is a fundamental precondition.

## Evidence for the quality management system

The supplier takes responsibility for presenting the certificate to the relevant Commodity Manager in Schaeffler Group Strategic Purchasing and gives notification of updates immediately after expiry of the period of validity or withdrawal of the certificate. Any shortcomings will lead in supplier assessment to downgrading in the quality index QZ3 (see *“Quality Assurance Agreement with Production Material Suppliers / S 296001 Part 5 - Supplier Evaluation“*).

## Checking of the quality management system, process and product quality

If the supplier is found to have quality deficiencies or system weaknesses, the customer has the right to check compliance on site with his requirements. This check can be carried out in the form, depending on the situation, of a technical discussion, quality discussion or of a system or process audit and is agreed with the supplier in good time before its planned implementation. Any costs incurred by the customer may be charged to the supplier. The supplier bears any internal costs himself in any case.

The supplier shall grant the customer access to the affected areas and sight of the corresponding documents. Appropriate restrictions by the supplier to protect his company secrets will be accepted conjointly.

# Fundamental preconditions and measures

In order to detect sources of defects at as early a stage as possible, targeted preventive measures must be introduced even before the start of production. Defects occurring during manufacture must also be detected in good time in order to allow the introduction of suitable immediate measures for their prevention.

## Technical documents

The quality characteristics to be complied with are defined in the technical documents, such as drawings, materials specifications, product supply guidelines, delivery conditions, instructions valid for ordering, process guidelines, design briefs and design specifications of the customer. The customer shall always provide the supplier the latest technical documents in printed or data form.

The supplier must ensure that production and inspection is carried out in accordance with these documents available to him and agreed with him (see *Section 3.3*).

## Planning and control

In order to produce packaging materials and provide services such that they are supplied in the quality and quantity required by the customer, the internal process operations of the supplier must be planned and controlled in an optimum manner.

## Checking and confirmation of production feasibility

The supplier must check, before confirming the order, whether secure production is possible while complying with customer requirements and taking account of his own or any additional external production facilities required. If the supplier finds that he cannot comply with certain requirements, he must agree a further course of action with the relevant technical departments of the customer.

## Initial production sampling

The customer defines internally which products or services require initial production sampling (see *Quality Assurance Agreement with Production Material Suppliers* / *S 296001 Part 2 – Production Process and Product Release Procedure*). The requirements associated with initial production sampling are defined in the relevant "submission level" (see *S 296001-2*). This information is passed on to the supplier in the form of an initial production sample order by the purchasing department at the specific recipient plant of the customer.

Initial production sampling serves as proof that the product demands which have been agreed with the customer are met.

Depending on the specified “submission level” the customer assesses on the basis of the corresponding documents and records to be included in the delivery as well as on the basis of initial production samples, whether the requirements for volume production release and volume production delivery for products which conform to specifications are met.

## Inspection planning

The supplier must define the required monitoring and inspection activities before the start of production.

## Measures to be taken by the supplier in response to the occurrence of defects

If, at the supplier’s premises, the product or service to be supplied is found to have a defect, the process must be interrupted immediately and corrected.

If products are produced in series, those manufactured since the last inspection that gave a positive result (last good part) are to be inspected 100%. If it is found, when the defective quantity is being delimited, that defective products may already have been despatched to the customer, the relevant quality assurance function in the specific recipient plant of the customer must be notified immediately and the further course of action clarified.

The defect root cause(s) defined in the 8D method as well as the corrective measures introduced must be notified to the customer in writing in printed or data form.

The supplier can use either his own forms or the appropriate template of the customer (see *S 296001-4 “Quality Assurance Agreement with Production Material Suppliers / S 296001 Part 4 - Processing of Concerns“, Appendix 1*).

## Concessions

If deviations from the product or service specification (drawing, technical delivery conditions, material, material characteristics, etc.) are found, the supplier must apply to the customer for a concession before the products are despatched.

