QUALITY AGREEMENT

concluded between

1. **ISKRA MEHANIZMI, d.o.o., Lipnica 8, 4245 Kropa, Slovenia,**
   represented by its Managing Director Dr. Marjan Pogačnik

   (hereinafter referred to as: Customer)

   and

2. **xxx**
   represented by managing director

   (hereinafter referred to as: Supplier)

1. QUALITY AGREEMENT

1.1. This Quality Agreement (hereinafter referred to as: Agreement) governs the cooperation between the Customer and the Supplier. The system governs the assurance of quality and measures that apply to all parts, components, finished devices, goods and services (hereinafter referred to as: Production Parts), produced by the Supplier and delivered to the customer.

1.2. The Agreement also governs quality system elements and ensures compatibility, safety, reliability and continuous improvement of the quality of the Production Parts.

1.3. The Agreement is part of the Supply Contract and General Conditions of Purchase of ISKRA MEHANIZMI, d.o.o., Lipnica.

2. GOALS OF THE QUALITY AGREEMENT

2.1. With this Agreement, the Supplier shall undertake to meet the agreed requirements regarding the quality of the Production Parts.

2.2. Pursuing the results in accordance with the process of continuous improvements, both parties shall strive for continuous improvement of the quality of the Production Parts. The Supplier shall commit to the “no error” principle that provides for the introduction of preventive and corrective measures during all phases of Production Part realisation.

3. QUALITY OF A SINGLE PRODUCTION PART

3.1. Specific characteristics and quality requirements for a Production Part shall be specified on the basis of valid quality documentation (hereinafter referred to as

Quality Documentation), such as PPAP, APQP, QAA, PZK, drawing, parts list, special requirements of the customer and similar. Quality Documentation is further explained in the annex to the Agreement.

3.2. Quality Documentation, provided by the Supplier at the request of the Customer, shall enter into force after prior examination and written approval of the Customer.

3.3. In the event of a change in the Quality Documentation, procedure, explained in item 3.2. shall apply.

4. VALIDITY OF THE QUALITY AGREEMENT

4.1. The Agreement shall enter into force by the Customer's and Supplier's signing of the Supply Contract or by signing this Agreement, whichever is the earlier, but at least until the beginning of production of Production Parts for the Customer by the Supplier.

4.2. The duration of validity of the Quality Documentation is further explained in item 8.4.5. of this Agreement.

4.3. The signatories of this Agreement should possess all necessary powers and authority for operational realisation of all provision of this Agreement.

5. QUALIFICATIONS

5.1. Quality management system

5.1.1. The Supplier shall bind itself to maintain the quality system in accordance with:

- ISO 9001:2008
- ISO / TS 16949 : 2009
- ISO 14001 : 2004

The Supplier shall undertake to obtain the quality certificate ISO 9001:2008.

5.1.2. The Customer has undertaken to actively protect the environment during all its activities. The Customer's policy is to achieve, in cooperation with all its suppliers, total transparency in terms of the use of hazardous substances and reduction or total avoidance of the use of these substances in its Production Parts. To this end, development and research processes, as well as the Production Parts, supplied by the Supplier, shall comply with the current legislation (e.g. RoHS, ELV, WEEE, REACH), which the Supplier shall prove with relevant documents at Customer's request.

6. Supplier's Assessment

6.1. Subject to Customer's and its authorised personnel's requirements, the Customer shall reserve the right to carry out quality system assessment at the Supplier's location.

6.2. The Supplier shall undertakes to provide the Customer and its authorised personnel access to production and storage premises where the Production Part is being produced and (or) stored. This also applies to the Supplier's supplier. Following a prior announcement, such assessment can be carried out in the form of a system assessment, process assessment, Production Part assessment and extraordinary assessment in the case of critical non-compliance.

