



QUALITY AGREEMENT

between

2.,
3.,

represented by the company CEO, 6.
(hereinafter referred to as: Supplier)

and

ISKRA MEHANIZMI, d.o.o.

Zgornji Brnik 400, 4210 Brnik-Aerodrom,
represented by Managing Director, Stefan Hornivius
(hereinafter referred to as: Customer)



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1 INTRODUCTION

Only “**zero defects**” quality for Suppliers and employees of Iskra Mehanizmi (hereinafter referred to as Customer) ensures zero defects for the Buyers.

“**Zero defects**” quality is an absolute requirement that can only be met through our joint efforts.

Prevention rather than detection of defects and constant improvement of the entire process chain (Customer's inquiry, tender, order, product development, launch of production, large series production and market use) are indispensable requirements that shall be met with active involvement and support of our Suppliers.

2 QUALITY AGREEMENT

2.1 Quality Agreement (hereinafter referred to as Agreement) regulates the cooperation between Customer and Supplier. The purpose of the Agreement is the transfer of the Customer's quality requirements to the Supplier and the establishment of a partnership between the parties. Quality requirements as described in this Agreement shall apply to all manufactured products, parts, components, materials and services (hereinafter referred to as “Products”), which the Supplier shall supply to the Customer.

2.2 Goal of this Agreement is to clarify mutual obligations and responsibilities.

3 PURPOSE OF THE QUALITY AGREEMENT

3.1 With this Agreement, the Supplier obliges to meet the agreed quality requirements for the Product.

3.2 Both contractual parties must follow and evaluate achieved quality performance results. The Customer is going to evaluate the Supplier's performance based on the key performance indicators, which are specified in article 9 of this Agreement.

Supplier is expected to evaluate its performance indicators both related to the Product as well as to the process.

3.3 In line with the process of continuous improvement, the Supplier shall continuously improve the quality of the Product and process. Supplier shall also follow the principle of “**zero defects**”, which implies the introduction of preventive and corrective measures in all stages of Product and process realization.

4 QUALITY OF INDIVIDUAL PRODUCT

4.1 Specific features and quality requirements of the individual Product are to be specified in the inquiry stage (e.g. drawing, technical requestor, CAD product model, specific quality requirements, product and process sampling requirements, etc.).

Supplier's documentation that will be sent to the Customer, shall be made on forms provided by the Customer. Official forms shall be upon request delivered to the Supplier by the Customer. In case the Supplier, due to objective reasons, uses their own internal official documents, they should be upon delivery confirmed in writing by the Customer. Otherwise, provided documents will be considered as invalid.



4.2 The content of the official Customer documents shall not be changed by the Supplier, unless so agreed by the parties and confirmed in writing by the Customer.

4.3 Quality documents that the Supplier will create shall become valid following a prior inspection and written approval by the Customer.

5 VALIDITY OF THE QUALITY AGREEMENT

5.1 This Agreement shall become valid after the Customer and the Supplier have signed it.

5.2 Validity period of the quality documentation is described inside article 10.8. of this Agreement.

5.3 Signatories of this Agreement must have all the necessary authorizations and competences for the signing of it.

6 QUALITY MANAGEMENT SYSTEM

6.1 The Supplier undertakes to maintain the quality system in accordance with applicable standards:

ISO 9001 (mandatory)
IATF 16949
ISO 14001
ISO 13485
VDA 6.3
VDA 6.5

If the Supplier does not possess IATF 16949, a program how to gain it will be prepared together with the Customer.

The standards that are, apart from ISO 9001, also relevant for a certain product (programme) should be specified at inquiry stage i.e. initial stage of the project.

In case of certificates changes Supplier must immediately inform Customer.

6.2 The Customer continuous goal is to actively protect the environment, while the policy is to achieve complete transparency when it comes to the use of substances that are harmful to the environment and to reduce or completely avoid the use of these substances in their Products in collaboration with all Suppliers. For this purpose, the development and production processes, as well as the Products supplied by the Supplier, should comply with applicable laws (e.g. RoHS, REACH, ELV, WEEE, Conflict Minerals), which the Supplier shall prove with relevant documents, as requested by the Customer.

7 CONTROL OF SUB-SUPPLIERS

7.1 The requirements specified in this Agreement shall be transferred by the Supplier to their suppliers (=Customer's sub-supplier). At Customer's request, the Supplier shall submit documents proving their suppliers' official release as well as a copy of the Quality Agreement signed with their supplier.



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7.2 The Supplier is obliged to notify the Customer on all changes related with the approved sub-suppliers that are supplying Products that the Supplier provides to the Customer. Supplier shall not supply to the Customer any products produced by new sub-suppliers until sub-supplier change is approved by the Customer in writing.

7.3 Supplier is responsible for the control and continuous improvement of their suppliers. This responsibility also applies to the suppliers that are specified by the Customer.

7.4 By prior arrangement, the Supplier ensures to the Customer visits and assessments of their suppliers in 5 days.

8 AUDITS

8.1 Customer may at any time request access to Supplier's project related documentation or announce an Audit assessment. Such an assessment can be made in accordance with the Customer's annual Audit plan or in special cases due to the critical nonconformity or escalation. Supplier can be assessed by the Customer or the Customer's Buyer.

8.2 Supplier undertakes to ensure to the Customer and their authorized persons access to the production and storage facilities, in which the Product is made and (or) kept. This shall also apply to Supplier's supplier. This kind of assessment may be carried out in the form of a system Audit, process Audit, Product Audit or any special Audit in case of critical nonconformity or escalation.

