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1. Objective

SHW AG and/or the group companies affiliated with it in accordance with section 15 et seq. of the German Public Limited Companies Act (AktG) (hereinafter referred to as “SHW”) and the supplier are aiming for a long-term collaboration in the spirit of partnership so that they can respond together to changing and rising demands. This means that the deliveries made, and services provided, by the supplier must meet all of the agreed and statutory requirements in full.

SHW and the supplier agree that the top priority within the context of the supply relationship is a “zero-error strategy”. As a result, the focus is on preventative action to avoid errors, as opposed to merely reacting by identifying and rectifying them. In order to comply with this “zero-error strategy”, a legally binding agreement on the quality assurance of deliveries (“QAA”) is in place between SHW and the supplier. This Agreement on Supplier Qualification forms a key component of the QAA.

The Agreement on Supplier Qualification consists of management guidelines setting out an escalation process comprising several stages, the aim being to achieve lasting improvements in the supply quality provided by the supplier on the basis of preventative measures. At the same time, these measures can make a key contribution to optimising the supplier’s costs. The “Quality Support Programme” is based on SHW’s long-standing, tried-and-tested experience and expertise relating to process optimisation with a view to boosting effectiveness and/or efficiency in the automotive sector.

In the event that deliveries contain errors, the supplier undertakes, in return for the reimbursement of the substantiated expenses incurred on the basis of sections 611 et seq. of the German Civil Code (BGB), to make use of supporting services provided by SHW that are tailored to suit its specific situation and relate to process optimisation with a view to boosting effectiveness and/or efficiency in order to comply with the “zero-error strategy”. SHW is prepared to provide the supplier with these support services.

For this purpose, corresponding measures will be taken as part of the “Quality Support Programme” (QSP) and the supplier will be assigned to categories based on its supply quality.

The “Quality Support Programme” ensures a

1. standardised and effective procedure, as well as
2. defined and sustainable process optimisation.

The standardised procedure applied by the “Quality Support Programme” achieves a uniform problem-solving process for preventing defective supplied parts or critical supply situations.

The “Quality Support Programme” applies to all suppliers that make deliveries and/or provide services to SHW.

The Parties agree that the performance of services by SHW on the basis of this Agreement on Supplier Qualification does not, in any way, affect the supplier’s sole and exclusive responsibility for the manufacture and delivery of defect-free contractual products to SHW.

3. Criteria for inclusion in the supplier qualification and escalation management scheme (Quality Support Programme)

A supplier may be included in the “Quality Support Programme” for the following reasons:

- The supplier did not actively contribute to the “zero-error strategy”.
- Despite being asked to do so several times, the supplier did not submit a plan of action for improving supply quality/delivery punctuality.
- The supplier does not respond to invitations to an escalation meeting extended by SHW.
- The targets agreed upon in the supplier meetings are not met.
- The supplier has not performed any qualified root-cause analysis (Ishikawa; 5W, etc.)
- Due to critical complaints lodged by SHW customers (caused by supply difficulties or defective components supplied by the supplier).
- In the event of a risk that assembly line production will have to be stopped at the premises of an SHW customer due to delivery delays for which the supplier is to blame.

In addition, the criteria set out below are taken into account with regard to the supplier’s inclusion in the “Quality Support Programme”.

- Impact/consequences of the error or delivery delay on/for production at SHW.
- Impact/consequences of the error or delivery delay on/for production at SHW’s customer.
- Potential field complaints or recalls at SHW customers.
- Failure to achieve supply performance

A decision on whether to include a supplier in the “Quality Support Programme” due to the aforementioned reasons or criteria will be made by the QSP committee on a case-by-case basis. Within this context, the supplier can also be directly assigned to QSP support level 2 or 3 on the basis of the error and its impact.

