Quality Assurance Agreement with Production 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

(hereinafter referred to as the customer)

**Preamble**

The competitiveness and position of the Schaeffler Group in the world market is decisively influenced by the quality of its products. The faultless quality and reliability of purchased products (components, raw materials) or the services associated therewith have a direct influence on the quality of the Schaeffler Group's products.

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

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# Supplier's responsibility for the quality of his products and services

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

The quality strategy of the supplier must be oriented towards continuous improvement of his processes and services. This includes the qualification of all employees, in order to ensure the expertise required to meet customer demands on products, processes and services.

The supplier is also under obligation to meet the objectives of "zero defects" and 100 % delivery reliability and undertakes to observe confirmed dates and reduce costs.

The supplier is responsible for the faultless execution of his products and services, 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. The supplier must be aware of the requirements placed on the product and, in case of any ambiguities, obtain appropriate information from the customer.

If the supplier places orders with subcontractors, he is under obligation to implement the requirements of this *QAA* in relation to his subcontractors.

The order fulfilment and compliance with the aforementioned obligations must be ensured by means of suitable contingency plans, while taking account of potential risks or weaknesses.

# Quality management system

## General

For suppliers to the Schaeffler Group, certification to ISO 9001 is a fundamental requirement.

As a precondition for the awarding of contracts for Automotive applications, the supplier undertakes to continuously develop his quality management system in accordance with ISO/TS 16949.

In individual cases, additional certificates can be contractually agreed for certain sectors, for example, aviation and aerospace, rail and medical technology, depending on the product application.

## Evidence of the quality management system

The supplier takes responsibility for presenting his certificates to the relevant Purchasing department of the customer, preferably using the Schaeffler Internet market place *SupplyOn* and stating the area of application (for more detailed information see *www.SupplyOn.com*), and reporting updates immediately after expiry of the period of validity or on withdrawal of the certificate. As regards the definition of the area of application, the supplier must observe and fulfil the context of his organisation, the expectations of interested parties and external factors - in this instance in relation to the customer (Schaeffler Group). Any shortcomings will lead to downgrading in the quality index QZ 3 in the quality assessment (see Appendix 5 *QAA* / *S 296001-5 Supplier Evaluation*).

Certificates should show compliance fulfilling IAF /IATF rules for certification body’s by using IAF / IATF accreditation symbol or number.

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

The supplier must carry out internal process and product audits at regular intervals.

If quality deficiencies or system weaknesses are identified, the customer has the right to check compliance with customer requirements at the supplier's premises. Depending on the situation, this check can be carried out in the form of a technical discussion, quality discussion or as a system or process audit and is agreed with the supplier in good time before its planned implementation.

The resulting, additional outlay incurred for the customer must be borne by the supplier.

Furthermore, the customer has the right as necessary to check the quality assurance measures of the supplier, following prior agreement of the date and time, and this may be carried out with a person appointed by the end customer.

The supplier shall grant the customer access to the relevant areas and permit viewing of the corresponding documents.

# Fundamental customer requirements

## Technical documents

The quality characteristics to be complied with are defined in the technical documents, for example drawings, material specifications, product supply guidelines, delivery conditions, instructions valid for ordering, process guidelines, requirements specifications and design specifications from the customer. The customer will always provide the supplier with the latest technical documents in printed or data form.

The supplier is under obligation to ensure that production and inspection is carried out in accordance with the documents available to him and agreed with him.

The supplier is also responsible for using current versions of the cited standards (e. g. in drawings).

## Advanced product quality planning

The requirements defined in Appendix 1 *QAA / S 296001-1 Advanced Product Quality Planning* must be implemented when preparing for volume production.

## Production process and product release procedure

The supplier must meet the requirements defined in Appendix 2 *QAA /*   
*S 296001-2 Production Process and Product Release Procedure* prior to volume production.

## Statistical process control and volume production inspection

A consistent quality level can only be achieved through a stable, statistically reliable process.

The supplier must therefore apply suitable control methods such as in-process records. Process parameters that may influence process features, for example in heat treatment and surface treatment, surface coating, welding and soldering processes or plastics injection moulding, must be documented. Process interruptions, for example tool breakage, and measures governing quality must also be clearly visible from the records.

The supplier is under obligation to take random samples at regular intervals and document the results. In order for a batch to be approved, the random sample should not be found to contain any defective products ("zero defects" principle).

For the monitoring of processes and thus the product features based, for example, on the product drawing or specification, suitable methods must be applied by the supplier, such as statistical methods or statistical process controls. These must be implemented in compliance with the guidelines/standards (corresponding to the state of the art) such as DIN/ISO, VDA, DGQ or AIAG. The corresponding capability values for the agreed features shall be made available to the customer within one working day on request.

A capable volume production process exists when a long-term process capability study produces a capability factor Cpk ≥ 1.33. In the event of a non-capable process (Cpk < 1.33), the supplier is under obligation to introduce appropriate corrective measures immediately. Furthermore, 100 % inspection must be carried out until process capability is restored. The achieved process capability must be verified.