8.3 At the final step of the Audit, the auditor is obliged to present the assessment findings, as well as to submit them to the Supplier in written form and in agreed time. Supplier is then obliged to define and carry out proper actions to eliminate found nonconformities within the agreed time period. Supplier shall upon realization and in agreed time notify the Customer about the realization of corrective and preventive actions, that were carried out.

8.4 If the deadlines for the submission of corrective measures plan have not been specified during assessment, the Supplier is obliged to specify corrective measures for the found nonconformities and submit them to the Customer, no later than within three calendar weeks from the assessment date.

For critical nonconformities, the Supplier shall take immediate actions already during the Audit and define corrective actions no later than within one calendar week from the assessment date.

8.5 The Supplier shall, based on quality standards requirements, conduct internal Audit assessments in accordance with the internal annual Audit plan. This shall also apply to the Supplier's suppliers. The assessment is conducted based on Supplier's procedures which must comply with the provisions of ISO and / or VDA standards.

8.5.1 For Suppliers of Products for automotive (ref.: IATF 16949) and medical projects (ref.: ISO 13485), additional conditions apply:

- It is necessary to use the VDA 6.3 Process Audit form for self-assessment of production processes related to contracted products, including Supplier's sub-suppliers.
- In the event of "A" or "B" grade, the Supplier notify the Customer about Audit result and only in case of Customer specific request send to it self-assessment report, including the corrective plan.



- In the event of the “C” grade, the Supplier shall notify the Customer and send to it an entire report of the self-assessment, including the corrective measures plan.

At the Customer's request, forms prescribed by the AIAG should be used for special processes assessment (CQI):

- CQI-9: Heat Treat Assessment (HTSA),
- CQI-11: Plating System Assessment (PSA),
- CQI-12: Coating System Assessment (CSA),
- CQI-15: Welding System Assessment (WSA),
- CQI-17: Soldering System Assessment (SSA).

Supplier is obliged to notify the Customer of the assessment results, at Customer's request.

8.5.2 Unless stated otherwise, once a year it is necessary to conduct a requalification for all Products used in automotive (ref.: IATF 16949) and medical industry (ref.: ISO 13485). Requalification is necessary to conduct also in the event of Product or process changes, in accordance with point 10.9 of this Agreement.

9 SUPPLIER PERFORMANCE INDICATORS

9.1 Supplier shall supply Products in accordance with the Customer's quality requirements.

Supplier performance shall be monitored by the Customer based on the following key indicators:

- Quality of delivered Products (in ppm); for Bulk: Delivery performance (in % or PPM))
- Number of complaints.
- 3D report submission with defined Containment Actions (in days).
- Final 8D report submission (in days).

Customer shall notify the Supplier of the key indicators performance results periodically.

In the event when the Supplier does not meet key performance indicators, Supplier is obliged to systematically plan, agree upon with the Customer and then introduce appropriate actions for improving specific performance indicators. Supplier is obliged to notify the Customer of the appropriate actions, at Customer's request.

9.2 The steps for the improvement of key performance indicators are presented in Article 13.

10 PRODUCT

10.1 Feasibility study (FS)

10.1.1 Along with each quotation submitted to the Customer, the Supplier should also submit the project feasibility assessment which is made on the Customer's FS form (Obr.R_03.016). In FS must be clearly define project feasibility, time line, quality goals, technical and other requirements.

10.1.2 If the result of feasibility assessment will be that the requested project is feasible only in case of implementation of changes (possible reasons: project timing, quality objectives, technical requirements, etc.), Supplier is obliged to note inside the “Feasibility Study” form,

recommendations and / or proposals and / or measures that will ensure Product feasibility and successful realisation in serial production.

10.1.3 Properly made and sent to Customer on time “Feasibility Study” gives the Supplier extra credit for the project nomination.

10.2 Advanced Product Quality Planning (APQP)

The Supplier, who is going to supply to the Customer products for automotive or medical industry or, if it is so specified by the Customer, is obliged to follow the guidelines of the APQP process which are given in the APQP Manual issued by the Automotive Industry Action Group (AIAG, <https://www.aiag.org/>). Goal of this approach is to plan and satisfy all agreed Customer's expectations for the contractual Product by using planned, controlled and standardized method of project management.

Suppliers who do not supply products for automotive or medical programmes, are allowed to use simplified project management approach, managed over a project plan with defined key actions and milestones that are aligned with the Customer in the initial stage of the project. Goal of it shall be a timely submission of complete product qualification documentation (PPAP), which shall comply with the Customer's requirements (e.g.: Customer's PPAP requirements).

When planning the APQP process, it is necessary to take into account the Customer's Product and APQP process management specific requirements (e.g.: use of Customer's APQP form).

In the initial stage of the project (“kick-off”), the Supplier is obliged to make and submit to the Customer a project plan which will define key project steps, such as key milestones, key activities, target implementation dates and responsible persons for realisation of these activities.

With Product dedicated project plan, the Supplier must ensure that project targets, such as quality requirements, Customer's specific requirements and timely realization of the project are met.

The Supplier's project schedule must include at least the following activities:

- Evaluation of Customer's requirements.
- Performance of Feasibility Study.
- Defining process flow diagram.
- Preparation of control plans (prototypes, pre-serial, serial).
- Evaluation of D-FMEA products (if relevant).
- Evaluation of P-FMEA process.
- MSA.
- SPC analyses.
- Product test plan (functional and life tests).
- Product measurements.
- Specifying requirements towards Suppliers.
- Evaluation and approval of the purchased products.
- Defining packaging and transportation specification.
- Evaluation of capacities (Run@Rate).
- Making and submitting of the PPAP documents.
- Planning of trial series till PPAP.

