SQAM

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FOREWORD

This **S**upplier **Q**uality **A**ssurance **M**anual (SQAM) describes the general quality rules that the Supplier and Furukawa Electric Autoparts Central Europe s.r.o (FACE) have to apply in order to develop a successful partnership. SQAM is valid for unique (non-catalogue) parts only.

Purpose:

The purpose of the SQAM is to communicate to our suppliers minimum requirements to assure the quality of supplied products in order to meet and exceed FACE's quality expectations.

By signing of SQAM, the suppliers confirm that they fully understand the content of this document and have clarified all issues. In addition, they have obtained and agreed with all referenced information and documents.

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2. FACE Quality and Environmental Policy

To supply products and services on time to the customers with best customer's satisfaction and maintain further improvement with continuous improvement and innovation.

To reach that we follow the concepts of continuous improvement and zero defect target.

We accomplish these by:

- Delivery on time and complete
- In superior quality
- High localization of component manufacturing
- Offer our employees the personal and professional growth in a secure and safe working environment.

The Environmental Policy of FACE is to be a good company that always pay attention to the nature and local environment and survive in harmony with people, nature and local society

In order to manage the company under the Environmental Policy, we always distinguish the targets and standards to be Achieved and positively manage them as key items of annual company policy and obtain the good citizen reputation in Europe

We will promote pro-environment actions in accordance with our business philosophy and action guidelines. Main action items:

- Energy and resource conservation
- Recycling
- Waste reduction
- Control of chemicals, etc.

We will comply with laws, fulfill commitments made to our local communities and customers and voluntarily establish environmental objectives and targets to support prevention of pollution.

Our employees will be implement activities for continual improvement of the environment protection.

3. FACE Expectations

<u>Total Usage Cost of Material/Price</u>

- Suppliers price is competitive with industry average
- Continuous price improvement
- No additional cost incurred by FACE for using supplier's product
- Suppliers products do not require receiving inspection (ship-to stock)

<u>Quality</u>

- Processes stable and under control, providing defect-free material and products that are capable (Cpk greater than 1,33)

- Effective corrective actions that eliminate root cause (occurrence, leackage)
- Active participation in problem solving or quality improvement teams

Delivery

- Flexible in coping with unforeseen changes in customer demands
- Timely notification in case that supplier's capacity planning affects supplier's promised delivery date
- 100% on time delivery to Delivery Date
- Correct quantity
- Competitive lead times

Service

Management commitment

- Compliance with relevant quality system standard
- Adequate human resources commitment to work with FACE from design through to manufacturing and final delivery
- Proactive in alerting FACE of potential problems
- Early involvement in program and product development
- Financial stability

Innovation

- Proactive in new technological developments with FACE or in sharing technical knowledge that will increase FACE's competitiveness (e.g. better use of material or process capability improvements)
- Immediate access to qualified facilities for testing or failure analysis
- Compliance with new product development schedule with respect to time-to-market / time-to-volume aspect

Customer Service

- Complete effective corrective action plans for FACE complaints using 8 D process. Containment actions within 24 hours. Timely completion of 8D process.
- Effective communication with FACE (e-mail and phone)

Continuous Improvement

- Support FACE's commitment to continuous improvement
- Demonstrated success of an effective Defect Reduction Program
- Demonstrated success of an effective Delivery Improvement Program including lead time reduction
- Demonstrated success of and implemented Cost of Non-Quality Reduction Program

4. Supplier evaluation criteria

FACE is applying two different types of supplier evaluation. First is quarterly using quality criterias and second is annually using general criteria.

4.1. Quarterly supplier quality evaluation

Evaluation is oriented for the supplier PPM and 8D report on time feedback.

4.1.1. PPM evaluation

Supplier PPM is monthly controlled and evaluated quarterly. Supplier is informed monthly about current status of PPM. Supplier target is under 1000 PPM . In case target is not achieved during the quarter the 80 Eur penalization will be applied for each issued MRR during next quarter period.

4.1.2. 8D feedback

FACE is monitoring on time feedback for 3 main steps of 8D report (3D, 6D, 8D) based on followed criteria:

- 3D report has to be delivered to FACE within 48 hours from MRR issued date.
- 6D report has to be delivered to FACE within 6 calendar days from receiving of claimed samples.
- 8D report has to be delivered to FACE within 30 calendar days from receiving of claimed samples.

In cases requested time is not achieved for each main step the 80 Eur penalties will be applied for this MRR.