6.3. At the final discussion, which is part of the assessment, the assessor shall present the conclusions of the assessment. They shall be presented in writing within an agreed period of time. With a view to the conclusions of the assessment, the Supplier shall undertake to specify and implement measures to remove non-compliances. The Supplier shall promptly notify the Customer of the realisation of the implemented corrective and preventive measures.

6.4. In relation to quality standards, the Supplier shall undertake:

6.4.1. to carry out the assessment of its own process (internal assessment) at least once a year. The same applies to Supplier's suppliers. Self-assessment should be carried out according to the procedures, prescribed by ISO standards, and taking account of the details, listed in item 6.3. of this Agreement.

6.4.2. unless otherwise specified, at least 1x / year to carry out Re-qualification of Production parts.

6.5. For the purpose of Production Parts safety, inspectors of international certifying institutions (such as BSI, UL, GS, CSA, VDE, ISO, VDA, TS) should be granted free access to their production premises.

7. Supplier's performance indicators

7.1. The Supplier shall supply the ordered Production Parts in accordance with specified Customer's requirements. The Customer shall control the fulfilment of the requirements with the following indicators:

- Quality of delivered Production Parts (in ppm);
- Accuracy of delivery (as a percentage of all deliveries)
- Response to Supplier's complaints in the form of 8D reports (too slow response, inefficient corrective measures etc.);
- Status (rank) of the supplier for a specific period of time

7.2. On the basis of received results, the Supplier shall determine and introduce corrective measures to reach the requested goals.

8. Production Part

8.1. PPAP documentation

8.1.1. PPAP (Production Part Approval Process)

- PPAP is a series of documents for automotive industry. With them, the Supplier shall prove the characteristics of the Production Part and consistency (stability) of its processes. The Supplier shall undertake to present the documents (PPAP – minimum level 3) within the agreed period of time.
- On the basis of a PPAP binder, the Customer shall release its regular production. PSW (Part submission warrant) is used as the release document.
  - In the event of an inconsistent process and Production Part's non-conformity being found, the Customer shall reserve the right to revoke the validity of PSW.
- Subject to an agreement with the Customer, PPAP can be used also for non-automotive industry branches.
- Subject to an agreement with the Customer, other documents than PSW, such as Release Report RR, EMPB etc., can be used for the release of production.
- PPAP is further explained in the annex to this Agreement.

8.1.2. During individual phases of Production Part creation, the following quality assurance measures should be planned and adopted:

The planning phase includes:

- Verification of Production Part design D-FMEA; verification of process P-FMEA;
  - FMEA includes:
    - Recognition of possible defects
    - Correction of possible defects and consequences in the design and process
  - Each subsequent change in the Design and Process requires a modification of FMEA
  - The Supplier should submit the D-FMEA to the Customer for the approval and authorisation of the Design.
- Planning of testing technology, testing devices, testing characteristics;
- Analysis of machines capability; Cmk ≥2.00 and processes capability Cpk ≥1.67 (unless otherwise agreed);
- Proofs of meeting the reception requirements;
- Planning of system, processes and Production Parts assessments.

The realisation phase includes:

- Samplings, performed in accordance with an order, i.e. performed by the Supplier after each change / correction;
  - Samplings are performed separately for individual Production Parts (e.g. in the case of plastic parts, each nest should be sampled etc.);
  - With a view to the valid documentation, all samplings should be documented in test reports and measurement protocols;

- In the event of identified deviations, reports with corrective measures should be prepared;
- For each sampling, the assessment of all quality and functional characteristics should be performed, as well as statistic assessment for characteristics in accordance with the Quality Documentation;
- Tests and measurements results are the basis for the approval by the Customer;
  - PPAP documentation is the approval basis for products, intended for automotive industry;

- Serial approval (samples):
  - The Customer shall take the approved samples from the lot that is used for the assessment and forms the basis for the decision on granting the "serial approval". These samples shall be kept until the release of a new report (Release Report RR, EMPB, PSW;...);

8.1.3. The serial approval (Release Report RR, EMPB, PSW,…) shall refer to the assessed measurements and characteristics.