Scheme of the APQP process:

Figure 1: APQP process

APQP process is divided into 5 stages, which can be merged into 3 key stages, as follows:

- Planning stage (product, process).
- Realization stage.
- Serial production (product) release stage.

Planning Stage (examples of activities):

- Evaluation of objectives when it comes to reliability, quality, technical requirements (Feasibility Study).
- Making of project schedule.
- Plan of product and process special characteristics.
- Bill of materials used.

- Process diagram.
- Preliminary/Prototype control plan.
- Analysis of possible failure modes and its effects (D-FMEA and/or P-FMEA):
 - Detecting possible failure modes.
 - Eliminating potential failure modes and consequences at design and process.
 - Any subsequent change in construction and/or process requires an P-FMEA complement.
 - D-FMEA (in the event that the Supplier is responsible for Product design) should be submitted by the Supplier to the Customer for confirmation before the Product Design Approval.
- Planning of the test technology, test devices, control characteristics.
- Making of prototypes.
- Preliminary analysis of machine (Cmk) and process (Ppk) capability.
- Plan of resources training.
- Plan of packaging and transport creation.

Realization Stage (examples of activities):

- Analysis and verification of the measurements system capacities (MSA).
- Analysis and verification of the process capacities (SPC).
- Updated FMEA.
- Pre-serial control plan.
- Specified and used final production equipment.
- Trained resources.
- Making all trial/production series before SOP as agreed with the Customer.
- Internal process assessment.
- Sub-supplier assessment.
- Packaging and transport verification.

Release of the Product for Serial Production Stage (examples of activities):

- Making and submission of the PPAP documentation with initial samples as specified by the Customer. This may include the documentation with results of product Qualification tests:
 - Sampling is carried out separately for individual Products.
 - For moulded plastic parts it is necessary to sample each individual nest.
 - All sampling needs to be documented by test reports and measurement protocols in accordance with the valid documentation.
 - For every sampling it is necessary to assess all quality and function characteristics as well as a statistical assessment for the characteristics in accordance with the Quality Documentation.
 - Measurement and test results represent the basis for Customer's approval.
 - In case of observed deviations, action plan with corrective measures for the found deviations shall be made.
- The Customer may use reference (PPAP) samples for the verification of compliance with requirements and base on it "serial approval" decision. Reference samples and quality documents should be kept for 15 years.
- The Customer may hold the release of PPAP (PSW or EMPB) until performance of process Audit assessment at Supplier.

- Control of Product and process special characteristics.
- Conducting processes for continuous improvement.

In the kick-off stage of the project, the Customer and the Supplier agree that at each stage of the project the Supplier shall give reports, draft and submit for review the project documentation to the Customer.

10.3 PPAP documents

10.3.1 Supplier is obliged to follow the guidelines of the PPAP sampling process, which are described in the PPAP Manual, issued by the Automotive Industry Action Group (AIAG, <https://www.aiag.org>) or Verband der Automobilindustrie (VDA, <https://www.vda.de/de>).

10.3.2 PPAP i.e. Production Part Approval Process is a mandatory procedure that defines the scope of supporting documents (documents, first samples) with which the Supplier shall prove compliance of Products with the Customer's requirements for all new or changed Products. Changes that need to be verified and approved over PPAP procedure are clearly specified in the PPAP manual. The Supplier shall provide the required PPAP documentation (PPAP content level previously agreed with the Customer) to the Customer within the agreed time period.

10.3.3 As a document of formal release, the PSW (Part Submission Warrant) is used, and if so agreed with the Customer, for the release of the serial production of the Product other documents may be used instead of the PSW cover sheet, such as: RR (Release Report), EMPB cover sheet, etc.

10.3.4 Before the Product is released or at least conditionally released by the responsible SQM, the Supplier does not have approval to supply related Product to the Customer.

10.3.5 For Bulk material: Depending on the Product the Supplier shall provide to the Customer for each scheduled delivery of the Product:

- Material certificate or
- Declaration of Product suitability or
- a measurement report (content previously agreed with the Customer)

10.4 Serial Production of Product

10.4.1 Before the start of the series production, all the conditions mentioned in point 10.2. and 10.3 must be met.

10.4.2 Supplier shall ensure traceability of the used Material (and / or installed Components) for automotive and medical Products and also for other Products, if Customer required.

10.5 Testing of Products, Process Control / Management

10.5.1 The Supplier shall have under the control all key characteristics of Product and process with usage of adequate control steps, means and resources.

10.5.2 Control of Product and process should be monitored by the Supplier based on planned methods. Planned methods are those that the Supplier has specified in the stage of Product and / or process development, i.e. those that are written in Product documentation that was approved by the Customer.

10.5.3 Characteristics that affect the quality of the Product are defined by the Customer or added by the Supplier. Key process characteristics that affect the Product are defined by the Supplier.

Characteristics related to Safety (SC) («Safety Characterisitcs»),

Characteristics related to Function (FC) («Functional Characterisitcs»)in

Characteristics related to Process (KP) («Key parameter«)

Safety and functional characteristics refer to the product or its constituent part, and the process characteristic on the process (assembly) part.