4.2. Supplier General Evaluation

Supplier evaluation is done by applying of supplier evaluation form (see attachment 11) generally once per year.

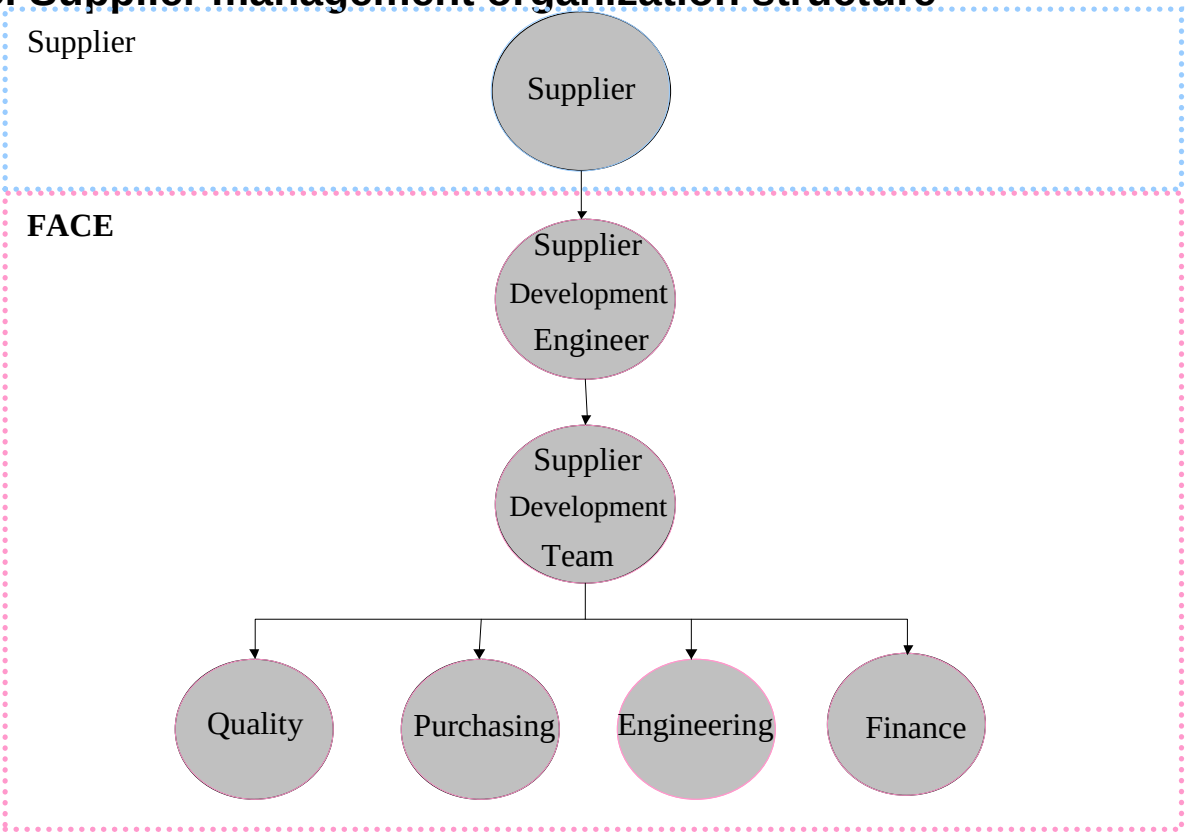
To enable FACE to achieve preferred supplier status with our key Customers, FACE intends to do business with preferred Supplier. To accomplish this, FACE has developed the following Supplier qualification categories and evaluation criteria:

A (Preferred) Supplier
- Overall Evaluation Score 80 or greater
- Compliance with ISO TS 16949 and ISO 14001
- No Customer disruption

B (Approved) Supplier
- Overall Evaluation Score 79 to 61
- Compliance with any quality certificate
- ISO 9001

C (Probational) Supplier
- Overall Evaluation Score 60 or less
- No certified system
- Corrective action plan to achieve Approved Supplier Status within 6 months
- Plan to achieve compliance with relevant quality system standard
- Active cooperation with FACE to correct all deficiencies
- If Supplier fails to achieve Approved Supplier Status within six months, FACE may reserve the right to cancel business.

5. Supplier management organization structure



The diagram illustrates the organizational hierarchy FACE is using to plan and implement the SQA system.

6. Quality system requirements

Product quality begins at quotation time. Therefore, from the initial quote until the production starts, supplier and FACE representatives must understand and agree on all quality standards and requirements that would apply. Agreement must be achieved for:

- requirements specified by the FACE, including the requirements for delivery and post-delivery activities,
- requirements not stated by the FACE but necessary for specified or intended use, where known.