For economic reasons and with the aim of minimising defects, the customer expects the supplier to continuously improve his production processes.

## Detection of defects at the supplier's premises

If, during the production process, the product or service to be supplied is found to have a defect at the supplier's premises, the supplier must interrupt the process immediately and rectify the defect.

All products manufactured since the last random sample inspection that gave a positive result (last good part) must undergo a 100% inspection. Defective products detected during this inspection must be secured without delay and stored in a safe location ("quarantine store") until the cause of the defect has been resolved. If these defective products can be reworked, all of the defined volume production inspections must be carried out, ensuring that the customer's specification is observed. All corrective measures introduced must be clearly documented in the records.

If, upon containing the defective quantity, it is found that defective products may already have been delivered to the customer, the relevant quality assurance departments at the customer's recipient plants must be notified immediately and a further course of action clarified.

## Request for special release

In the event of deviations from the product or service specification (drawing, technical delivery condition, material, material properties, etc.), or from the approved process, the supplier must apply to the customer for a special release before the products are despatched.

Written consent must be obtained from the customer, via the contact person stated in the order, using the customer-specific application form (see Appendix 3 *QAA / S 296001-3 Modification Approval / Special Release, Appendix 1*).

## Request for modification approval

In the event of planned changes by the supplier to products, processes, materials, tooling or production site (relocation) - including those which involve subcontractors - the supplier is under obligation to submit an application for modification approval to the customer as early as possible.

Written consent must be obtained form the customer, via the contact person stated in the order, using the customer-specific application form (see Appendix 3 *QAA / S 296001-3 Modification Approval / Special Release, Appendix 1*).

## Detection of defects at the customer's premises

If the product or service to be supplied is found to have a defect at the customer's premises, the customer notifies the supplier, e.g. in the form of an inspection report, and formally invites the supplier to carry out a concern analysis and generate effective corrective measures (see Appendix 4 *QAA /* *S 296001-4 Processing of Concerns*).

The supplier is under obligation to introduce appropriate containment measures immediately, for all potentially non-conforming products in circulation, in order to contain the defect.

Complaints are incorporated into the supplier assessment (see Appendix 5 *QAA /* *S 296001-5 Supplier Evaluation*), which represents an important decision-making criterion for the customer in the placement of new orders.

## Escalation process

In the event of cumulative quality or delivery problems or repeat concerns, the customer will place increased requirements on the inspection of delivered products and introduce appropriate corrective measures within the framework of the escalation process (see Appendix 6 *QAA* / *S 296001-6* *Escalation Process*).

## Preservation, packaging and marking

The supplier is responsible for protecting the products he supplies. In order to achieve this, he must use suitable preservatives, packaging materials and means of transport in the production, storage and transportation of products to the customer.

In order to ensure that delivered goods are clearly identified at the customer's premises, both the products and the packaging must be marked in accordance with the agreements reached with the customer.

As a minimum, delivery notes and packaging units (external packaging, individual packaging) must be marked accordingly with the:

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

Additional information, where appropriate, may include:

* batch number (if requested in the material specification)
* a copy of the deviation approval / special release issued by the customer (see Appendix 3 *QAA /   
  S 296001-3 Modification Approval / Special Release*, Appendix 1)
* reference to any partial or remaining deliveries
* marking as initial production samples

## Requalification inspection

All products must undergo a full dimension and function check, taking account of the customer specifications for material and function, on an annual basis in accordance with the production control plan (control plan) / inspection plan. The results must be made available to the customer on request.

## Evidence of material properties

As evidence of the material properties, the supplier must prepare inspection certificates based on "Standard 3.1", in accordance with *DIN EN 10204* and *DIN 55350-18*, and send these to the customer within 24 hours on request.

## Archiving of records

For the purposes of traceability in the event of a quality defect, the supplier is under obligation to store quality records generated parallel to production, e.g. measurement records, material test certificates or other test results, in a safe place for a minimum of ten years after their creation.

Documents and records relating to quality services for features requiring documentation must, however, be stored in a safe place for 15 years. Features requiring documentation are marked in the customer's technical documents (drawings and specifications).

The above-mentioned storage periods are only valid if longer periods are not stipulated by law.

## Inspection and test equipment

The supplier must be equipped with inspection equipment which allows him to check all product features. If an external company is used, this must be appropriately accredited to carry out inspections.

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

The supplier's inspection equipment must be subjected to controlled, appropriate and verifiable monitoring. Suitability of the inspection process and suitability of the measurement and inspection systems must be ensured.

## Environmental management

An objective of the customer is to eliminate negative effects on people and the environment due to his products and products purchased by him. The supplier is under obligation to comply with valid laws and directives.

The materials and operating materials used by the supplier, as well as their ingredients, must comply with statutory regulations governing the environment, safety and recycling and, where applicable, with customer standards or drawing notations which have been agreed separately in writing.