Special characteristics can be defined by:

- Customer requirements
- Standards or regulations
- Internal requirements

Special characteristics must be specified and included in the Control Plan. They must be marked on the drawings (DWG), specifications, in the analysis of possible errors and their effects (XFMEA), control plans and / or other documents that are necessary to control the quality of the product and process.

All the special characteristics must be collected, monitored and evaluated in the Special Characteristics List (SCL).

Continuity of special characteristics must be guaranteed in all documents also specified by a serial number (See also marking of special characteristics).

If the end customer explicitly requires the use of his symbols to indicate special characteristics, his marking may be used, otherwise IM symbols must be used (see: Marking special characteristics) in the documentation provided to IM.

Special characteristics needs to be:

- Considered in feasibility study,
- Processed in the XFMEA study and must be included therein,
- Considered when designing tools, assembly equipment and test devices,
- marked according to the requirements,
- Measured with qualified measurement systems (MSA),
- Reconsidered in the changes (through the above points).

Safety characteristics (SC):

Safety characteristics are those product characteristics that influence the product's compliance with the regulations or affect the product safety or the safety function of the product. The customer's requirements must also be taken into account.

The safety characteristics must be determined due to:

- Legal requirements
- Requirements of regulatory authorities
- Customer specific requirements
- Internal calculations and / or tests
- Ratings in XFMEA - severity assessment ($S \geq 9$)

SC indicates the safety characteristic for which it is necessary to be always within the specifications. When making FOT pieces and after optimization, a statistical evaluation is required (according to the requirement on the drawing). In serial production, such a characteristic must be monitored either 100%, or a poka yoke process is implemented (and proven correlation with release). In any case, it is necessary to statistically prove the suitability of the characteristic and the control during sampling. In exceptional cases where the characteristics cannot be monitored in the process (eg destructive tests), such a characteristic must be monitored during the manufacturing process indirectly through one or more process characteristics 100% or statistically, for which there is a proved correlation between process and product characteristics.

In the FMEA form and control plan, the safety characteristics must be marked. If safety characteristics are included in the technical change, an impact assessment of the change is required. The impact assessment record must also be in the relevant FMEA. The users of the production control plan need special training if they also have safety features in the control plan.

Marking:

The product characteristics, which are defined as safety characteristics, are marked with large printed letters SC and the serial number of the occurrence on the document (1-n). When referring to the safety characteristic, it is also necessary to indicate the number of the component, semi-finished product or the final product, where this feature occurs. In the drawings, the SC mark is plotted with an oval where the arrow indicates the selected characteristic (see Figure 2). The drawing also contains a table listing the total number of security features (see Table 1).



Figure 2: Marking for safety characteristic

Table 1: Table of special characteristic marked on the drawing

Special characteristic	No. of spec. characteristic
SC - safety characteristic	SC - 1 x
FC - function characteristic	FC - 2 x

Functional characteristic (FC):

Functional characteristics are those characteristics of the product, which has an impact on the function of the final product or the ability to exert a product of the sub-assemblies.

Functional characteristics must be defined based on:

- customer specific requirements
- combining the product into a higher system
- characteristics that were critical to the customer in similar products
- experience with similar products
- XFMEA

FC indicates the functional characteristic for which it is necessary to be always within the specifications. When making FOT pieces and after optimization, a statistical evaluation is required (according to the requirement on the drawing). In serial production, such a characteristic must be monitored either 100%, or a poka yoke process is implemented (and proven correlation with release). In any case, it is necessary to statistically prove the suitability of the characteristic and the control during sampling. In exceptional cases where the characteristics cannot be monitored in the process (eg destructive tests), such a characteristic must be monitored during the manufacturing process indirectly through one or more process characteristics 100% or statistically, for which there is a proved correlation between process and product characteristics.

In the FMEA form and control plan, the functional characteristics must be marked. If functional characteristics are included in the technical change, an impact assessment of the change is required. The impact assessment record must also be in the relevant FMEA. The users of the production control plan need special training if they also have safety features in the control plan.

Marking:

The product characteristics, which are defined as functional characteristics, are marked with large printed letters FC and the serial number of the occurrence on the document (1-n). When referring to the functional characteristic, it is also necessary to indicate the number of the component, semi-finished product or the final product, where this feature occurs. In the drawings, the FC mark is plotted with an oval where the arrow indicates the selected characteristic (see Figure 3). The drawing also contains a table listing the total number of security features (see Table 2).



Figure 3: Marking of functional characteristic

Table 2: Table of special characteristic marked on the drawing

Special characteristic	No. of spec. characteristic
SC - safety characteristic	SC - 1 x
FC - function characteristic	FC - 2 x

Process characteristic (KP):

Process characteristics are those process parameters that influence compliance with previously defined SC and FC products (safety and functional characteristics) and / or have an impact on product safety or the safety function of the product. The customer's requirements must also be taken into account.

Process characteristics must be determined due to:

- SC requirements
- FC requirements
- customer specific requirements
- internal calculation and / or tests
- evaluation in PFMEA – severity ($S \geq 9$)

General:

For all types of special characteristics (SC, FC, KP) it is required that MSA is done, which must correspond to a pre-agreed criteria, unless otherwise specified. The type of MSA must be provided in PPAP.