4. Model for supplier qualification and escalation management

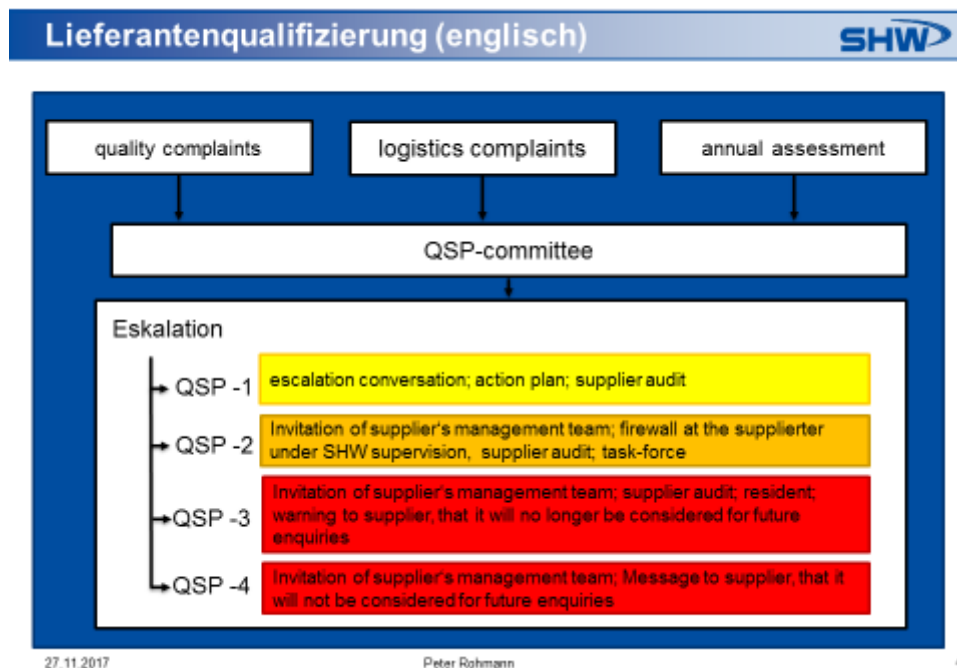


Figure 1: “Quality Support Programme” model

5. Process description for the “Quality Support Programme”

The individual stages in the supplier qualification and escalation process are described in detail below.

5.1 QSP support level 1

If a supplier is included in QSP support level 1 based on the current available facts (frequent quality problems with the supplier, impact of the error, impact of the delivery bottleneck, etc.), then SHW can define the following measures in consultation with the supplier, i.e. at its own discretion and taking its statement into account.

Measures:

- The supplier is invited to a bottleneck/quality meeting, the aim being to develop specific recommendations for action for the supplier.
- The supplier provides SHW with status reports on its supply quality/quantity.
- Agreement of full checks on the supplier. (NB: The assessment of component quality has to be performed independently of the production facility and series testing)
- Performance of an audit of the supplier based on a German Association of the Automotive Industry (VDA) standard 6.3 Audit

The implementation of the measures/target achievement is assessed by way of a VDA 6.3 Audit. The audit results form the basis for the decision made by the QSP committee as to whether to revoke the escalation process. The substantiated costs incurred in connection with the support provided to the supplier and with the audit shall be borne by the supplier; the costs shall be calculated in accordance with clause 14.4 QAA.

5.2 QSP support level 2

If the quality targets set out in QSP support level 1 are not reached, or if the defined measures are not implemented effectively and on time, then SHW can agree with the supplier to move to QSP support level 2. In cases involving particularly critical errors/supply bottlenecks, QSP support level 2 can also be initiated, in consultation with the supplier, without the supplier first being assigned to QSP support level 1.

The following measures can be defined in consultation with the supplier to promote the development of the escalated supplier.

Measures:

- Invitation of the supplier's management team to an escalation meeting (issues: discuss escalation statement with the supplier, agree on new targets with the supplier, etc.).
- Introduction of a "firewall" at the supplier, extending beyond the requirements of the commercial duty to inspect goods and object to any defects, for a limited period, albeit one which can be extended if need be, to be implemented by SHW employees or an external service provider, the aim being to assess the effectiveness and/or efficiency of the measures implemented at the supplier's company in connection with escalation management and based on the "two-man rule", and to arrive at any further recommendations for action/suggested improvements for the supplier as a result.
- The deployment of a task force to develop the supplier, the aim being to assess the effectiveness and/or efficiency of the measures implemented at the supplier's company in connection with escalation management and based on the "two-man rule", and to arrive at any further recommendations for action/suggested improvements for the supplier as a result.

The defined measures are to be performed by the supplier until a sustainable process improvement is achieved. This will be reviewed in the context of a VDA 6.3 Audit. If the targets are achieved, the supplier is moved down to QSP support level 1. The supplier will be informed of this decision in a status report.

The substantiated costs incurred in connection with the support provided to the supplier, the supplier "firewall", the deployment of a task force and the performance of an audit at the supplier's company shall be borne by the supplier; the costs shall be calculated in accordance with clause 14.4 QAA.

