Number: ZB-QAA-ZE-002

Quality Assurance Agreement with Suppliers

Part I General Agreement

Between

[Company, Address]

(Supplier)

and

KSM Castings Group GmbH, Cheruskerring 38, 31137 Hildesheim
and its affiliated companies
KSM Castings CZ a.s., Oldřichovská 726, 46334 Hrádek nad Nisou
KSM Castings USA Inc., 120 Blue Brook Drive, Shelby NC 28150

(KSM)

	Name	***Date***
Drawn up:	Hennecke David	22.05.2018
Approved:	Coelho Marco	22.05.2018

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1. Preface

The locations of ***KSM*** *Castings Group* pursue world-wide the goal of providing customers with market-oriented products in "ZERO DEFECT QUALITY". Therefore, we expect from our supply partners, that they are also committed to this goal and contribute with their deliveries to KSM to meet this obligation.

The faultless quality of all the products and services purchased by KSM from our suppliers is an essential precondition for the fulfillment of the customer demands made on our products.

This Quality Assurance Agreement (QAA) contains the contractual determination of the technical and organizational framework conditions and procedures between KSM and Supplier that are necessary to ensure product quality and the attainment of the zero-defect target.

It prescribes the minimum requirements made on the management system of the contract partner (Part I) and on the processes used to manufacture the products procured as regards quality assurance at the Supplier and at KSM (Part II).

In concluding the QAA, KSM is complying with the obligation set out in IATF 16949 to transfer the relevant requirements arising from this set of regulations to the Suppliers.

2. Scope of application

(1) This Agreement is the contractual complement to the frame contract and is base for all in part II of this Quality Agreement defined specific regulations for products and services listed in the Supplier provides on the basis of orders received from KSM and accepted during the term of this Agreement.

(2) All products and services to be supplied must have the agreed characteristics (defined e.g. by drawings, CA data, specifications). The supplier assessed the feasibility of manufacturing the products on the basis of the specifications handed over to him in terms of quality and capacity requirements before the submission of his quotation to KSM. In each specific case, the Supplier is to check immediately whether a specification presented by KSM is inaccurate, incomplete or unclear. Should this be the case, the Supplier notifies KSM without delay in writing. By accepting the order, the supplier confirms feasibility to the agreed terms.

(3) Orders to suppliers are placed through the corporate procurement department. All documentation attached to the inquiry or order, or referred to therein, are to be checked by the supplier. If the supplier finds these to be inadequate, clarification of the issue is to be obtained through the KSM procurement department.

The supplier is to procure the necessary standards and guidelines (DIN, EN, ISO, VDA, customer specific requirements etc.) mentioned in the inquiry or in the technical documentation on his own account. The supplier is required to continuously verify that these documents are up-to-date and have a currently valid status.

3. Quality Management System of the Supplier

(1) The Supplier is to maintain a Quality Management System (QMS) that fulfills at least the requirements of ISO 9001 and is being developed over the medium to long term in such a way that it satisfies the relevant requirements of IATF 16949. The Supplier is to provide the corresponding proof through a certification procedure with an accredited certification company according to ISO 9001 and by presenting the certificate.

(2) Suppliers who cannot implement the IATF 16949 due to their corporate and customer structure must demonstrably implement at least the relevant requirements from the MAQMSR (Minimum Automotive Quality Management Systems Requirements for sub-suppliers) to the IATF 16949.

(3) The Suppliers Quality Management System should be demonstrably suitable to fulfill the demands made on the products and processes that are specified in this Agreement. The Supplier is to manufacture and inspect the products ordered from him by KSM in line with the rules of the Quality Management System. The supplier shall immediately make sure that additional requirements of KSM are compatible with its quality management system and, if this is not the case, actively ensure that the requirements of this QAA are met in a reasonable period of time.

(4) If the Supplier obtains any material, production and test equipment, services, or other preliminary deliveries from third-party (upstream) suppliers for the manufacture or quality assurance of his products, he will contractually and appropriately integrate these in his Quality Management System or assure the quality of such deliveries himself. The supplier will forward relevant customer requirements to his sub-suppliers due to his management system responsibility. The Supplier is himself responsible in every case for the quality of his products and services.