The written agreement of the customer must be obtained via the contact person indicated on the order using the customer-specific request form (see *“Quality Assurance Agreement with Production Material Suppliers / S 296001 Part 3 – Concessions/Special Release“, Appendix 1*).

The concession granted by the customer must be included with the delivery documents.

## Subsequent improvement of products and services

If subsequent improvement of the supplier’s products or services is necessary, the customer reserves the right to carry these out himself in order to prevent disruption to his own manufacturing operations, for example lost production due to machine downtime. If the supplier carries out this rectification himself, he must ensure that this does not have a negative effect on the quality or function of the product or service supplied by him.

## Measures to be taken upon detection of defects after delivery

If defective products are only detected once they have been supplied to the customer, the supplier must if necessary interrupt his production immediately and check or sort any goods in transit to the customer or already at the customer.

All products already supplied will be returned at the supplier’s expense after prior discussion of timings. Depending on the situation, the supplier must promptly supply usable replacements free of charge (possibly through sorting and removing the defective products). Effective preventive measures must be introduced autonomously by the supplier.

Any additional outlay at the customer as a result of defective products, such as rework or scrapping, will be invoiced to the supplier.

## Packaging and identification

The supplier is responsible for protecting his products by means of suitable external packaging or means of transport. At delivery, the external packaging and the products themselves must be identified in accordance with the agreements made with the customer and the valid packaging specifications of the customer.

The delivery note and packaging units (external packaging, individual packaging) must be identified as a minimum by means of:

* order number
* quantity and measurement unit
* customer drawing or customer standard with revision level

Additional information where appropriate may include:

* customer material number
* material batch number
* copy of the concession granted by the customer (in accordance with *Section 3.5.1*)
* reference to any partial or remaining deliveries
* marking of initial production samples

## Product inspection

In order to monitor, assess and where necessary improve the effectiveness of his quality assurance measures, the supplier must before despatch check and document the compliance of the products to be supplied with the technical documents, drawings, specifications, standards, legal regulations and other specified quality characteristics.

## Documentation

For all products manufactured according to a technical delivery condition or customer drawing, the supplier must prepare acceptance certificates 3.1 in accordance with DIN EN 10204 and DIN 55350-18 and store these for a minimum of one year. These should be made available to the customer, on request, within 24 hours. Alternatively, statistical records on material requirements are permissible.

Deviations from this requirement can be regulated in writing for each individual case.

## Archiving of quality records

For the purposes of traceability in the event of a quality defect, the supplier must, where applicable, store quality records generated parallel to production, e.g. measurement records, material test certificates or other test results, for a minimum of one year after their creation.

## Training of employees

All employees of the supplier must be adequately qualified for their respective task range by means of suitable training measures. The supplier must maintain appropriate training evidence.

## Inspection equipment

The supplier must be equipped with inspection equipment such that all contractually agreed quality characteristics can be inspected. The inspection equipment must be regularly monitored and held in a condition capable of use. It must be possible to determine the date of the next monitoring. The inspection masters used for calibration must be traceable to national or international masters. If an external company is utilised, this must have appropriate accreditation with evidence available.

If necessary, suitable inspection equipment and methods should be matched between the supplier and customer.

## Environment, safety, recycling

An objective of the customer is to eliminate negative effects on people and the environment due to his products and those purchased by him. Compliance with applicable laws and directives is therefore a minimum requirement placed on the supplier.

The materials used and their constituents must comply with the legal regulations relating to the environment, safety, recycling and, if necessary with the customer standards specially agreed in writing or the drawing data.

Certification to ISO 14001 is desirable and is taken into consideration accordingly in supplier assessment in the quality index QZ3 (see *“Quality Assurance Agreement with Production Material Suppliers / S 296001 Part 5 - Supplier Evaluation“*).

## Checking of contractual products supplied

The supplier is responsible for delivery of the contractual products ordered in accordance with the specification. Goods arriving in the Goods Inward facility of the customer are always checked for quantity and identity as well as transport and packaging damage. Any concerns arising are notified to the supplier without delay.

