

SUPPLIER QUALITY AGREEMENT

agreed between parties:

1. KOH-I-NOOR PONAS s.r.o.

Na Vyšehradě 1091

572 01 Polička, Czech Republic

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Introduction

Changing expectations of our customers and global competition require continuous improvement of all products, services, processes and business procedures.

A Zero Defect policy is now an essential requirement and standard for all our customers' suppliers. Such target can be reached only through a common effort of the company of KOH-I-NOOR PONAS s.r.o. and its suppliers.

Defect occurrence and non-detection prevention and continuous process chain improvement (from customer's inquiry through quotation, order, start of production, serial production all the way to the part application) are essential requirements, which we have to and are willing to meet; all that with an active support from our suppliers.

This manual introduces to our suppliers the requirements, conditions, methods and instructions, which are necessary to meet to reach our targets.

An evidence of effective and structured quality management system is the very foundation of each co-operation.

2 Basic Requirements Realization

Further are described the most significant and relevant requirements from quality management process of KOH-I-NOOR PONAS s.r.o. The supplier is obligated to meet and prove compliance with these requirements before establishing a business relationship and/or during order closing.

2.1 Quality Management System and Qualitative Capability

Supplier has effectively implemented quality management system and thus proves their qualitative capability.

a) Service and/or product suppliers, which can be certified in compliance with IATF 16949:2016 (e.g. raw material supplier, product supplier, surface adjustment of parts for automotive industry etc.)

Service and/or product supplier of KOH-I-NOOR PONAS s.r.o. has implemented in their organization a quality system management in compliance with ISO 9001 and IATF 16949:2016 (or ISO/TS

16949:2009) and commits therefore to the continuous quality system management improvement through the third-party audits.

b) *Service and/or product supplier, which cannot be certified in compliance with IATF 16949:2016 (e.g. service providers, consultants, lecturers, IT, carriers, distributors etc.) Service and/or product supplier of KOH-I-NOOR PONAS s.r.o. has implemented in their organization a quality system management in compliance with ISO 9001 and commits therefore to the continuous quality management system through the third-party audits carried out by certification body accredited as member of International Accreditation Forum Multilateral Recognition Arrangement.*

c) *External laboratories*

External /commercial/ laboratories, which are used by KOH-I-NOOR PONAS s.r.o. for controlling, trial or calibration purposes must have the laboratory scope established. Any object used for purposes mentioned above must be accredited in compliance with ISO/IEC 17025 or in compliance with an equivalent national standard, and must include controlling, trial or calibration services in the certification scope. Calibration certificate or trial protocol must be marked by the national accreditation board.

Applies to a), b), c) suppliers:

Supplier must prove the certification to KOH-I-NOOR PONAS s.r.o. by providing a valid certificate without being requested to do so and without any unnecessary obstructions. Exceptions can be made after and agreement with purchasing department of KOH-I-NOOR PONAS s.r.o. and must be managed through an action plan submitted and updated by supplier and approved (in written form) by KOH-I-NOOR PONAS s.r.o.

Suppliers are advised to be certified to all above mentioned standards by a third party. DIN EN ISO 14001 must be taken into account.

Compliance to the quality management system is one of the criteria taken into account for choosing a supplier and for supplier evaluation.

2.2 Other Quality Requirements

In addition to the standards listed in section 2.1, documents which are part of each specific order are binding too. These can vary depending on the type of material or the kind of service.

It can be order drawings, standards (DIN, ČSN), technical requirements, delivery requirements, data sheets, agreed trial requirements, additional ordering data (packaging orders, special environment requirements)

2.2.1 Legal Requirements

The supplier is responsible for the compliance of all their products, processes and services with all the applicable, latest and up to date legal requirements.

KOH-I-NOOR PONAS s.r.o. will provide to the suppliers all applicable product and process special characteristics at the time of issuing each order and will provide all applicable legal requirements if requested by supplier.

All suppliers of KOH-I-NOOR PONAS s.r.o. are obligated to apply all applicable requirements throughout the entire supply chain.

2.2.2 Safety Parts

Should KOH-I-NOOR PONAS s.r.o. request a product or a service, out of which the final product is deemed as „safety “, the supplier is obligated to fulfil all the relevant and up to date legal requirements, and appoint a product safety representative. The supplier is responsible for training and competence of the product safety representative.