4. Quality Management Representative and contacts

(1) The Suppliers management shall appoint a member of his management staff to be the Quality Management Representative, who reports to the management and is responsible for the maintenance and development of the Quality Management System. This officer has the authority to stop processes and products if any faults are detected. Any change of representative is to be indicated to KSM in writing.

(2) The responsible contacts at KSM and the Supplier in the areas of quality management, logistics, production and project management are to be specified in writing and their contact details made mutually available.

5. Documentation and information obligations of the Supplier

(1) The Supplier verifies the conformity of his Quality Management System according to the standards shown in 3.(1) through the presentation of a valid certificate. This must be issued by a nationally or internationally accredited certification body.

(2) Prior to any changes in the products and production procedures, prior to any relocation of production sites, or prior to any change in the procedures or facilities for inspecting the products or in other quality control measures, the Supplier is to inform KSM in such good time that KSM is able to assess whether such changes could have any negative repercussions. In particular, the Supplier is not permitted to initiate any changes without permission from KSM so as to avoid any risks for the product quality or the supply of deliveries to the customer. The specific reasons for changes when this information obligation does not apply are defined in Part II of this Agreement.

(3) If, within the scope of his quality assurance obligation as regards the products manufactured, the Supplier ascertains an increase in the deviations of the actual condition from the planned condition (specification) of the products (reductions in quality), he is to inform KSM thereof immediately and notify KSM about planned remedial measures. KSM is entitled to charge any inspection and sorting costs occurring as a result of such deviations to the Supplier.

(4) The Supplier is to conduct an annual re-qualification test on predefined characteristics of his product. As far as no other agreements are fixed between the supplier and KSM the content of the re-qualification test has to be according to the requirements of IATF 16949, chapter 8.6.2. The results of this test are to be made available to KSM by the Supplier on demand.

(5) For products requiring documentation that make special demands on the archiving process (e.g. so-called D-/ TLD-parts – parts subject to safety or technical delivery documentation), the Supplier is to operate a system that ensures the secure custody of documents, records and samples. The method of safekeeping must be appropriate to protect the documents, records and samples from the adverse effects of dirt, heat and water on a permanent basis. The archiving period depends on the specific customer requirements and, if required, is communicated to the supplier by KSM. Statutory limitation periods are to be considered.

6. Series production and delivery release

(1) Before commencing series deliveries, the Supplier is to present his products within the framework of a first sample inspection at KSM for the purpose of approving the production process and product release. The basis for this first sample inspection is the product specification in its entirety. Deliveries to KSM must only be made arising from tools and processes accepted by KSM. The approval must be declared in written form by the ordering party and conveyed to the Supplier. The granting of approval has no additional impact on the contractual and non-contractual responsibility of the Supplier for the products he has developed and manufactured.

(2) The basis for the release approval procedure for purchased parts or for services conducted on components consists of the VDA (German Association of the Automotive Industry) publication Volume 2 "Assuring the Quality of Deliveries" (PPF – Production Process and Product Release) and the AIAG rules on the Production Part Approval Process (PPAP). Insofar as nothing else is defined in Part II of this Agreement, Submission Level 3 (PPAP) and Level 2 (PPF) applies. The sampling scope is defined by KSM in the course of a sampling planning meeting with the supplier. The delivery quantities within the context of the sampling are ordered by KSM separately.

(3) The sampling procedure and sampling scope for ingot metal and tools is specified more precisely in Part II of this Agreement.

(4) The granting of the initial sample approval simultaneously means release approval for serial deliveries to KSM. Calls for delivery conveyed to the Supplier prior to the granting of the initial sample approval do not entitle the Supplier to perform any deliveries.

7. Incoming goods inspections by KSM

(1) KSM checks immediately after products are received whether they are in the ordered quantity, whether they match the order made, and whether there are any external visible signs of transport damage or defects. A detailed inspection of the product characteristics takes place during the processing of the products in line with the usual course of business at KSM. In all cases, KSM is only obliged to conduct a random testing procedure.