For non-assessed details that would later cause unexpected problems, the Customer reserves the right to require corrections and modifications of the existing documentation.

8.2. Serial production of the Production Part

8.2.1. Prior to serial production, all conditions, listed in items from 8.1.1. to 8.1.3, should be met.

8.3. Production Parts testing, control / process management

8.3.1. All specified properties of Production Parts, produced for the Customer, should be guaranteed by a suitable control and verification.

8.3.2. Statistic control / process management should be introduced and used for all Production Part parameters that affect the quality, as well as for all related process parameters.

8.3.3. The Production Part parameters that affect the quality shall be determined by the Customer in the Quality Documentation or by Customer's Special reception requirements, referring to the Production Part, or in the testing instructions for each device separately.

8.3.4. Unless otherwise agreed, it shall apply to:

- proving short-term process capability (machines capability) Cmk ≥2.00
- proving long-term processes capability Cpk ≥1.67

8.3.5. In the event of Production Part's non-conformity or incapable processes being found, the Supplier shall immediately notify the Customer. The Supplier and the Customer should reach an agreement on the approval and implementation of appropriate measures in the form of Deviation Request forms and an 8D report, containing reasons and measures to remove non-compliances.

8.4. Safety Parts

8.4.1. Production Parts and processes, leading to their realisation, that are subject to special safety, regulation and legislation requirements are those that:

- are marked with sign “A”, “Safety Application”, in the Customer’s documentation.
- or require Production Parts certification by an authorised institutions, such as BSI, UL, VDE, TüV, SiQ, due to valid regulations and legislation.

8.4.2. The Supplier shall undertake to comply with and respect safety and technical provisions in accordance with existing international rules, ISO standards and Customer’s requirements.

8.4.3. The Customer requires and the Supplier is liable to ensure 100% verification of safety provisions from item 8.4.2. as well as a control and supervision system for legal and regulatory safety characteristics and Customer’s requirements.

8.4.4. Evidence documentation – technical documentation and records of quality should include at least the following elements:

- Production Part code, including the status of change, Production Part label, testing regulations, testing plans and consistent recording of testing results, and either “A” or “Safety Application” sign or a special label for parts with safety characteristics, should the Customer require so;
- clear documentation of all measures to remedy defects and of preventive measures (for defects that affect safety).

8.4.5. The evidence documentation should be enclosed to production batches and deliveries. The evidence documentation should be retained for at least 15 years after the end of the production of a particular Production Part.

With regard to the evidence documentation and retention obligations, additional agreements can be concluded as part of the Quality Documentation.

8.4.6. The Supplier should immediately notify the Customer of all defects that affect safety (hereinafter referred to as: Critical Defects) and are detected during the production or verification process at the Supplier’s. All batches, produced before the detection of a Critical Defect, should be identified, stored separately and the Customer should be promptly kept notified of the status.

Should any Production Part with safety, technical and functional defects be detected during testing or processing at the Customer's, the latter shall immediately notify the Supplier.
Irrespective of where the defect has been detected, the Supplier should come to an agreement with the Customer and develop documented procedures (in

accordance with the requirements in item 8.3.5.) that will result in a total removal of detected defects. Subject to Customer's request, the Supplier shall enable the Customer to carry out an assessment.

8.5. Documents and quality records

8.5.1. Documents and quality records serve the Customer as a proof of meeting quality requirements.

8.5.2. Documents and quality records should be retained for at least 15 years after the end of the production of the Production Part that the documents and records refer to.

8.5.3. Quality records should be stored in computer formats, compatible with MS Office, such as Acrobat Reader or JPG, and can be electronically transmitted (e-mail) and are easily accessible via the Internet in the said formats. Sending by fax or post is not foreseen and will be considered only in exceptional cases and in agreement with the Customer.

8.5.4. The Supplier shall undertake to make results, Documents and quality records available to the Customer at all times. It applies at least to the characteristics – regarding the type and extent – specified in the Quality Documentation or in Customer's Special reception requirements for a Production Part, or in testing instructions for individual devices.