2.3 Supplied Product Quality and Product Reception

All the products must not feature any structural, material and/or processing defects and must comply with all features agreed upon in the contract. The supplier is obligated to prove the contents of supplied material and parts and its impact on the environment. All the supplied material must be registered in IMDS (International Material Data System).

The supplier shall be informed should the material delivered to KOH-I-NOOR PONAS s.r.o. not be released. Any costs related to material not being released will be charged to the supplier. KOH-I-NOOR PONAS s.r.o. has established a fixed rate to charge to the supplier in case of low cost and/or low significance fault occurrence. KOH-I-NOOR PONAS s.r.o. shall determine the scrap and/or rework cost and charge it to the supplier.

Effectively implemented quality management system which ensures the highest quality standards is essential to reach the Zero Defect target with regards to all products and services supplied by the supplier.

With the high quality standard reached and ensured, no defect can be found at thorough random incoming inspection. That is why incoming inspection of all goods supplied to KOH-I-NOOR PONAS s.r.o. is limited only to externally identifiable errors caused by transport or packaging and to identity check in compliance with submitted paperwork.

In order to ensure high quality products, KOH-I-NOOR PONAS s.r.o. has also implemented quality management system, which complies to the requirements described in section 2.1. Taking this into consideration, KOH-I-NOOR PONAS s.r.o. performs, along with the production, checks in compliance with the requirements of the quality system management, to ensure soon-enough detection of product failure, which includes deliveries and effectiveness of the suppliers.

Any delivery discrepancies must be announced immediately via fax or email. Supplier shall not object to delayed complaints, should KOH-I-NOOR PONAS s.r.o. agree to above mentioned responsibilities.

2.4 Complaint Processing, 8D-Report

Each supplier must process each complaint through carrying out an 8D Process. The supplier will be informed of deadlines for each step of 8D Process when the complaint is raised. The supplier must provide updates even in the middle of problem solving if requested. Should the supplier not keep up with the deadlines, KOH-I-NOOR PONAS s.r.o. must be notified in written form. The supplier must carry out a thorough investigation on the root cause occurrence and non-detection. The 8D report must contain results of such investigation and chosen corrective actions along with a plan of the corrective action implementation.

In case of problem caused by the supplier and/or in case of unacceptable reaction time, KOH-I-NOOR PONAS s.r.o. reserves the right to audit the supplier. All costs related to such event will be charged to supplier's account.

2.5 Quality Documentation

Results of any qualitative tests performed at supplier's site must be documented including the planned and implemented corrective actions and must be, if requested, provided to KOH-I-NOOR PONAS s.r.o. and/or its customers. Any exceptions must be agreed upon before entering into a contract.

All suppliers and sub-suppliers must keep all records for all parts with higher documentation requirements and for safety parts (see VDA Volume 1) for at least 15 years.

2.6 Quality Agreements

The quality of supplied material is monitored and the results are projected into the Supplier Evaluation. Following indicators are taken into account:

- 1. Supplied material (parts) quality – amount of incidents*
- 2. Complaint management*

Any additional costs related to “non-conformal” delivery will be charged to the supplier’s account.

2.6.1 Supplier Evaluation

KOH-I-NOOR PONAS s.r.o. performs a supplier evaluation once a year. Following indicators are taken into account:

- 1. Payment terms*
- 2. Communication*
- 3. Quality (see section 2.6)*
- 4. Capacity (compliance to the on-time delivery and the capacity of the delivery)*
- 5. Certification – quality management system*
- 6. Certification – ISO 14001*

The supplier is provided with this evaluation. In case of insufficient evaluation result, supplier is notified and must perform necessary corrective actions through an action plan approved by the KOH-I-NOOR PONAS s.r.o.’s purchasing department. This action plan must then be up to date and the corrective actions must be implemented systematically and effectively without any delays.

All automotive suppliers and other suppliers that supply more than 2 deliveries during watched period are subject of suppliers’ evaluation.

2.6.2 Supplier Audit

KOH-I-NOOR PONAS s.r.o. reserves the right to audit any supplier, which cannot prove compliance to the certification as described in section 2.1 and/or any supplier with nonconforming delivered material and/or non-conforming services. The right to audit the supplier is also reserved should ISO 9001, IATF 16949 and/or ISO/TS 16949 require it, for purpose of verification of the start of the serial production as well as pre-serial production and/or the sample manufacturing, and/or should the supplier change, optimize and/or relocate the process.