(2) If KSM discovers any defects during the course of its incoming inspections or during the subsequent processing of the products, KSM is to notify the Supplier of these defects without delay. KSM has no further obligations towards the Supplier apart from those stated above.

8. Designation, identification and traceability

(1) The Supplier is to label all delivered products in such a way that their identity is also clearly and permanently apparent even outside of the packaging unit. In addition to the designations specified in the specifications, the products must also be labeled according to the following criteria as a minimum requirement:

- Identification of the Supplier
- Date of product manufacture at the Supplier
- Tool/cavity number (if applicable).

(2) The Supplier structures his system for tracing the products and services in such a way that it enables not only a retrospective investigation of the production conditions at the time of the product creation but also a foresighted limiting of the possibility of risk-related deliveries to KSM and beyond.

(3) Further specifications on labeling and traceability are made according to the specific product in Part II of this Agreement.

9. Delivery quality and problem resolution process

9.1 General requirements

(1) As part of his responsibility for quality assurance, the Supplier guarantees the products he delivers will be free of defects and that the deliveries will be on time and in the right quantities. In order to achieve this zero-defect target, the Supplier is to continuously develop his processes and capabilities further within the framework of a Continuous Improvement Process (CIP).

(2) KSM assesses the quality of the deliveries on the basis of the criteria of product quality and delivery reliability. KSM will provide information to the Supplier about his performance at regular intervals.

(3) In the event of negative performance trends occurring, the Supplier is to introduce appropriate measures of correction to re-establish the standard of quality that has been agreed upon. The Supplier is to inform KSM about the measures planned and about the results of his corrective measures when requested to do so.

9.2 Problem-solving process

The problem resolution and its documentation are to be conducted at the Supplier with the deployment of the "8 Discipline Method" (the so-called 8D Process). In case KSM rises of a quality complaint to the supplier KSM expects a first feedback from him within 24 hours which should include meaningful information to step 1 to 3 of the 8D-Process. The Supplier is to train and qualify its personnel in the use of this method. KSM is to support the Supplier in his problem-solving process. The problem solution must be provisionally closed by the supplier within 5 working days. For this, the supplier submits the 8D report, which has been completely filled out to D5, to KSM. At the latest after 20 working days, the supplier completes the problem solving completely by carrying out the evaluation of the effectiveness of his corrective measures and documenting them in the 8D report. The complete (D1 to D8) 8D report must be sent to KSM. For each of the 3 steps, KSM expects to independently report the status of the 8D report.

9.3 Escalation

In case that the supplier's problem-solving process is not effective and the supplier's performance continues to be poor despite the problem being solved, a defined escalation process can be started by KSM. This process is divided into 3 stages, which are assigned triggering criteria and consequences.

(1)	***Escalation Step 1***:	The supplier has problems and is unsuccessful in solving these problems
	Initiator:	SQE
	Criteria for classification:	Repeat complaints despite remedial measures; Admission to a quality promotion program by OEM; Poor communication; Grading into a B / C evaluation of supplier evaluation; Critical action from audit not implemented
	Measures:	Visit of the supplier on site by SQE with joint preparation of an action plan (Q-discussion, possibly audit). The supplier checks 100% of the affected scope
(2)	***Escalation Step 2***:	The supplier relies on outside help
	Initiator:	SQE and QM plant
	Criteria for classification:	No effectiveness determination of the measures from level 1; Threatening production shutdown at the customer
	Measures:	Visit of the supplier on site by SQE with process audit; Arranging 100% inspections by external companies; No consideration for new projects until de-escalation
(3)	***Escalation Step 3***:	The supplier is not qualitatively suitable for KSM
	Initiator:	Head of Corporate Procurement
	Criteria for classification:	Loss of the QM certificate; No improvement visible over a defined period of time; Cause of a recall
	Measures :	Initiation of a change of supplier

The supplier will be informed in writing about the start of the escalation process.

For exiting an escalation level, de-escalation criteria must be met. These are agreed with the supplier.