Furthermore, the customer will check the goods supplied in parallel with production depending on the feasibility of acceptable business operation and notify the supplier of any deficiencies occurring immediately after their detection. In this respect, the supplier waives the objection of delayed complaint of fault.

## Concern analysis

The customer informs the supplier of concerns in the form of an inspection report or a complaint. The subsequent concern analysis and preparation of suitable preventive measures must be carried out according to the 8D method (see *“Quality Assurance Agreement with Production Material Suppliers / S 296001 Part 4 - Processing of Concerns“*).

In general, the supplier is required to provide a written response within two working days (fax, e-mail) with the introduction of immediate measures. Any other, longer response times are specifically notified to the supplier in the inspection report.

Concerns are fed into the supplier assessment system (see *“Quality Assurance Agreement with Production Material Suppliers / S296001 Part 5 - Supplier Evaluation“*), which represents an important decision-making criterion for the customer in the placement of new orders.

## Delivery reliability

The supplier is under obligation to comply with and monitor the agreed quantities and dates. If he establishes that it will not be possible to supply the agreed delivery quantity on the agreed date, the customer’s contact person stated in the order must be informed immediately.

Deviations from the agreed delivery date and agreed quantity are also fed into the supplier assessment system (see “*Quality Assurance Agreement with Production Material Suppliers /
S 296001 Part 5 – Supplier Evaluation”*), which represents an important decision-making criterion for the customer in the placement of new orders.

## Notification of modifications

The supplier must notify the customer's purchasing department at the relevant inspection plant of the following modifications as soon as possible.

Modifications:

* to materials or raw materials
* to inspection methods, equipment for inspection of products or other quality assurance measures previously agreed in writing
* in the event of a planned transfer of manufacturing locations

The supplier may only introduce these modifications once the relevant technical department(s) has/have checked the effect of the aforementioned modifications on the product and given its/their agreement or a concession in writing.

# Term

This *Quality Assurance Agreement* shall enter into effect at the time of the execution thereof by both Parties and shall have an indefinite term. It shall be valid for the total business connection of the Parties.

# Termination

Unless otherwise agreed, either Party may terminate this *Quality Assurance Agreement* as of the end of any given month by giving twelve months’ prior written notice to the other Party.

Termination of this *Quality Assurance Agreement* shall have no effect upon the continued validity of any agreements made by the Parties with respect to the supply of Contract Products pursuant to this *Quality Assurance Agreement*, the provisions of this *Quality Assurance Agreement* continuing to be in full force and effect with respect to such agreements.

# General provisions

* Any modifications or side agreements shall require written form.
* The contractual relationship shall be governed by the laws of the Federal Republic of Germany, excluding the German conflict of laws rules. All disputes between the Parties shall be heard and resolved by a court of competent jurisdiction in Nuremberg, Germany. Notwithstanding the foregoing, the Customer shall have the right to file legal actions against the Supplier in any other court of competent jurisdiction.
* In the event that any provision of this *Quality Assurance Agreement* is invalid or may become invalid, the validity of the remaining provisions shall not be affected thereby and shall remain valid.

The Parties commit themselves, in good faith, to replace any invalid provision with a valid provision that has an economic result equivalent to the original provision.

# Applicable documents

**Applicable customer-specific standards** (see *www.Schaeffler.com / Suppliers / Quality*)

*S 296001-3 Modification Approval / Special Release*

*S 296001-3 Appendix 1 Request for Modification Approval / Special Release*

*S 296001-3 Appendix 2 Checklist for Production Transfers*

*S 296001-4 Complaint Processing*

*s 296001-4 Appendix 1 8D Report*

*S 296001-5 Supplier Evaluation*

*S 296001-5 Appendix 1 Supplier Evaluation – Evaluation Criteria*

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| **Supplier** |  | **Customer** |
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| Supplier Name |  |  |
|       |  |  |
| Schaeffler Supplier no. |  |  |
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| Name |  | Signature |  | Name |  | Signature Quality |

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