Criteria for MSA:

- acceptable GR&R $\leq 10\%$
- conditionally acceptable $10\% < GR \& R \leq 30\%$, it is necessary to present an analysis and an action plan to improve the value
- not acceptable $GR \& R > 30\%$
- acceptance criteria for Attributive MSA must be 100%
- v in case that GR&R cannot be performed, the factor must be $Cgk \geq 1,67$,



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For the special characteristics themselves, it is necessary to provide machine's capacity C_m / C_{mk} (50 pieces) and/or the short-term capabilities of the P_p / P_{pk} process (125 pieces taken from 25 samplings of 5 pieces) at the latest in the PPAP sampling.

For all characteristics it is required to perform requalification at least once per year or as agreed in the Control plan. For all types of special characteristics also statistics has to be enclosed. Results of requalification needs to be submitted to Iskra Mehanizmi on request.

Measurements of all dimensions on the drawing must be performed on 5 pcs/nest or as agreed in advance. Results must be submitted at FOT and after each optimization. Also statistic of special characteristics must be enclosed.

10.5.4 If not otherwise agreed, this applies to:

- Demonstrating capabilities of the machine $C_{mk} \geq 2.00$.
- Demonstrating short-term capabilities of the process $P_{pk} \geq 2.00$.
- Demonstrating long-term capabilities of the processes $C_{pk} \geq 1.67$.

10.5.5 In the event of non-conforming Products or incapable processes ($C_{pk} < 1.67$), the Supplier must immediately notify the Customer. In that case, the Supplier should proceed according to the procedure described in point 10.6.

10.6 Deviation Notification

10.6.1 When the Supplier finds a quality deviation on the Product in their process and, as a result, the regular supplies to the Customer are compromised, they are to immediately inform the Customer thereof.

10.6.2 Products with deviations may be supply to the Customer only upon prior Customer's (SQM) official confirmation of the deviation request. In the event of Customer's approval of deviation request, the delivered material must be marked by specific traceability label, as it is specified in the "Deviation Authorization" form.

10.6.3 The Supplier is obliged to present the Customer with the cause of the deviation and the planned measures to eliminate non-conformities, and they are to do so through the following forms provided by the Customer:

- Deviation Request (DR – Obr.R_02.061).
- 8D Report.

Deviation request approval shall only be granted once to Supplier and for a limited time period or for a limited amount of Products. During this time, the Supplier must eliminate the cause of nonconformity or introduce appropriate controls to ensure 100% compliance of the supplied Products with the Customer's requirements.

10.6.4 Until the elimination of nonconformities, the Supplier is obliged to carry out 100% control of Products for the found nonconformity.

10.6.5 In case of defects that affect safety, it is necessary to proceed as described in point 10.7 (Safety Components).

10.7 Safety Components

10.7.1 Products as well as processes for their realization that are by the nature of their functions subject to specific safety requirements, regulations and legislation, are those that:

- Carry a “safety characteristic” label within the Customer's documentation.
- Due to current regulations and legislation require the certification of Products in one or more of the accreditation institutions, such as BSI, UL, VDE, TÜV, SiQ.

10.7.2 The Supplier undertakes to abide by and follow the safety and technical provisions in accordance with the applicable international regulations, ISO standards and Customer requirements.

10.7.3 The Customer requests and the Supplier is obliged to ensure 100% inspection of safety provisions stated in the previous point as well as a control and monitoring system for legislative and regulatory safety characteristics and requirements of the Customer.

10.7.4 Supporting documentation – technical documentation and records of the quality of safety components, must contain at least the following elements:

- Identification number of the Product, including the status of change, Product label, regulations on testing, testing plans and a consistent record of test results, as well as an agreed label for “Safety Application”.
- Clearly specified documents of all measures for the elimination of defects and preventive measures (in case of defects that affect the safety of Product use).

10.7.5 Documents with records must be annexed to production batches and shipments. The minimum time of keeping the supporting documents is 15 years after the end of production of each Product at the Customer.

10.7.6 The Supplier must notify the Customer immediately of all defects that affect the safety (hereinafter referred to as: Critical Defects) that are detected during production or inspection at the Supplier. All batches that have been manufactured before the detection of Critical Defects and can be associated with the Critical Defect, should be identified, kept separate and their status at the same time reported to the Customer

10.7.7 If the testing or processing stages reveal Products with safety, technical or functional defects, the Customer shall immediately notify the Supplier thereof.

Irrespective of the fact on whose side the nonconformity was detected, the Supplier is obliged to produce fully documented procedures which lead to the complete elimination of identified defects and/or determination of the appropriate control points that will ensure 100% conformity of Products with the Customer requirements. Structured 8D approach with the verification of causes and measures to eliminate nonconformities should be used.

Upon a prior request of the Customer, the Supplier shall enable the Customer performance of on the problem oriented Audit, no later than within 48 hours after the request is made.

10.8 Documents and Quality Records

10.8.1 Quality documents and records serve to the Supplier (indirectly to the Customer) as a proof of meeting all quality requirements.

10.8.2 Quality documents and records, including contracts, should be kept for 15 years after the cessation of the manufacturing of Product at the Customer.

For medical devices, requirements specified in points 4.2.4 and 4.2.5 of the ISO 13485 standard shall apply.



10.8.3 Quality reports should be saved in computer file formats. Delivery by fax or post is not intended and should only be applied in exceptional cases and with the Customer's consent.

10.8.4 Quality documents and records must be made available to the Customer within 24 hours upon their request.

10.8.5 After terminating the business cooperation between the Customer and the Supplier, the Supplier is obliged to submit to the Customer all up to then existing Quality Documents and Records, along with the Quality Documentation.