8.5.5. In principle, documents and quality records should be made available to the Customer within 2 hours of receiving the request.

8.5.6. In the case of the termination of business cooperation between the Customer and the Supplier, the latter shall be obliged to hand the Quality Documents, including all existing Documents and quality records, over to the Customer.

8.6. Modifications

8.6.1. The Supplier shall undertakes to notify the Customer with a precise description and justification of any planned modifications, related to the approved production process of any Production Part or to the Production Part which such modification could significantly affect. Examples of such cases are:

- design modifications;
- important modification of production technology;
- modifications of tools, processes (e.g. cycle times, methods);
- modifications of material, packaging;
- modifications of testing and examining methods;
- relocation of production facilities, change of sub-supplier;
- all other changes.

8.6.2. The description and justification should include a statement that the Production Part will continue to meet specific requirements in the same way as

before the modification. The Customer shall approve the modification in line with the procedure, laid down in item 8.1.1.

8.7. Early warning system

8.7.1. In the case when the Supplier finds out that there have been quality deviations in its process, it can request the Customer for a conditional delivery (of prescribed quantity) that is not entirely in accordance with the requirements. In this case, it shall notify the Customer with the following forms: Deviation Request and 8D report. In the case of Customer's approval, the delivered material should be labelled with a special traceability (form: Identification of Deviated Parts).

8.7.2. In the case of defects that affect the safety, the procedure, laid down in item 8.4.6. (Safety Parts), shall apply.

9. Quality Reception Conditions and Customer Acceptance Test

9.1. Customer's Incoming inspection shall assess the conformity of Production Part quality at the Customer's reception depot. Subject to a special written agreement, the Incoming inspection can also be performed at the Supplier's location. Quality conformity of deliveries shall be determined on the basis of Supplier's **written** proofs, compared to Customer's requirements (Quality Documentation, Customer's special reception requirements).

9.2. The Supplier shall undertake to produce and supply the Production Parts according to the "no error" principle.

9.3. The Customer shall assess the capability of Supplier's deliveries also with the indicators, specified in item 7 of this Agreement.

9.4. Should the Customer find out that the contractual Production Part meets the quality requirements in accordance with Customer's internal regulations, it shall accept the delivery in its entirety.

9.5. Should the Customer find out that the contractual Production Part does **not** meet the quality requirements, the Customer shall initiate the Complaint procedure.

9.5.1. The Supplier shall waive the right to appeal in respect of Customer's late information, regarding the quality of delivered Production Parts. The Supplier shall be held responsible in all respects for the removal of potential defects and their consequences at the Customer's as well as at Customer's customers and on the market.

9.6. The Supplier shall guarantees 100% accuracy of delivery. Its date shall be requested by the Customer and confirmed by the Supplier. Should the Supplier

not confirm the order or cancellation in writing it shall be deemed that it fully agrees with the delivery date and other purchasing terms. 100% accuracy of delivery shall mean:

- The delivery has taken place in accordance with purchase terms and within the period, specified on the order or supply plan (cancellation), and
- The supplied quantity corresponds to that on the order or supply plan (cancellation).

9.7. The Customer shall regularly notify the Supplier of achieving goals, set for a specific period, and the Supplier shall undertake to notify the Customer in writing of the introduction of corrective and preventive measures that will lead towards improved situation and thus reaching 100% accuracy of delivery.

10. PPM GOALS, CONTINUOUS IMPROVEMENTS

10.1. PPM

10.1.1. For each Production Part or Production Part group, the Customer and the Supplier shall conclude a relevant PPM (parts per million) agreement.

10.1.2. The Supplier shall agree that a PPM agreement shall be concluded for individual parts or components. All Production Parts deviations that appear during processing and are the responsibility of the Supplier shall be registered, analysed and forwarded to the Supplier, together with a reference sample and PPM report. The Supplier shall undertake to perform an analysis, remove defects with corrective measures and reduce the frequency of cancellations.