10. Auditing (First- and Second-Party-Audits)

(1) The Supplier is to monitor the application and effectiveness of his management processes through regular internal product, process and system audits (First-Party-Audits). The auditing methods are to be based on the internationally valid regulations IATF 16949, VDA Volume 6.3 Process Audit/ Volume 6.5 Product Audit and the specifications according to ISO 19011. The Supplier is to ensure the adequate qualification of the personnel deployed for the purpose.

(2) KSM is to convince itself at appropriate intervals through process and product audits (Second-Party-Audits) that the quality assurance measures specified in Point 3 and in Part II of this Agreement are being carried out. To this end, the Supplier is to grant KSM and (on demand) KSM`s customers access to its premises during normal business hours to an appropriate extent and facilitate the support of such an audit through qualified specialists. KSM also reserves the right to evaluate the effectiveness of the supplier`s QM System in the context of second-party-audits according to IATF 16949.

(3) The auditing has no impact on the general responsibility borne by the Supplier as regards product quality.

11. Liability and recourse

(1) The issue of liability and recourse is determined according to the contractual stipulations on which the delivery is based.

(2) Insofar as product-specific agreements have been made between the Supplier and KSM as regards temporary quality objectives, these are to be taken into account in any recourse action.

(3) The Supplier indemnifies KSM from any claims from third parties insofar as such claims are clearly based on the defectiveness or deficiency of the products he has manufactured. Any liability subject to the German Product Liability Act (ProdHG) remains unaffected by this.

12. Confidentiality

(1) The contracting partners undertake to use all documents and knowledge acquired during the implementation of this Agreement solely for the purposes envisaged in this Agreement and to safeguard them with the due and necessary confidentiality. A permanent obligation to secrecy shall exist towards third parties as regards any such information that a contracting partner regards as sensitive or bound to confidentiality.

(2) This shall not apply to information that was already publicly known prior to the conclusion of this Agreement or that becomes publicly known during the validity term of the Agreement without infringement against the obligations laid down in the previous paragraph.

(3) This non-disclosure obligation shall continue in effect for a period of 5 years after the termination of this Agreement.

13. Modification, term and termination of the Agreement

(1) Changes to this Agreement can be demanded in written form by either party. The precondition for the validity of any modifications is the approval of both parties.

(2) The Agreement takes effect on the date on which its validity is acknowledged by both parties whose signature occurs at the end of this document. The Agreement ends on the date on which it is terminated.

(3) This Agreement can be cancelled by either party without notice on presentation of special reasons or otherwise by giving six months prior notice to the end of each calendar month. Delivery contracts already concluded in accordance with this Agreement remain unaffected thereby and the Agreement continues to apply in this respect.

14. Applicable law, jurisdiction and severability clause

This Agreement is governed by German law with the exclusion of the UN Sales Convention. The place of jurisdiction is Hildesheim, Germany.

Should any provision of this Agreement be or become ineffective, it will be replaced by a new and valid provision that comes closest to the intention of the contracting parties and to the economic purpose of this Agreement. The same shall apply to any legal gaps in the Agreement.

15. Reference documents and sources

DIN EN ISO 9001, DIN 19011
Beuth-Verlag, BurggrafenStr. 6, 10787 Berlin, Germany

IATF 16949
Qualitäts Management Center im Verband der Automobilindustrie (VDA QMC)
Behrenstraße 35, 10117 Berlin, Germany

AIAG, PPAP Production Part Approval Process
Carwin Continuos Ltd. Publications Dept., Unit 1, Trade Link, Western Avenue, West Thurrock Grays, Essex, RM 20 3FJ United Kingdom

VDA Volume 1, Volume 2, Volume 6.3, Volume 6.5
Verband der Automobilindustrie e.V., Qualitätsmanagement Center (QMC),
Lindenstraße 5, 60325 Frankfurt, Germany

16. Attachments

Part II – Specific Agreement

Signatures

_____	_____
Place, date	Place, date
_____	_____
KSM Castings Group GmbH	[Supplier]
Corporate Procurement	[Position]
Name, first name	Name, first name