10.9 Change Management (PCN, PTN)

10.9.1 The Supplier commits to inform the Customer before any planned change which relates to or affects the approved Products, in a timely manner and via the Customer's "PCN" or "PTN" forms.

10.9.2 When to inform the Customer of any Product or production process change is clearly stated in the PPAP manual issued by the organization of the automotive industry (AIAG), among other for:

- Change of Product.
- Change of manufacturing technology.
- Change of production tools.
- Change of production processes (e.g. cycle times, used concepts, etc).
- Change of serial material, packaging.
- Change of test methods.
- Relocation of production.
- Replacement of sub-suppliers.
- Non-manufacturing of product > 1 year.

10.9.3 A change of Product or production process should be announced to the responsible Customer's SQM via a PCN form at least 9 months before the planned introduction of change.

10.9.4 Based on the official announcement of change via the PCN form, Supplier and Customer shall agree on the scope (PPAP requirement) and the estimated time for the qualification of change.

10.9.5 Description and justification of change via the PCN form must include a statement confirming that, after introducing the proposed change, the Product shall continue to meet the Customer's requirements in the same way as before the change.

10.9.6 The proposed change of the Product, process or control documentation can be introduced by the Supplier only upon a written confirmation of change by a responsible Customer's SQM. The Customer shall provide approval for the change based on the procedure described in points 10.2. and 10.3.

10.9.7 The first delivery upon the approval of change shall be announced by the Supplier to the responsible SQM, while the note on changes needs to be specified on the delivery note as well as on the Product packaging.

10.9.8 If the Supplier should at their own request or due to other reasons want to terminate the deliveries or production of Products to the Customer, this should be announced in a timely manner and via the official PTN form of the Customer.

10.9.9 Upon the Supplier's decision to initiate a formal PTN procedure, the Supplier must consider the following conditions:

- For the Customer's specific Product, the Supplier must assure to Customer:
 - Possibility of the “last buy” of the remaining quantity of Products which are planned for the lifetime of the Product, including product service life.
 - Lifetime stock and supply of spare parts for the period of product lifetime, including the service life of the product.

If these two conditions cannot be guaranteed by the Supplier, the Customer reserves the right not to accept the Supplier's PTN, since Customer may otherwise experience commercial damage.

For standard components the Customer must be provided the possibility of the last purchase of the remaining quantity of Products which are necessary for the serial production, for the lifetime of the Product.

If termination of supply/production is inevitable, the Supplier is obliged to inform the Customer thereof via the PTN form at least 12 months prior to the planned termination of supply / production.

The Supplier is obliged to enter all Product identity numbers related to this change in the PTN. Supplier is also obliged to enter into PTN the alternative Products that could be used by the Customer instead of Products which the Supplier shall terminate to supply / manufacture.

If the content of PTN requires the “last purchase” of the Product, the Customer is obliged to communicate to the Supplier the necessary quantity of products for the “last buy”.

10.10 Safe launch Concept (SLC)

The purpose of the SLC concept is to ensure a secure and controlled start of serial production through a systematic approach, as well as a safe and controlled increase in production capacity at the Supplier. The SLC concept enables a quick recognition and response in the event of quality deviations at the production location of the Supplier.

Aim of the SLC approach is to ensure that all shipped Products meet the Customer's expectations through increased quality control in the initial stage of serial production.

As a rule, for this purpose, before the start of the serial production, a “Pre-Serial Control Plan” is made and agreed upon with the Customer, containing additional and increased control of critical characteristics (e.g.: an increased quantity or frequency of control, special inspection, etc.).

SLC is valid for the time frame or quantity of produced Products as agreed with the Customer. Additional criteria for the termination of SLC is the fact that in agreed time or within produced quantity quality and capacity targets have been met.

10.11 Requalification of Product

The aim of Product requalification is the periodical assessment and confirmation of Product's conformity with the Customer's requirements.

Supplier is obliged to requalify the Products of the Customer:

- In case of change (reference provided in Article 10.9.).

- During regular annual requalification of a Product.

If during the project phase there is no specially defined scope of requalification and the Supplier of the Product is not responsible for the design of the Product, the Supplier undertakes to annually conduct and make the following:

- Complete measurement report of all dimensions and other relevant characteristics of the Product.
- Analysis of process capability (Cpk) of all special characteristics of the Product.

If Supplier is responsible for the Product design, he is obliged to come to an agreement with the Customer (SQM) concerning the scope of annual requalification, in the project (APQP) stage of the Product.

10.12 Substances, used in Product

The Supplier guarantees that all Products supplied to the Customer comply with the restrictions for substances and materials, as stated in point 6.2.

The full composition of Products shall be entered in the online application, in accordance with the Customer's requirements:

- IMDS, if the Supplier supplies Products for an automotive programme.
- BOMcheck in case of Customer's special requirement.

In special case and only with a prior approval by the Customer, the Product compliance is possible to prove based on other appropriate set of documents.

IMDS is available at the following website: <http://www.mdsystem.com>

BOMcheck is available at the following website: <https://www.bomcheck.net>

The entered and submitted data are received and finally confirmed by the Customer.

Proof that the data have been entered into the online application is entered into the PSW cover sheet of the release of Product and process, whereby the entry ID number is written in the corresponding field.

10.13 Products with limited Lifetime

When the Products have limited lifetime, and need to be kept under special conditions, the Supplier is obliged to notify the Customer of these conditions in a timely manner.