Purpose of audit:

- *Supplier's risk assessment*
- *Supplier monitoring*
- *Supplier's quality management system development*
- *Product audit*
- *Process audit*

The audit shall be carried out on date which will be determined and announced in advance, Supplier shall grant the auditor an access to its facilities, documentation and processes. Supplier will also ensure the presence and availability of all personnel responsible for quality management system and all relevant processes at any point of the audit in order to present the evidences and answer the questions.

Should any non-conformance and/or deviation be found, supplier must develop an action plan which and submit it to KOH-I-NOOR PONAS s.r.o. to approve. Every detected non-conformance and/or deviation must be eliminated systematically. KOH-I-NOOR PONAS s.r.o. reserves the right to check successful implementation of corrective actions and to determine whether it is necessary to check them on site.

All the audit results and/or any knowledge acquired during the audit are considered confidential and shall not be shared with the third party, unless such action is approved by the supplier.

2.7 Change Management / Quality Issues

Supplier commits to inform KOH-I-NOOR PONAS s.r.o. about any quality problem and/or product and/or process blockage, and is obligated to communicate necessary containment actions.

Supplier must inform KOH-I-NOOR PONAS s.r.o. of any planned change of any process no later than 3 months before its implementation in order to validate their impact on the production process.

Supplier must inform KOH-I-NOOR PONAS s.r.o. of any planned change of any process and/or product before and after SOP, i.e.:

- *Design, assignment and/or material change*
- *Use of new, corrected and/or spare tools*
- *Production method and/or process change*
- *Production site change (relocation)*
- *Supplier, parts, material, services and/or software change*
- *Re-start of the manufacturing devices after the period longer than 12 months.*

KOH-I-NOOR PONAS s.r.o. must be informed even in case of any process change at sub-supplier.

Supplier and KOH-I-NOOR PONAS s.r.o. shall agree upon the scope of sampling. Supplier shall ensure to deliver the products from serial production after the samples have been approved by KOH-I-NOOR PONAS s.r.o. (see section 4.6). Supplier must archive all the validation and verification records.

Supplier must approve all its sub-suppliers' requests before submitting them to KOH-I-NOOR PONAS s.r.o.

In case there are still products manufactured before the change available at the time of the change implementation, supplier must inform KOH-I-NOOR PONAS s.r.o. about the quantity so that the decision on using such product can be made.

After the change has been implemented, it is essential that the first deliveries must have a different delivery note, packaging unit which has to be properly marked. Details must be agreed upon between supplier and KOH-I-NOOR PONAS s.r.o. in written form before the first expedition of the changed product.

All changes implemented must be clearly identifiable with regards to the date and the time of the change.

Should the supplier require any correction and/or rework, a written permission from KOH-I-NOOR PONAS s.r.o. must be obtained in advance. Such permission must be stored properly so that it can be submitted at any time.

In case of non-compliance to this process, KOH-I-NOOR PONAS s.r.o. will charge all the costs to the supplier's account.

2.8 Continuous Improvement Process

Supplier has implemented in its enterprise a structured continuous improvement process for all products, processes and/or services. Such process is also in place for all products and/or services supplied to KOH-I-NOOR PONAS s.r.o., and is properly documented. Supplier proves the effectiveness of the continuous improvement process by the improving quality, price, supplier performance, flexibility and co-operation. If requested by KOH-I-NOOR PONAS s.r.o. supplier must submit all records of programs and actions associated with the continuous improvement process.

3 Supplier Quality Management

3.1 Escalation Process

In case of repeated quality and/or logistic problem, process of escalation is initiated. The objective of such process is to introduce corrective measures so that supplied products comply with the requirements of KOH-I-NOOR PONAS s.r.o. again. Depending on the severity and/or duration of the problem, one of the three escalation levels will be implemented.

Generally, each escalation level consists of:

- *Problem and escalation root cause analysis*
- *Creation of an action plan mutually agreed upon in order to meet the quality and/or logistic requirements of KOH-I-NOOR PONAS s.r.o.*
- *Realization of the action plan*
- *Check and compliance with the action plan*
- *Depending on the effectiveness of the corrective action, an escalation one level up or de-escalation one level down will follow.*

Escalation level 1: *Supplier is confronted with any quality and/or logistic problems, target deviations, repeated complaints, delayed deliveries, etc. Supplier must implement, validate and verify effective corrective actions and document them in 8D report and/or in action plan.*

Escalation level 2: *Realization of the action plan, in terms of relevance and effectiveness is checked on site. The results of such inspection shall be documented in the action plan. Supplier is responsible the realization of the action plan and must inform all relevant departments about the current state. KOH-I-NOOR PONAS s.r.o. is entitled to request a 100% check of the parts, which has to be carried out at separate working place.*

Escalation level 3: *Deployed when requirements of 2nd level are not fulfilled. 3rd level of escalation translates to blocking the supplier in terms of new inquiries. The problems are analysed on site by the team assigned by KOH-I-NOOR PONAS s.r.o. at this level of escalation. Supplier must support all activities of the team. Supplier's management must ensure the compliance to the corrective actions agreed upon. KOH-I-NOOR PONAS is entitled to request a 100% check of parts provided by an external company.*

In case of the supplier being assigned by the customer of KOH-I-NOOR PONAS s.r.o., KOH-I-NOOR PONAS s.r.o. is entitled to escalate severe and/or repeated problems to its customer.

In order to ensure an implementation of effective corrective actions, the development of their realization shall be monitored and documented.

Escalation level 3 ends with de-escalation. If there's a lack of supplier's support and it has been proven that the problem is caused by the supplier, the purchasing department of KOH-I-NOOR PONAS s.r.o. shall exclude the supplier from the active suppliers list.

4 Other Quality Requirements

Along with general requirements of KOH-I-NOOR PONAS s.r.o., its supplier must submit following items:

4.1 Feasibility Check

Submitting their offer, supplier confirms feasibility in compliance with the requirements of KOH-I-NOOR PONAS s.r.o.

Suppliers which have to be certified in compliance with IATF or ISO/TS must implement methods for new product and/or new process feasibility evaluation. The feasibility analysis must include the capacity planning. These methods must also be applicable to evaluation of any changes.

The "Zero Defect" target applies with no exceptions.

4.2 APQP

In order to reach the target of Zero Defect at all stages of cooperation, supplier must conduct an APQP for all prototypes and pre-serial and serial production deliveries. APQP has to document the quality at all stages of trials and must be approved by KOH-I-NOOR PONAS s.r.o. The APQP must be carried out in compliance with VDA or in compliance with AIAG.

4.2.1 Serial Production Time Planning

Supplier must ensure serial production and deliveries in compliance with the orders and requirements of KOH-I-NOOR PONAS s.r.o.

4.3 Product and Process Approval

Supplier must submit first samples in compliance with all requirements to KOH-I-NOOR PONAS s.r.o. in order to get the product and/or process approved.

All samples as well as all parts and raw material must be manufactured on serial production equipment and under serial production conditions.

The content and scope of the documentation must be approved by the quality department of KOH-I-NOOR PONAS s.r.o.

It is absolutely essential to comply with all drawing specifications and reference points. If the drawing issued by KOH-I-NOOR PONAS s.r.o. does not contain any reference points, supplier must submit such points established in the measurement report, with the documentation to be approved.

KOH-I-NOOR PONAS s.r.o. reserves the right to request and review the process and/or product approval.

KOH-I-NOOR PONAS s.r.o. reserves the right to charge all costs to supplier related to the repeated rejection of submitted samples.

4.3.1 Supplier Competence and Resources

Supplier commits to allocating sufficient resources as well as designating qualified staff in order to meet all requirements of KOH-I-NOOR PONAS s.r.o.

4.4 Traceability

Supplier must ensure traceability of all its supplied products in order to identify and block all potentially non-conforming products, should the non-conforming product delivery situation arise.

All products with special and/or safety characteristics must be clearly marked in the documentation and on the packaging, and must be traceable for 15 years after the project termination.

5. Social Responsibilities

Supplier must comply to Czech legislation in terms of labour and civil rights, Charter of Fundamental Rights and Freedoms and European Social Charter.

KOH-I-NOOR PONAS s.r.o.	place/date	signature
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supplier	place/date	signature
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