5.3 QSP support level 3

If the quality targets are not met, or are not met to a sufficient degree, as a result of the measures agreed, the QSP committee can agree with the supplier to move to QSP support level 3.

Measures:

- At this level, another management meeting is held with the supplier's management team.
- In order to more effectively monitor the implementation of the agreed measures and target achievement, a "resident" is temporarily installed at the supplier's company with the latter's consent.

The supplier can also be warned that it will no longer be considered for future enquiries.

The supplier is moved down a support level depending on how effective the defined measures prove to be. This will be reviewed in the context of a VDA 6.3 Audit. The supplier will be informed of this decision in a status report.

The substantiated costs incurred in connection with the support provided to the supplier, the assignment of a "resident" and the performance of an audit at the supplier's company shall be borne by the supplier; the costs shall be calculated in accordance with clause 14.4 QAA.

5.4 QSP support level 4

If, despite the measures defined at the previous QSP support level, no significant improvements in supply quality/quantity can be achieved or if agreed requirements are not met, then the QSP committee can recommend that the (plant) management team moves to QSP support level 4 in consultation with the supplier. Suppliers assigned to QSP support level 4 are no considered for the purposes of new enquires made by SHW. The supplier receives written notice to this effect after the management meeting (between SHW and the supplier).

The (plant) management can also arrange for the establishment of a relationship with an alternative supplier.

5.5 De-escalation level

Supplier de-escalation is a process performed by the QSP committee in consultation with the supplier. The de-escalation process is initiated each time the agreed quality targets are met. An audit is conducted to assess target achievement.

The substantiated costs incurred in connection with the audit shall be borne by the supplier; the costs shall be calculated in accordance with clause 14.4 QAA.

5.6 Summary of activities at the QSP support levels

QSP level	Activity	Party responsible	Results
0	Informing Q committee	Head of work preparation/head of quality management	Application to have a supplier included in the escalation scenario
1	Informing the supplier's management team that the supplier has been included in the escalation scenario and inviting them to a supplier qualification meeting	Specialist procurement employee	Letter to supplier's management team
	Holding supplier qualification meeting with the supplier	Specialist procurement employee/supplier development employee/work preparation manager/quality assurance employee for series production	Discussing objectives and schedule with the supplier
	Status report from supplier on delivery punctuality	Work preparation manager	Status report from supplier, with delivery quantity and deadline
	Status report from supplier on supply quality	Quality assurance employee for series production	<ul style="list-style-type: none"> Update to plan of action Measurement records sent
	Agreeing full checks with the supplier	Quality assurance employee, series production/supplier development	<ul style="list-style-type: none"> The assessment of component quality has to be performed independently of the production facility and over and above series testing All deliveries must be labelled "Delivery checked" The test report also has to be attached to the delivery.
Supplier audit (VDA 6.3 Audit)	Supplier development	<ul style="list-style-type: none"> Conduct audit Error analysis/assessment of the plans of action Capacity check and assessment of supply plans 	
2	Informing the supplier's management team that the supplier has been included in the escalation level and inviting them to a supplier qualification meeting	Head of procurement/head of work preparation/head of quality management	Letter to supplier's management team
	Holding supplier qualification meeting with the supplier	Head of procurement/head of work preparation/head of quality management	<ul style="list-style-type: none"> Agree on targets with the supplier Discuss statement (regarding targets being exceeded)
	Establishing firewall at the supplier, involving SHW employees or an external service provider	Head of procurement/head of quality management	Monitor full checks at the supplier's company; <ul style="list-style-type: none"> Define further assessments if necessary Block/weed out suspicious components or batches
	Supplier audit (VDA 6.3 Audit)	Supplier development	<ul style="list-style-type: none"> Conduct audit Error analysis/assessment of the plans of action Capacity check and assessment of supply plans
	Deploying a task force	QSP committee	<ul style="list-style-type: none"> Ensure quality and monitoring of the measures Ensure supply and monitor supply plan
3	Informing the supplier's management team that the supplier has been included in the escalation scenario and inviting them to a supplier qualification meeting	Head of procurement/plant management	Letter to supplier's management team
	Holding supplier qualification meeting with the supplier	Plant management	<ul style="list-style-type: none"> Agreeing on targets with the supplier Discuss statement (regarding targets being exceeded)
	Installing a "resident" at the supplier's company	Head of procurement/plant management	<ul style="list-style-type: none"> Ensure quality and monitoring of the measures Ensure supply and monitor supply plan