11 QUALITY ACCEPTANCE CRITERIA AND CUSTOMER'S INCOMING INSPECTION

11.1 Conformity of shipment quality is verified based on by Supplier provided documents (e.g. Measuring Report, Certificate of conformity) that are compared with the Customer's requirements. The supply compliance proof is required to be submitted to the Customer no later than at the time of shipment at the following email address:

vhodna.kontrola@iskra-mehanizmi.si.

11.2 If delivered Products do not meet the Customer's quality requirements, Customer may reject the entire shipment and initiate the Complaint process.

11.3 In the event of a repeating nonconformity, the "Escalation Procedure" shall be started, as described in point 13.

12 COMPLAINTS MANAGEMENT

12.1 A Complaint Report is issued when the supplied Products do not meet by the Customer specified quality requirements.

12.2 The reason for the complaint may include nonconformities found based on:

- Routine assessments of the Product.
- Analyses of random samples at incoming inspection.
- Market complaints.
- Detected hidden defects.
- Another appropriate manner.

12.3 Supplier is obliged to propose within 24h after receiving the complaint containment actions that will ensure the uninterrupted production to the Customer, and shall do so in written form and via 3D report.

Options of containment actions that will ensure uninterrupted production at the Customer:

- The Products that are object of complaint shall be replaced by the Supplier with a substitute supply of compliant goods within a given time period.
- Inspection of the goods that are object of complaint at the location of the Customer by the Supplier or a third party at the cost of the Supplier.
- Inspection of the goods that are object of complaint at the location of the Customer by the Customer's resources at the cost of the Supplier, which is an exceptional solution, only possible in case of a compromised delivery to the Buyer. For this option it is necessary to obtain a prior approval from the Customer.

If within 24 hours after receiving the complaint the Supplier fails to respond by providing a proposal of containment actions that are to be specified in a 3D report, or if it fails to ensure conforming Products to cover the Customer's production within a given time, the Customer reserves the right to specify an appropriate solution to secure its production, without the Supplier's prior approval and at the cost of the Supplier.

Products that have been 100% inspected by the Supplier for the Claimed nonconformity must be adequately designated by a label (label content: 100% inspected items, reference to the no. of complaint and a short description of the defect). Three shipments of the Product following the Claimed delivery must be 100% inspected for the defects that were object of the complaint and the packaging of these shipments must be adequately designated (label content: 100% inspected items, reference to the no. of complaint and a short description of the defect).

12.4 Final 8D report shall be accepted as adequate when it specifies:

- Appropriate Containment actions (3D).
- Possible causes for the Occurrence and Non-detection of defects (4D).
- Chosen, implemented and verified corrective measures for the prevention of defects and / or for the improvement of defect detection (5D, 6D).
- If necessary, implemented preventive measures (7D).

12.5. If the Supplier does not respond to a complaint or does not provide final 8D report within 30 days, the Customer shall charge the Supplier with the amount of €400.00. Contents of appropriate 8D report is described in point 12.4. Complaint is known as legitimate, caused by Supplier. All costs will be send to Supplier. 30 days period can be prolonged with Customer's agreement in written form.

12.6 In case of complaints which are based on conceptual or construction defects (which are the responsibility of the Customer), the Customer is obliged to initiate the agreed measures for the elimination of the cause of defect, whereas the Supplier should immediately carry out the required changes upon agreement with the Customer.

12.7 In case of hidden defects caused by Supplier, the Supplier shall take full responsibility for eliminating these defects and their consequences. In that case, Supplier is obliged to replace the Products with deviations at their own cost and responsibility. Supplier shall cover the cost of repairing the Customer's Products into which Supplier's Products with deviations have been installed.

12.8 In the event of a disagreement between Customer and Supplier with regards to Product quality, assessment of Product quality shall be conducted by a third party. Third parties are considered to be the institutions for control and testing of quality, which are not part of the organizational structure of the Customer or the Supplier. All incurring costs in this section shall be borne by Supplier.

12.9 In case of a repeating nonconformity or not respected response times:

- 3D – 1 day,
- 8D – 30 days,

an “Escalation procedure”, as described in Article 13 is going to be issued.

At the same time, the Customer is entitled to request establishing the so-called. ACL1 or ACL2 (Additional Control Level) at Supplier. Request for ACL1 or ACL2 will be communicated to the Supplier in writing through a dedicated notice sent by the responsible SQM.

ACL1

In the case of ACL1, the Supplier shall implement an additional, 100% dedicated product control for the discrepancy in order to prevent the supply of non-compliant Products to the Customer. This additional 100% control must be carried out as a stand-alone operation outside the production process and must not be included in the regular production process. All deliveries of Products subjected to ACL1 must be marked as agreed between the Supplier and the Customer. The Supplier must report ACL1 results in writing to the Customer on a weekly basis. For the introduction of ACL1, the Supplier must notify its certification body.

ACL2

If the ACL1 is not effective and non-compliant Products are delivered to the Client despite the ACL1, the Supplier shall establish ACL2 in addition to ACL1. ACL2 means an additional, dedicated 100% control of the Product for the discrepancy, which is carried out by a third party to the Supplier's account. ACL2 must be carried out as a stand-alone operation outside the Supplier's production premises. The third party may be suggested by the Supplier, but the Customer must agree with the proposal. All deliveries of Products subjected to ACL1 must be marked as agreed between the Supplier and the Customer. The Supplier must report ACL1 and ACL2 results in writing to the Customer on a weekly basis. For the introduction of ACL2, the Supplier must notify its certification body.