An environmental management system certified to ISO 14001 is desirable and is taken into consideration accordingly and to positive advantage in the supplier assessment in quality index QZ3 (see Appendix 5 *QAA /* *S 296001-5 Supplier Evaluation*).

## Checking of contractual products supplied

The customer performs inspection of incoming goods only in respect of externally apparent defects and externally apparent deviations in terms of identity or volume.  The customer will give notice of such defects without undue delay.  Furthermore, the customer will also give notice of defects as soon as such defects have been detected in the ordinary course of business.  With respect to the foregoing, the supplier hereby waives the right to assert that notification of the defects was given too late.

## Delivery performance

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 ordered 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 (see Appendix 5 *QAA /* *S 296001-5 Supplier Evaluation*), which represents an important decision-making criterion for the customer in the placement of new orders.

The supplier must assess his delivery performance to the customer on a regular basis - including cases associated with additional freight costs. These data must be provided to the customer as a basis for assessment of logistics quality (index LZ 3).

## Traceability

If a concern occurs, it must be possible to securely identify and detect the defective products within the supply chain of the supplier and customer. The supplier must therefore introduce and maintain a FiFo (First in – First out) system as well as a traceability system in advance.

## Products provided by the customer

Products provided by the customer must be included in the QM system of the supplier. The ownership structure must be ensured at all times by means of appropriate marking. Provided products may also include tools, inspection equipment, containers, materials or semi-finished products.

## Supply sources specified by the customer

If agreed by contract with the customer, the supplier is under obligation to procure products (components, semi-finished products and materials) and services from supply sources which have been approved by the customer.

The utilisation of these supply sources does not absolve the supplier of his responsibility to ensure the quality of the procured products and services.

# Additional customer requirements

## Process monitoring by means of CQI assessments

The supplier is under obligation to observe the requirements of the AIAG (Automotive Industry Action Group) governing the assessment of technical processes by means of annual "CQI assessments" (Continuous Quality Improvement), which is also applicable within his supply chain.

The CQI assessment should be made available to the customer by agreement.

## Product Safety Coordinator (PSB)

In order to ensure the requirements relating to product safety and product liability, the supplier must nominate a coordinator for every production site within his organisation for this function. If a coordinator is not specifically nominated, the customer will assume that the Quality Manager / QM Coordinator of the supplier is fulfilling this function.

## Conflict Minerals - Enquiry in Accordance with Dodd Frank Act Section 1502

Due to an initiative by the American regulatory body the SEC (Securities and Exchange Commission), the customer is under obligation to provide information to its customers within the supply chain on the use of certain materials known as "conflict minerals".

This concerns the minerals gold, tin, tantalum and tungsten (and their derivatives) in connection with their origin from the region of the Democratic Republic of Congo (DRC). If the supplier uses these minerals in products for the customer, he is under obligation to respond annually to a corresponding customer questionnaire.

Further information is available from the organisation AIAG (www.aiag.org).

## Prohibited and declarable substances

The requirements defined in customer-specific standard *S 132030-1* *Prohibited and declarable substances* must be observed for products which are delivered to the customer.

Compliance with these requirements does not absolve the supplier of his responsibility to observe additional laws and regulations.

# Running time

This *Quality Assurance Agreement*is effective once it has been signed by both parties and is valid for an indefinite period. It applies to the full extent of the business relationship between the parties involved.

# Termination

This *Quality Assurance Agreement* may be terminated in writing by either contracting party with twelve months notice if notice is submitted by the end of the month.

The termination of this agreement has no effect on the continued validity of any agreements made between the parties under the scope of this *Quality Assurance Agreement*. The conditions of this agreement will continue to apply to such agreements.

# General

1. Any changes and additions to the agreement must be given in writing.
2. The contractual relationship is governed by German law, excluding its conflict of law rules. The competent court of jurisdiction is Nuremberg, Germany. However, the customer is also entitled to file an action against the supplier at another competent court.
3. If a contractual provision is or becomes ineffective, the validity of other provisions will remain unaffected.

The parties commit themselves, in good faith and within the scope of what is reasonable, to replace ineffective provisions with effective regulations which have an economic result equivalent to the original provisions.

# Appendices

The following appendices to the current version are an integral part of *S 296001* *Quality Assurance Agreement with Production Material Suppliers*

(see *www.Schaeffler.de / Suppliers / Quality / Production material*):

Appendix 1 *S 296001-1 Advanced Product Quality Planning*

Appendix 2 *S 296001-2 Production Process and Product Release Procedure*

Appendix 3 *S 296001-3 Modification Approval / Special Release*

Appendix 4 *S 296001-4 Processing of Concerns*

Appendix 5 *S 296001-5* *Supplier Evaluation*

Appendix 6 *S 296001-6 Escalation Process*

Note:

The most significant changes in content compared with the previous version of May 2012 are displayed in green text.

# Agreed changes

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| **Supplier** | | |  | **Customer** | | |
|  | | |  | Schaeffler Technologies AG & Co. KG | | |
| Supplier name | | |  |  | | |
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| Schaeffler supplier no. | | |  |  | | |
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