QSP level	Activity	Party responsible	Results
	Supplier audit (VDA 6.3 Audit)	Supplier development	<ul style="list-style-type: none"> • Conduct audit • Error analysis/assessment of the plans of action • Capacity check and assessment of supply plans
	Warning to supplier that it will not be considered for new enquiries in the future	Head of procurement/plant management	Letter to supplier's management team
4	Informing the supplier's management team that the supplier has been included in the escalation level and inviting them to a supplier qualification meeting	Head of procurement/plant management	Letter to supplier's management team
	Holding supplier qualification meeting with the supplier	Plant management	Inform supplier that it will not be considered for future enquiries
	Informing supplier in writing that it will not be considered for future enquiries	(Plant) management	Letter to supplier's management team including: <ul style="list-style-type: none"> • Minutes of the meeting held with the supplier's management team • Explanation of the reasons behind the supplier's exclusion from enquiries
	Establishment of an alternative supplier relationship	(Plant) management	<ul style="list-style-type: none"> • Arrange for project enquiries to be made to alternative suppliers • Make decision on commissioning of alternative supplier for projects
DE	De-escalation	QSP committee	<ul style="list-style-type: none"> • Move supplier down a level if targets are reached (NB: this decision is based on a VDA 6.3 Audit conducted at the supplier's company) • The supplier is informed in writing (letter sent by specialist procurement employee) that it has been moved down a level

6. Further provisions

6.1 General place of performance and employee assignment

The business premises at SHW's company locations are the general place of performance for the provision of support services. Services that require a local presence on the supplier's premises shall be performed in the supplier's company locations. The supplier shall grant the SHW employees access to its company installations, including communications and data processing systems, insofar as is required for the performance of the support services. Due consideration shall be paid in this regard to the control requirements and safety precautions that apply on the supplier's premises. The employees assigned by SHW shall not be bound by instructions issued by the supplier, irrespective of the place of performance.

6.2 Service handover

SHW shall hand over any results associated with the service, e.g. work papers, to the supplier on an ongoing basis, but no later than at the end of the performance period.

6.3 Rights of use

With the payment of the agreed fee in full, the supplier shall be granted a basic, perpetual and worldwide right to use the work results generated for its own internal purposes, and to reproduce them, edit them and otherwise use them for such purposes. SHW reserves the right to all intellectual property in full.

6.4 Liability

- (a) SHW has unlimited liability – irrespective of the legal grounds – for (i) bodily injury, (ii) damage that it causes with wilful intent or gross negligence and (iii) the lack of a characteristic that it has guaranteed. The same shall apply to liability under the German Product Liability Act (*Produkthaftungsgesetz*).
- (b) In the event of damages caused by way of ordinary negligence, SHW, its statutory representatives or vicarious agents shall only be liable for expenses and/or damage – irrespective of the legal grounds – in the event that a material contractual obligation is breached (obligation whose fulfilment is crucial for the due performance of the agreement in question in the first place and in respect of which the principal generally trusts, and can generally be expected to trust, in its fulfilment).
- (c) This liability is, however, limited, in terms of amount, to the damage that is foreseeable at the time the agreement was concluded and that is typical for this sort of agreement and/or the necessary expenses.

- (d) The above notwithstanding, SHW's liability for damage and/or expenses in a single calendar year is – irrespective of the legal grounds – limited to the value of the annual gross remuneration in that calendar year.
- (e) Any contractual liability claims become statute-barred after one year.

6.5 Relationship with warranty and product liability law

The Parties agree that the performance of services by SHW on the basis of this Agreement on Supplier Qualification does not, in any way, affect the supplier's sole and exclusive responsibility for the manufacture and delivery of defect-free contractual products to SHW.

6.6 Written form

No verbal collateral agreements have been made. Any amendments and supplements to this Agreement shall only be valid in writing. This shall also apply to any amendment to the provision governing written form itself. The provisions set out in section 127 (2) and (3) BGB shall not apply.

6.7 Severability clause

If and insofar as a provision of this Agreement is invalid or unenforceable, either in full or in part, this shall not affect the validity or enforceability of the remaining provisions of this QAA. Ineffective provisions shall be replaced by valid statutory law; unenforceable provisions shall be replaced by the enforceable provisions that most closely approximate the purpose of the unenforceable provision to the extent that they are legally permissible. Sentence 1 and sentence 2, last half of the sentence, shall apply accordingly to any unintended gaps or omissions.