10.1.3. The Supplier and the Customer shall monitor and supervise the achievement of PPM goals. For this purpose they shall regularly coordinate their future goals and activities.

10.1.4. Continuous improvement of quality and problem solving process shall take place in partnership cooperation between the Customer and the Supplier, using Complaint information and quality reports.

11. Complaints

11.1. A complaint case arises when supplied Production Parts do not meet specified quality requirements. Resolution of complaints is a constituent part of Customer's four-stage "Escalation Process".

11.2. Complaints can be initiated by deviations, detected on the basis of:
- routine assessments of the Production Part;
- random analyses of samples, performed by the Customer;
- Call-Rate analyses (analyses of complaints);

- complaints from the market;
- other suitable means.

11.3. In the case of complaints, based on conceptual and design errors, the Customer shall launch measures to remove the causes of defects and the Supplier is obliged to immediately make the changes.

11.4. In the case when defects were caused by the Supplier and they occur as a result of installing or fixing defective Production Parts, the Supplier shall assume responsibility to remedy those defects and their consequences. In such case, the Supplier is obliged to replace defective products at its own costs and responsibility. In such case, the Supplier shall also cover the costs of repairing the Customer's products, fitted with Supplier's defective Production Parts.

11.5. All measures to remedy the defects should be approved by the Customer in writing.

11.6. Information on a complaint case should be passed on by the Customer to the Supplier on a standard complaint form (SAP), including the request for an 8D report. The Supplier should fill in the form and send it to the Customer for approval within 3 days of the receipt. The first response to limit the consequences of detected deviations should be delivered to the Customer on an 8D report within 24 hours of the receipt of a complaint. Should the Supplier not respond to the complaint with a well prepared 8D report within 14 days, the Customer shall charge it 100 euros. A well prepared 8D report should include reasons for defects and corrective measures to prevent a reoccurrence of defects.

11.7. Should the Supplier not present actions to check or replace defective Production Parts within 24 hours of lodging the complaint, the Customer has the right to start correcting the effects of defective Production Parts and goods at Supplier's costs. Hourly wage for the removal of defects shall be 30€. The Customer shall charge the incurred costs by invoicing the Supplier. In the case of recurrent deviations, the Customer reserves the right to withdraw from the Agreement.

11.8. In the event of a disagreement between the Customer and the Supplier, regarding the quality of goods, a third party shall assess the quality of goods. Quality control and testing institutions that are not part of the Customer's or Supplier's organisation shall be considered as third parties. The Customer shall charge the Supplier for all costs, incurred as a result of this item.

12. Warranty and liability

12.1. The Supplier guarantees the Customer that the delivered Production Parts meet quality requirements for regular use or that they meet the required quality level as far as the Customer is concerned.

12.2. The Supplier shall give a quality guarantee on the contractual Production Part for at least 24 months of the delivery of the Production Part.
In the case of bad quality (hidden defect), found within or outside the warranty period by the Customer or on the market, the Customer has the right to compensation.

13. Business secret

13.1. The Customer and the Supplier shall undertake to conclude a Non-disclosure agreement (NDA).
Should the Customer and the Supplier not conclude a Non-disclosure agreement, they undertake not to disclose business secrets of the contracting partner to third parties.

13.2 A business secret shall include all data, defined as such by the parties in their acts, as well as the data that the other contracting party knows or should know that they could cause a significant damage to the other contracting party if revealed to an unauthorised person.

14. Other provisions

14.1 This Agreement is made in two copies of which the Customer and the Supplier receive one copy.

CUSTOMER:	***SUPPLIER:***
ISKRA MEHANIZMI, d.o.o.	
Managing director:	
Marjan Pogačnik, PhD	
Place and date of signature:	Place and date of signature:
_____	_____
Quality executive:	Quality executive:
Miha Okorn	
Place and date of signature:	Place and date of signature:
_____	_____