Termination of ACL1 or ACL2 requires the fulfillment of both of the following conditions:

- Corrective and preventive actions have been defined and demonstrated through the 8D report.
- Minimum of 5 complete deliveries of compliant Products or so many products are delivered as well as in the 5 complete deliveries after corrective action has been taken.



QUALITY AGREEMENT

Upon termination of ACL2, ACL1 remains in force up to a minimum of 5 complete deliveries of Compliant Products or so many of the products are delivered as well as in 5 complete deliveries.

12.10 For each legitimate complaint the Customer can charge the Supplier with the amount of €200.00 (costs of complaint administration and complaint processing).

12.11 For each legitimate complaint from the Customer's Customer or from the field caused by Supplier's Product the Supplier can be charged with the amount of €2000.00 (costs of complaint administration and complaint processing).

12.12 For all incurring actual costs that are the consequence of Supplier's nonconformity (e.g. production standstill, prompt measures taken by IM, special transport, additional work because of ACL1 or ACL2, etc.), the Customer shall be forced and entitled to charge them to the Supplier. This applies to the costs incurring at the Customer and the costs incurring at the Customer's Buyer and also, if Customer incoming inspection didn't recognized Supplier's non-conformity.

13 ESCALATION PROCEDURE

In the event of an unsatisfactory fulfilment of quality goals, the Customer shall be forced to initiate the "Escalation Procedure".

Escalation Procedure:

1. A written note to the Supplier with notification that quality goals were not reached.
2. No later than within 10 working days after receiving the notification, the Supplier shall present to the Customer key problems for failed to reach quality goals, and a proposal of the possible measures for quality goals improvement. For this purpose, the Supplier shall use the Customer's "Improvement plan" form (Obr.R_03.014).
3. Performance of the face to face meeting, where Supplier and Customer shall agree for the measures that will enable quality goals improvement. The meeting shall be coordinated by the Customer (SQM) at the Customer's location or via video conference.
4. In case of Supplier's non-responsiveness or in case of noncompliance with the agreed terms, the Customer is going to send a written escalation to the Supplier's management, together with the Customer's expectations for quality goals improvement.
5. If the Supplier will not respond to the Customer management escalation, management meeting organised by the Customer at the Customer's location shall be made. In case of an unsatisfactory response of the Supplier at the management meeting or in so far as the Supplier does not respond to the invitation to attend the management meeting, all further proceedings for the nomination of the Supplier for new projects shall be stopped by the Customer. In extreme cases, the Customer may initiate activities to find a new Supplier.

14 REFERENCE STANDARDS AND DOCUMENTS

ISO 9001 (Quality System Requirements)

IATF 16949 (Quality System Requirements)

ISO 13485 (Quality System Requirements)

ISO 14001 (Environmental Management Systems)

AIAG CQI-9 (Special Process "Heat Treat Assessment")



AIAG CQI-11 (Special Process "Plating System Assessment")
AIAG CQI-12 (Special Process "Coating System Assessment")
AIAG CQI-15 (Special Process "Welding System Assessment")
AIAG CQI-17 (Special Process "Soldering System Assessment")
AIAG PPAP (Production Part Approval Process)
AIAG APQP (Advanced Product Quality Planning and Control Plan)
AIAG P-FMEA (Potential Failure Modes and Effects Analysis)
AIAG MSA (Measurement Systems Analysis)
AIAG SPC (Statistical Process Control)

15 ABBREVIATIONS

8D = Eight Disciplines – Problem Solving Process/Report.
AIAG = Automotive Industry Action Group.
APQP = Advanced Product Quality Planning.
DR = Deviation Request.
P-FMEA = Potential Failure Mode and Effects Analysis.
GADSL = Global Automotive Declarable Substances List.
IMDS = Industry Material Data System - Internet application for monitoring the content of substances that are integrated into vehicles.
BOMcheck (Substances Declarations and Conflict Minerals Web Database) = Internet application for monitoring the content of substances that are integrated into vehicles.
ISO = International Standards Organization.
IATF = International Automotive Task Force.
MSA = Measurement Systems Analysis.
PCN = Product or Process Change Notification.
PTN = Product Termination Notification.
PDA = Packaging and Transportation Specification.
PPAP = Production Part Approval Process.
PPM = Parts Per Million.
PSW = Part Submission Warrant - Cover sheet for the release of products and processes
SLC = Safe Launch Concept.
SPC = Statistical Process Control.
TEC SPEC, TSP = Technical Specification.

16 OTHER PROVISIONS

This Agreement is made in duplicate, where Customer and Supplier, each retain one copy.

The Agreement shall be valid since the day of signing by the last party and shall remain valid until revoked. Any party may terminate it in writing with a 15 days' notice period.

Amendments and / or additions to the Agreement shall be valid only if concluded in writing.



QUALITY AGREEMENT

Defined and concluded between:

Supplier: <u>2.</u> <u>3.</u> represented by the company director <u>6.</u>	Customer: ISKRA MEHANIZMI, d.o.o. Zgornji Brnik 400, 4210 Brnik-Aerodrom, Slovenia represented by General Manager Stefan Hornivius
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Signatures:

ISKRA MEHANIZMI, d.o.o.	
General Manager: Stefan Hornivius	City, Date and Signature:
Quality Manager: Dagmar Kogej	City, Date and Signature:

and

<u>2.</u>	
Company Director: <u>6.</u>	City, Date and Signature:
Quality manager: <u>15.</u>	City, Date and Signature: