



TITLE: SPECIFICATION OF QUALITY AND
ENVIRONMENTAL REQUIREMENTS
FOR SUPPLIERS OF SANOK RC S.A.

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Number of attachements:			
Effective since: 06.05.2016			

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1. Scope of the specification.

The present specification defines quality requirements imposed by SANOK RC S.A. to the suppliers who provide or are willing to provide their merchandise to the company SANOK RC S.A.

2. Definitions

Specification – denotes the present *Specification* of quality together with the accompanying appendices

Party – denotes *SANOK RC S.A.* or the *Supplier* as appropriate

Sub supplier – denotes the supplier of the products or services to the *Supplier*

Product – denotes a raw material/rubber compound/article/part supplied to *SANOK RC S.A.* by the *Supplier*

Customer – denotes the purchaser of products supplied by *SANOK RC S.A.*

Special characteristics – denotes all characteristics of the *Product* or the process which are subject to legal regulations and/or may affect the safety of the *Product*, easiness of its installation and its functionality. Such characteristics require particular consideration and monitoring at every stage of production planning and realization process.

Traceability – capability to trace back the history of production of the Product, i.e. when and whom performed particular operation, as well as determination which materials were used for production.

New product - Newly launched product or not supplied to SANOK RC S.A. so far.

3. General requirements

3.1. Supplier's Quality Management System

For quality assurance Supplier has to set up and maintain a quality management system compliant with the requirements of ISO/TS 16949 standard or at least ISO 9001 considering also economic conditions. As a proof Supplier needs to present valid certificate issued by an accredited certification body.

ISO 9001 compliance certificate constitutes the minimum requirement in relation to quality management system certification.

The Supplier is obliged to immediate notification about every change in status of certification (e.g. not conducted audits, loss of certificate validity, standard changes, abandonment of recertification and/or cancellation/expiration of the certificate).

The Supplier shall provide SANOK RC S.A. with a valid copy of the certificate upon completion of each re-certification of the system.

Within the framework of the quality management system the Supplier is obliged to pursue „zero defects” strategy in relation to supplies and improve his processes in order to maintain the level of quality of supplies mutually determined by SANOK RC S.A. and the Supplier. Within this strategy Supplier will receive on yearly basis "Goals for defectiveness of deliveries for years", form F-W1.047.

Accomplishment of above schedule is monitored in monthly periods accumulated for period of latest 6 months and is taken into consideration during Supplier periodic evaluation process as well as in future negotiations and contracts.

Supplier is obliged to monitor fulfillment of customer requirements using basic indicators and undertaking actions in the event of default goal execution. As minimum requirements for indicators SANOK RC S.A. defines:

- ppm (parts per million) - quantity of delivered product not satisfying the requirements / overall quantity of delivered product x 1 000 000.
- number of quality claims/remarks - quantity of cases contesting quality of delivered product.
- number of logistic claims/remarks - the term "logistic remarks" is to be understood as any irregularities associated with the delivery, in particular irregularities of the following kind:
 - too late or early delivery,
 - too small or large quantities in delivery,
 - failure to enclose required commercial or shipping documentation upon delivery or incompatibilities found in documentation

Supplier is obliged to accomplish all deliveries exactly according to requirements contained in order concerning:

- compatibility of the product to the order
- quantity in delivery
- delivery time (not later and not earlier than determined)

Every possible differences from requirements put in order should be earlier agreed in written form between SANOK RC S.A. and Supplier.

SANOK RC S.A. reserves the right to evaluate the Supplier by conducting a formal audit of the Supplier's quality management system and the means of quality assurance applied by the Supplier. The audit shall be conducted at a date subject to prior agreement and it may cover the system, process or product. The audit may be carried out together with the Customer of SANOK RC S.A..

The Supplier is obliged to present and implement corrective actions in a time-limit agreed with SANOK RC S.A. in relation to all non-compliance cases discovered during the audit carried out by SANOK RC S.A.

The supplier shall be obliged to introduce and implement organization management based on the philosophy of continuous improvement of implemented processes with emphasis on processes that affect quality and price of product, inter alia:

- current and periodic analysis of obtained quality indicators
- production process improvement using qualitative methods for defectiveness, productivity, repeatability
- undertaking and supervising preventive and corrective actions

All employees should be involved into process of continuous improvement, regardless of the position and scope of duties.

3.2. Environmental protection and safety

The Supplier is obliged to observe binding laws and legal regulations concerning the environmental protection and recycling. In order to ensure that such regulations are obeyed, the Supplier shall endeavor to establish and maintain an environmental management system conforming to the requirements defined in ISO 14001 standard.

The Supplier shall ensure that the Products supplied to SANOK RC S.A. do not contain dangerous substances and materials as defined by the stipulations of the directives 2000/53/EC and 2002/95/EC.

In case the Product, deemed as a dangerous material, is supplied to SANOK RC S.A., the Supplier shall be obliged to submit and update the Material Safety Data Sheet relating to the supplied Products in the Polish language. The Supplier shall notify SANOK RC S.A., in writing, of the safety recommendations which should be observed taking into consideration the use and storage conditions of such Product. The Supplier commits himself to supply his Products which fully conform to the Regulation (EC) No. 1907/2006 of the European Parliament and the Council as to Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), as well as other requirements specified in detail in the orders and in the framework contract.

The Supplier is responsible for marking the dangerous Products and packing in accordance with Polish legal regulations.

In case the Supplier fails to comply with the stipulations of points 3.2.1 to 3.2.4, he shall bear full responsibility for all damage caused by failure to comply with these requirements.

While staying within the premises of SANOK RC S.A. the Supplier shall obey the internally established Health & Safety requirements.

3.3. Requirements concerning special processes

3.3.1. Electroplating

Calibration (Initial trials)

In addition to calibration general requirements following reasons cause necessity of recalibration for electroplating process:

- **change of electrolytes**
 - change of passivation
- changes in annealing process (temperature, times, equipment)

Electroplating processes must meet CQI-11 requirements (Special Process: Plating System Assessment) AIAG (Automotive Industry Action Group). SANOK RC S.A. expects herein unassisted evaluation in accordance with questionnaire from this standard.

3.3.2. Heat treatment

Calibration (Initial trials)

In addition to calibration general requirements following reasons cause necessity of recalibration for heat treatment:

- change of hardening agent
- usage of new equipment
- change of equipment

Heat treatment processes must meet CQI-9 requirements (Heat Treatment System Assessment) AIAG (Automotive Industry Action Group). SANOK RC S.A. expects herein unassisted evaluation in accordance with questionnaire from this standard.

3.3.3. Coating

Calibration (Initial trials)

In addition to calibration general requirements following reasons cause necessity of recalibration for coating process:

- change of coating equipment
- usage of new equipment
- change of coating agents suppliers

Coating processes must meet CQI-12 requirements (Coating System Assessment) AIAG (Automotive Industry Action Group). SANOK RC S.A. expects herein unassisted evaluation in accordance with questionnaire from this standard.

3.4. Selection of the Supplier

In order for the Supplier to be able to commence the regular supply to SANOK RC S.A. the following conditions must be fulfilled:

- The Supplier has been included in the List of the Qualified Suppliers.
- The quality of the product offered meets the criteria defined in the specification of requirements for this Product.
- Conditions of supplies have been agreed and established.
- The offered flexibility and timeliness of supply meet the requirements of SANOK RC S.A.

3.5. Evaluation and qualification of the Supplier

Process of preliminary evaluation and qualification of the Supplier is applied to new suppliers who are supposed to provide supplies to SANOK RC S.A. as well as in cases when a separate organizational unit of the supplier is supposed to provide supplies to SANOK RC S.A. which has not done it before. The process of preliminary evaluation and qualification is redone in case no purchases were made from the Supplier over a period lasting more than 12 (twelve) months.

3.6. Procedure of the evaluation and qualification of the suppliers:

Selection of the supplier (candidate). Selection of the supplier for evaluation of his potential based on acquired information.

Collecting of information about Supplier (candidate). Supplier receives:

- survey containing questions about supplier technical, manufacturing and organizational potential,

- self-assessment worksheet for possessed quality management system,
- inquiries in order to assess supplier competitiveness.

Preliminary evaluation of the Supplier (candidate).

Preliminary evaluation is performed on the basis of received survey, supplier self-assessment and price offers. Positive result of the supplier potential evaluation qualifies the supplier to next stage, i.e. process audit or quality system audit. Negative result of this assessment results in retention of qualification process of the supplier.

Analysis of the potential - audit of the supplier (candidate). Technical capability assessment.

Analysis of the potential at Supplier is performed by SANOK RC S.A. qualified auditors directly at Supplier premises according to VDA 6.3 manual methodology. Simultaneously during analysis of the potential, Supplier technical capability assessment may be performed. Negative result of the assessment of the supplier technical capability results in retention of qualification process of the Supplier. In case of absence of certification of the quality management system additionally quality system audit is performed at Supplier.

Analysis of the potential at supplier/candidate positive.

On the basis of VDA 6.3 manual Supplier evaluation is made. Dependently of result achieved Supplier obtains status: green, yellow or red.

Preliminary supplier qualification.

Suppliers which gain during analysis of the potential result: score Green or Yellow go on the List of Qualified Suppliers (LKD) with result obtained during audit, but Supplier with yellow score must submit an action plan before and obtain its approval. from SANOK RC S.A.

Project order.

By project order is understood the order of trial lot of the product(s) or serial batch of the product(s). Requirements that define both the approval process (preparation of information lot) and the process of manufacturing capacity verification are discussed in the AIAG PPAP manual - approval of materials delivered to SANOK RC S.A.

Ordered project process audit

Audit is performed on the basis of VDA 6.3 manual. Process engineer may attend process audit.

Assessment from audit

The path of proceeding towards the supplier depends of assessment obtained during audit:

- **Score A** - qualification of the Supplier to Group A on the List of Qualified Suppliers.
- **Score B** – Supplier presents corrective actions. In case of acceptance of corrective actions Supplier is qualified to Group B on the List of Qualified Suppliers. Non-acceptance of corrective actions causes removal from list.
- **Score C** – Supplier presents corrective actions. In case of acceptance of corrective actions Supplier is qualified to Group C on the List of Qualified Suppliers and audited once again. Further proceedings dependent on evaluation obtained during the subsequent audit. In extreme case supplier obtaining once again score C may be deleted from the List of Qualified Suppliers and ordered project taken back and forwarded to another supplier.

Preliminary evaluation of the Supplier.

Final Supplier qualification is made on the basis of process audit of ordered project. Suppliers obtaining scores A or B during audit are assigned on the List of Qualified Suppliers to group of suppliers according to obtained result, but Supplier with score B prior to has to submit corrective actions plan and obtain its approval.

3.7. List of Qualified Suppliers (LKD)

List of Qualified Suppliers defines the approved sources of supplies of raw materials, rubber compounds, direct production materials and production services applied in the production of serial articles by SANOK RC S.A., i.e. comprised in the material specification of a serial article unit.

3.7.1 Prerequisite that must be met by the Supplier to be registered to the List of Qualified Suppliers (LKD) is to obtain score Green or Yellow during analysis of the potential but for score Yellow it is necessary to submit and implement corrective actions by the Supplier.

3.7.2 As a result of the qualification process the Supplier shall be qualified to be included in one of the following groups:

Group A – fulfilling the requirements related to quality of supplies. Positive assessment from audit. The Supplier has got implemented quality system certified based on ISO 9001 standard or ISO / TS 16949 specification.

Group B – fulfilling the requirements imposed on him with reservations. Positive assessment from audit.

Group C – supplier not approved, assigned to repeat the evaluation of his capability to meet SANOK RC S.A. quality requirements.

Group D - supplier deleted from List of Qualified Suppliers. While re-establishing cooperation the same course of conduct as in the case of a new supplier.

3.7.4 Lists of Qualified Suppliers (LKD) are drawn up each half a year. Qualification process is imposed on new Suppliers. The remaining Suppliers are added to the list based on previous qualifications and periodical evaluation results they achieved.

3.8. Periodical evaluation of the Supplier

Periodical evaluation of the supplier is applied to suppliers who realized deliveries during assessed period.

The assessment includes the half-yearly periods of deliveries (first and second semester) and is made till July 30th and January 30th accordingly. Periodical assessment is the basis for updating of the Suppliers status on List of Qualified Suppliers (LKD).

How to perform the assessment.

For each of assessed elements in the sheet of periodical evaluation of suppliers a number of points are granted. Respectively to total of points obtained Supplier is receiving an assessment for given period of deliveries according to following scale:

- Score A – number of points over 85
- Score B – number of points from 75 to 85
- Score C – number of points from 60 to 74
- Score D – number of points below 60

Corrective actions following periodical evaluation

- Score A - corrective actions are not required to be submitted and implemented
- Score B - corrective actions need to be submitted and implemented only on explicit request of SANOK RC S.A.
- Score C - corrective actions need to be submitted and implemented, if necessary date of Supplier audit is determined. Until the supplier assessment score is higher than C or audit evaluation is higher than C Supplier does not receive inquiries for offer nor are they to be addressed about new projects.
- Score D - Supplier requires repeated qualification.

After the periodical evaluation the List of Qualified Suppliers (LKD) verification will follow where results from 2 latest periods are taken into consideration.

Evaluation for previous period	Evaluation for last period	Assignment to Group
A	A	A
A	B	B
A	C	C
A	D	deletion from LKD
B	A	B
B	B	B
B	C	C
B	D	deletion from LKD
C	A	B
C	B	B
C	C	C
C	D	deletion from LKD

After evaluation is ended SANOK RC S.A. transmits to Supplier evaluation results and indicates areas demanding correction and improvement. The supplier, within the indicated time-limit, shall submit a plan of corrective actions and upon implementation of these actions he shall send, without being previously requested to do so, the results of evaluation of effectiveness of these actions.

3.9. Quality assurance and development of the Sub-suppliers

The Supplier shall commit his Sub-suppliers to performing the actions arising from this Specification. SANOK RC S.A. is entitled to demand that the Supplier submits a proof confirming the effectiveness of the quality management system used by the Sub-suppliers and/or ensures the proper quality of the materials purchased by applying the proper measures.

The Supplier shall ensure full traceability of all products for which SANOK RC S.A. has established special characteristics.

SANOK RC S.A. reserves the right to conduct, together with the Supplier, an audit at the Sub-supplier's premises in case significant quality or logistic problems appear due to reasons on the Sub-supplier's side. Such audit will be conducted on terms as in point 0 of this Specification.

4. Product quality planning

4.1. Project development status

Within the time-limit defined in the order, the Supplier shall submit to SANOK RC S.A. a schedule of development of the project and/or the schedule of launch of production of a new Product for SANOK RC S.A. Time-limits defined in the schedule are to be treated as the contractual time-limits.

- 4.1.1** The Supplier shall evaluate and supply documentary evidence of results of the project reviews effected at consecutive stages of its development.
- 4.1.2** The Supplier shall immediately inform SANOK RC S.A. about all identified disruptions or risks to the performance of the project in relation to the time-limit or the assumed quality level.
- 4.1.3** The Supplier shall ensure qualified personel for elaborating the documents of kind: FMEA, control plan and the like.
- 4.1.4** SANOK RC S.A. reserves the right to verify the progress of the project at the Supplier's premises.

4.2. Feasibility study

The Supplier shall commit himself in writing to fulfilling the order of SANOK RC S.A. for new Product based on the conducted Product feasibility study. Such study shall be carried out based on the technical documentation, environmental requirements, regulations with regard to recycling as well as the demand of SANOK RC S.A. for the Product.

4.2.1 Feasibility study is required for:

- each new Product,
- in case the Product or process is modified (including the change of the manufacturing location),
- each time the order placed by SANOK RC S.A. increases beyond 10% of the monthly demand level stated in the contract.

4.2.2 The Supplier shall plan all necessary resources, devices, tooling, measuring instruments as well as product development stages and he shall also commit himself to carrying out the operations arising from the schedule in a timely manner.

4.3. Special characteristics

The *Supplier* shall identify the *Special characteristics* based on the results of the potential failure analysis (DFMEA and PFMEA) and he shall take into account all *Special characteristics* defined by SANOK RC S.A.

4.3.1 SANOK RC S.A. applies following designations for Special characteristics:

 **Critical characteristics** having influence onto safety/legal regulations. It is characteristics for which possible deviation may significantly affect operational use safety of the product or consistence with legal regulations.

 **Important characteristics** having influence onto adjustment / function of the product. It is characteristics for which anticipated deviation probably significantly affect onto function, assembly, reliability or operating.

All Special characteristics shall be marked by the Supplier in the contents of the Product documentation, i.e. drawings, analyses of potential defects, risk analyses, control plans in accordance with SANOK RC S.A. requirements.

4.4. Analysis of potential causes and effects of failures (FMEA)

In order to prevent failures from occurring, the Supplier shall conduct an analysis of potential causes and effects of failures (FMEA) and they shall evaluate the potential risk to the project. Such risk must be limited by means of implementation of preventive measures. In case it is necessary to introduce changes to the Project, the Supplier shall immediately inform SANOK RC S.A. about this fact.

The analysis of potential failures shall be prepared and/or updated for each newly launched Product and while planning the introduction of changes to the manufacturing process, in case the manufacturing location is changed, in case a change is introduced to the drawing or in case a defect occurs. Analysis shall to be conducted according to guidelines of FMEA manual published by AIAG.

4.5. Control plan

When working out the control plan, the Supplier shall take into consideration the results of the Potential Failure Mode and Effect Analysis (PFMEA), as well as his experience in the design of similar processes and Products.

Control plan shall be worked out for each Product manufacturing phase.

In the contents of the control plan, the Supplier will take into consideration all process and Product characteristics which are subject to control, tolerance limits, control methods, person responsible,

frequency of control, number of samples as well as a reaction plan in case non-conformity with the requirements is found.

4.6. Product quality monitoring as well as process and machine capability

The Supplier is responsible for monitoring of the Product and process quality as well as for performance of long-term evaluation of effectiveness of his manufacturing processes in order to ensure full conformity of all characteristics with the specified requirements.

Once per year the Supplier is obliged to carry out a requalification of the product, it means to make the tests of all characteristics specified by SANOK RC S.A. All records from every requalification have to be kept for the period of minimum 3 years for SANOK RC S.A. inspection.

Statistical process capability analysis must be performed at least for all special and other characteristics indicated by SANOK RC S.A.

Minimum requirements for the level of capability indices for the special characteristics are following:

- Machine capability: $Cmk \geq 1,67$
- Initial process capability: $Ppk \geq 1.67$
- Process capability / long-term process capability: $Cpk \geq 1.33$.

In case the Supplier's process does not demonstrate the required capability level, then the Supplier shall take measures aimed at optimizing his processes, machines and devices and until the process capability requirements have been met he shall implement 100% control operation in the process.

4.7. Supervision over control and measuring devices

The Supplier shall ensure reliability of control and test results and efficiency of the applied control and measuring devices. For that purpose, the Supplier shall verify control and measuring efficiency of the used devices periodically subjecting these devices to calibration process.

The Supplier shall perform the analysis of the measuring system applied for control of product characteristics and process characteristics which have influence onto product quality. Analysis shall to be conducted according to guidelines of MSA manual published by AIAG.

4.8. Inspection and maintenance of the production tooling and machinery

In order to ensure continuity of supplies, the Supplier shall implement a system designed to maintain reliability of the production equipment. Production machinery and tools shall be covered by the system of inspections and preventive maintenance in order to avoid unforeseen failures and disturbances to the production process.

The Supplier shall immediately inform SANOK RC S.A. about failures or other problems or disturbances to the production process which may affect the delivery time and/or quality of supplies. The Supplier shall indicate the cause, approximate period of delay as well as countermeasures he intends to apply.

In case SANOK RC S.A. hands over to the Supplier any type of property such as tools, equipment, instruments or other means required to manufacture the Product, then the Supplier shall be obliged to:

- mark such tools, equipment, instruments, etc., in an unequivocal and durable way allowing identification of the owner indicated by SANOK RC S.A.
- use them only for intended purposes with adequate care and following safety principles,
- regularly conduct required inspections and maintenance operations,
- after expiry of the contract between the Supplier and SANOK RC S.A., return them to SANOK RC S.A. in their original condition allowable by normal wear,

- at the request of SANOK RC S.A., return them to SANOK RC S.A. in their original condition allowable by normal wear,

In case of breach of principles of use of such machinery the Supplier shall bear full responsibility for all damage arising from improper use.

4.9. Labelling, marking, packing and identification

The Supplier is responsible for proper marking of the Product during production as well as for labelling of supplies in a manner ensuring status identification and batch identification according to Specification of labelling of deliveries to SANOK RC S.A. - enclosure Labelling.

Packing specification shall be agreed by the Parties before the Product is approved for serial production.

The Supplier shall ensure that all Products are packed and marked in accordance with the Product specification.

In case of Products which lose their properties with the passing of time, the expiry date shall be marked on the packing.

4.9.5 In case of specific storage conditions Supplier provides proper information on packaging.

4.10. Production process and Product approval

Production process and product approval shall be carried out according to guidelines of valid edition of AIAG "PPAP" manual or acc. to VDA 2 "PPF".

Method and level of submission is defined at "Specification of requirements for materials, parts and services", form JSF - R2.1/2.008 transferred during project order.

Validation and production capacity confirmation shall be conducted by the Supplier based on the analysis of the R@R process efficiency. Capacity Analysis Report made out using JSB-F-R2.2.016 form shall be submitted to SANOK RC S.A. for approval.

In exceptional cases SANOK RC S.A. is entitled to carry out the production process approval procedure at the Supplier's organization based on the process audit, as in points 3.6.5 and 3.6.8.

Product approval by SANOK RC S.A. is effective based on the evaluation of the information batch and on the analysis of PPAP / PPF documentation submitted by the Supplier at delivery of such information batch.

In case the Product or process does not meet the specified requirements, SANOK RC S.A., at the Supplier's written request, may conditionally approve the Product for a certain period of time or for a certain quantity on condition that this fact shall not have a negative impact upon operation, durability and safety of use of the Product. The Supplier shall immediately undertake corrective measures in order to lead to compliance with the requirements of SANOK RC S.A. After having introduced the measures, the Supplier shall re-submit the documentation and information batch for full approval. Serial supplies of the unapproved Products shall not be accepted by SANOK RC S.A.

In case the information batch is not supplied in the planned time-limit or it is supplied without the proper documentation or the documentation is incomplete or inadequate, then the Supplier shall bear the cost connected with the delayed performance of the order.

The Supplier shall ensure that all data regarding the material composition of the supplied Products are reported to IMDS (International Material Data System) before the information batch and PPAP documentation are submitted for approval. SANOK RC S.A. has identification number (ID) 2847 in IMDS data base.

4.11. Product and/or process modifications

The Supplier is not authorized to introduce changes to the Product and/or production process

(including design or process modifications, changes of material composition, change of production material supply source, change of tooling or change of manufacturing location, etc.) without previously having proposed such motion using JSF-R2.1.095 form and obtained a formal approval of this motion by a representative of SANOK RC S.A. .

None of the modifications indicated in point 0 shall be introduced without previously having obtained a formal approval of the Product (PPAP/PPF) by a representative of SANOK RC S.A.

SANOK RC S.A. may waive his right to conduct a formal approval of the Product by communicating his decision about such waiving to the Supplier in a written form.

The Supplier is obliged to implement a proper modification supervision system in order to ensure that the process is performed based on the current level of change (drawings, specifications, process documentation, etc.).

4.12. Documentation

The Supplier shall determine the period of time during which the documentation, records and master sample are to be kept, while the minimum storage period of the Product technical documentation corresponds to the period in which the Product is manufactured in serial production plus one calendar year. The remaining documentation should be stored for 3 years provided that the documentation related to parts with critical characteristics, connected with safety or legal regulations is stored for the minimum period of 15 years.

The Supplier, at the request of SANOK RC S.A., shall grant access to the documentation referring to the design and development, production process and quality control of the Product.

The Party commits himself to maintaining top secrecy towards third parties about the confidential information obtained from the other Party and to using this information only in accordance with this Specification. Confidentiality clause remains in force both during the course of execution of the contract concluded by the Parties and after its termination.

5. Product control and settlement of quality complaints

5.1. Product quality control

The Supplier shall ensure the product quality level required by SANOK RC S.A. in relation to:

- control of supplies
- Product manufacturing
- final acceptance of the Product

The Supplier shall attach to each supply all required documents listed in requirement Specification for the Product.

The products shall be accepted by SANOK RC S.A. based on:

- quality certificate, measurement chart, material attestation certificate and other documents according to Specification of requirements for the Product.
- material label placed on individual loading units of the supply.

SANOK RC S.A., independently of the tests conducted by the Supplier, reserves the right to monitor the quality of the Products in order to confirm the effectiveness of the Supplier's Quality Assurance System.

The Product shall be considered as defective, in case:

- the results of control of the Product characteristics do not comply with the requirements defined in

the technical documentation (drawing, specification of requirements for the Product),

- it is not properly marked,
- the Product does not correspond to the appropriate master sample approved in the course of the Product approval procedure (PPAP/PPF information batch),
- it does not meet specific safety standards,
- it is burdened with defects which spoil or lower its functionality and/or reliability during its use as determined in the project.

5.2. Procedure to be adopted in the case of non-compliance

If any cases of non-compliance are found within the supply, SANOK RC S.A. shall report this fact in writing to the Supplier as soon as the failure has been discovered.

In an exceptional case the Supplier may request that the rule is dropped and the non-conforming Product is approved. Irrespective of that, the Supplier is obliged to submit a report on the causes of problems as well as a plan of corrective and system actions.

Report on the causes of problems as well as a plan of corrective and system actions needs to be presented on Supplier Portal of SANOK RC S.A. - EXTRANET. All details referring to access to the Supplier Portal, Supplier receives in writing in non-conformance information.

Required quality complaint reaction time is as follows:

- 24 hours – submission of a preliminary report including the information regarding the make-up of the team responsible for the problem solving, problem description and immediate actions,
- 7 days from disturbance notification – reply regarding the root causes of occurrence of the problem and corrective actions,
- full 8D report including the evaluation of effectiveness of corrective actions as well as system actions in the time-limit of 2 weeks from disturbance notification or within a different time-limit to be agreed by the Parties.

The Supplier shall implement immediate actions within 24 hours from disturbance notification or in a different time-limit to be agreed by the Parties. Immediate actions should comprise:

- 100% control of the Products for which arouse suspicion as to their defectiveness considering all storage sites,
- informing SANOK RC S.A. about the transportation of the Products for which arouse suspicion as to their defectiveness,
- replacement of the contested Products or batches of Products, or
- performance or ordering the performance of a sorting operation or repair of the supplied Products, however SANOK RC S.A. has to give his written consent to perform such repair.

Immediate actions (including those the Sub-supplier is ordered to execute) shall be taken at the cost of the Supplier and on his responsibility and these actions shall be taken until the Supplier is able to prove his ability to supply the Product conforming to the requirements of SANOK RC S.A., and until he ensures that within the supply chain no Products can be found which arouse suspicion as to their defectiveness.

In an exceptional case (e.g. risk of a halt at SANOK RC S.A. or at his customer's plant) or at mutual consent of the Parties, SANOK RC S.A. is authorized to perform a sorting operation or repair by his own means and to charge the sorting cost to the Supplier. However it does not release the Supplier from his responsibility for the Product.

5.3. Escalation of actions

In case the Supplier does not meet the agreed quality or logistic targets, he shall be subjected to the four-level procedure of escalation of actions leading to improvement of quality of supplies:

Levels of escalation of actions

▪ **Level 1:**

Logistic and quality indicators relative to supplier counted cumulatively in period of last six months do not meet the established targets. The Supplier is asked by SANOK RC S.A. to define and send a plan of corrective actions. Supplier is obliged to document and present in that plan required corrective steps and realization schedule for them. After successful and stable implementation of the corrective steps by supplier escalation action against supplier might be discontinued.

▪ **Level 2: SPECIAL STATUS I**

Logistic and quality indicators relative to supplier counted cumulatively in period of last six months do not meet the established targets. The plan of corrective actions has not been submitted, or actions determined therein are not effective. The Supplier is obliged to implement 100% control of products supplied to SANOK RC S.A. Results of actions undertaken (including established 100% control of products) are discussed by supplier representatives during visit at SANOK RC S.A. Supplier Development Engineer from SANOK RC S.A. is engaged into problem solving process with supplier against which escalation of actions has been implemented.

▪ **Level 3: SPECIAL STATUS II**

Undertaken actions are ineffective, logistic and quality indicators still do not meet the established targets, as well as corrective actions and established 100% control are ineffective. The Supplier is obliged to implement at his own cost an additional 100% control to be performed by outsourced company. Representatives of SANOK RC S.A. conduct an audit at the Supplier's site in order to verify the actions. Procedure of acquiring of alternative source for products delivered by supplier treated escalation action procedure is initiated. Requests for quotation and orders to the Supplier for new projects are ceased. Additionally SANOK RC S.A. might burden the Supplier financial penalties arising from cooperation contract.

▪ **Level 4: NEW BUSINESS HOLD**

Despite actions being taken as described on levels of escalation from 1 to 3, logistic and quality indicators still demonstrate negative trend. New projects will not be contracted to supplier. Additionally decision can be undertaken concerning change of supplier to pending projects.

The Supplier covered by procedure of escalation of actions might be transferred from higher to lower level if actions on individual levels prove effective.

The Supplier is informed about escalation action undertaken against him and updated on his transfer between the levels of escalation actions.

Addressing the supplier to levels 2, 3 and 4 escalation of actions should be treated as assignment of special status according to ISO/TS 16949

6. Final stipulations

The present Specification has been prepared in Polish and English language. In case of discrepancies between the versions of the Specification, the Polish version shall be treated as conclusive.

To :

From: SANOK RUBBER COMPANY SPÓŁKA AKCYJNA

Purchase Department

ul. Przemyska 24

38-500 Sanok

Fax No. : +48 13 46 54419

Confirmation

We confirm receipt of

„Specification of Quality Requirements for Suppliers of SANOK RC S.A.” and

"Specification for labelling the deliveries to SANOK RC S.A."

and declare that we will proceed in accordance with these specifications.

Company Name/Company Stamp/ Supplier Code

Date	Name and Family Name of authorized person	Signature of authorized person
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Notice : Please send the signed document to Logistics and Purchase Department of SANOK RC S.A.
via e-mail to address maciej.pielech@sanokrubber.pl or via registered letter.