This agreement (SQAM) shall be conducted prior the supplier's commitment to supply a product to FACE (e.g. submission of tenders, acceptance of contracts or orders, acceptance of changes to contracts or orders).

The supplier must have a prevention-based quality system that emphasizes ongoing use of statistical methods for continual quality and process capability improvement.

The supplier shall maintain a certified QM system according to

- ISO 9001 as a minimum requirement,
- ISO/TS 16 949 as a target requirement.

Environmental system compliant with ISO 14001 will be considered as additional plus.

Certified supplier shall notify FACE within 10 working days if their Certificate of Registration is put on suspension. The supplier shall forward a new copy of its certificate if it has expired to FACE plant involved.

7. Document and record control

The supplier must establish and maintain procedures covering all phases of their quality management system. These procedures must remain current and contain all system requirements described in this manual. In addition, the supplier is responsible for maintaining quality records for established time periods in compliance with their quality assurance procedures.

The retention period for production part approvals, tooling records and amendments shall be maintained for the length of time that the part (or family of parts) is active for production and service requirements plus one calendar year unless otherwise specified by FACE QC. An active part is the one currently being supplied to the customer for original assembly or service applications. The part remains active until tooling scrap authorization is given by appropriate customer activity. For parts with no customer-owned tooling or situations where multiple parts are made from the same tool, written confirmation from the customer is required to deactivate the part. Termination of serial parts production and termination of project will be defined by FACE QC.

Production inspection and test records (e.g. control charts, inspection and test results) shall be retained for a period, which required by FACE or they shall be retained minimally for project lifetime after the year in which they were created. Records of internal quality system audits and management review shall be retained for three years.

Retention periods longer than those specified above may be specified by an organization in its procedures. It is recommended these records be stored in a suitable environment that would minimize damage, deterioration or loss.

These requirements do not supersede any regulatory requirements.

7.1. Drawing and Specification Control

The supplier shall use the latest approved drawings, standards and specifications that reflect the design criteria. Engineering changes to the design are made only as authorized by FACE (Furukawa). Authorized drawings are handled as follows: FACE send 2 pcs of authorized drawings to supplier. After supplier authorization (by stamp + signature) one copy of drawing has to be sent back to FACE. Second copy is for supplier usage.

A documented system for the distribution, updating and control of drawings, standards and specifications must be maintained. This system must prevent the use of outdated documents and assure that current documents are available and being used as required.

8. Continuous improvement

The supplier shall keep all requirements of ISO 9001.

9. Quality System planning

Generally the methods for new product implementation defined by FACE shall be applied at supplier. All necessary requirements will be provided by FACE Quality division.

10. Special Characteristic approval and review system

During New Product Implementation in pre-production stage the special characteristics will be designated, documented and controlled by FACE and the supplier. Special Characteristics will be identified by FACE and provided to supplier through Supplier Development Engineer of FACE.

Special Characteristics must be statistically controlled initially through process performance studies with a minimum Ppk of 1.67 and maintained on ongoing minimum of 1.33 Cpk. (see 27.) A continual improvement of process capability is expected.

11. Control plans

The supplier is responsible for developing a control plan for all products manufactured for FACE. This control plan must by maintain according to ISO TS 16949 (7.5.1.1).

Control Plans must be submitted to FACE for approval prior to sample submission. The English or Czech language is requested.

12. Production Part Approval Process Report

All PPAP submissions must be sent directly to the Quality Control Department and must include all required information. AIAG Phased PPAP manual actual edition is required.

Submition of full drawing measurement results is requested for PPAP approval, if is not otherwise approved by FACE.

NOTE: *During trials prior to full part approval, any part or process improvement must be documented and samples submitted to FACE's Quality Department.*

12.1. Sample submission

Suppliers are responsible to perform inspection and testing required in order to validate Initial sample parts, including: 1) material certifications and 2) environmental and safety test results. FACE requires the Supplier to process 300 consecutive parts a minimum run, unless otherwise specified, on tooling used for mass production (mass production condition). Under no circumstance will less than 50 pieces (per cavity), be accepted for sample submission parts.

A minimum of 5 samples from each position of a multiple cavity die, mold, tool or pattern, or production process unless otherwise specified by QC division must be submitted marked by "Initial Sample" tags (attachment 2) and approved at least 4 weeks prior to SOP in FACE.

Sample submission is also required when material, tooling, engineering or process changes are made, unless otherwise authorized by FACE.

12.2. Master samples

A minimum of 3 samples from each position of a multiple cavity die, mold, tool or pattern, or production process unless otherwise specified by QC division FACE is required with a completed Production Part Approval Process Report (PPAP). These 3 samples marked by "Master Sample" tags (attachment 3) and the PPAP documents must be submitted and approved at least 4 weeks prior to SOP in FACE.

1 pc of approved Master sample will be returned back to supplier by FACE QC division. This sample should be registered and controlled by the supplier for the period, which is required by customer.

12.3. Limit samples

Any variation from the agreed standard (e.g. drawing) must be communicated to FACE QC division immediately and samples submitted for evaluation. If the variation is still within acceptable limits, the component may be accepted by FACE QC division and issued to the supplier as an acceptable limit sample.

Supplier should select limit samples that are representative of their process capability. A minimum two sets of limit samples, clearly labelled using the "Limit Sample Tag" (attachment 4) must be submitted to FACE for approval. When approved, one of each sample will be retained by FACE and remainding returned to the supplier.

"Limit sample tags" can be made by copying the blank and attaching to a card or preferably laminated in plastic after sign off.

These samples should be registered and controlled by the supplier.

13. Product Verification

It is the supplier's responsibility to ensure that initial samples conform to all dimensional, visual and functional specifications prior to submitting to FACE.
Corrective action plans, including timing, shall be initiated and submitted to FACE for any non-conformances.

FACE requires its suppliers to have documented evidence to confirm that all product dimensions are in conformance to requirements and no significant process changes were made.

This verification is to be maintained at the supplier's facility and forwarded to FACE using Measurement results form (attachment 5). The Measurement record must be developed to record all the information that will be obtained from the Inspection Standard. The Measurement record must be updated and resubmitted to FACE if standards (e.g. drawing) are revised, or if check items are added or cancelled.

Validation testing must be performed prior to the initial sample submission. This verifies that components produced using mass production tooling meet the applicable Drawing/Engineering Standard requirements.

Suppliers must ensure that their products not only meet specifications, but have minimum variation around nominal or targeted values. This will allow FACE to use the product without unnecessary changes to set process parameters.

The supplier also guarantees that the products supplied to FACE conform to requirements of EU standards as regards to safety, environment and other regulations that they must comply with.

When requested, FACE and Face's customers will be allowed to verify conformance to documented requirements at the Supplier's facility.

14. Material Certification

Materials used in FACE products are controlled by Industrial Standard Specifications or by FACE internal specifications. Suppliers must ensure compliance with all drawing/engineering specifications related to materials.

All substances have to be stated in the material data sheet (MDS) of the IMDS (International Material Data System).

The first material certification must include detailed measurement / test results of both physical and chemical properties at initial sample submission, for annual re-certification, after change of specification or if otherwise specified.

Tests must be performed by an accredited Supplier or an accredited Independent Test Laboratory to ensure that all requirements of the FACE standards relating to materials, components, assemblies and systems are achieved.

Failing to supply certifications on production or pre-production sample submission materials will delay prompt invoice payments and tooling payments and approvals until the sample approvals are received.

In parallel with lot control requirements, test data by lot control number must be maintained in a manner allowing traceability to finished components.

15. Design Control - Engineering Change Request / Instruction

Engineering Change Request Sheets (attachment 6) are essential documents that must be addressed in a timely and efficient manner. These requests ensure that engineering changes initiated by local suppliers will be communicated to FURUKAWA design Center and so that FACE may serve customers more effectively. In design, these documents have an important role in ensuring product quality and increasing customer satisfaction. Typical engineering change package includes product special characteristics and specifications such as drawings.

If an engineering change need is identified then a local Supplier shall submit an Engineering Change Request Form to Purchasing Division FACE.

Upon acceptance by FACE / FURUKAWA Design Center, and the Customer, FACE returns the new drawing. The supplier issued Process change request (PCR) if is it necessary (see item 18).

Engineering changes are made only when authorized by FACE.

When a design change is implemented, it's the Supplier's responsibility to identify the first 3 deliveries of material shipped to FACE (Attachment 12). Inspection, measuring and testing results must be attached to first 3 lots.

16. Control of Customer – Supplied Product

FACE Owned Tooling and Equipment Requirements

In case that a supplier has custody of some asset owned by FACE or FACE's Customer then the following is required:

- Securely attach a FACE provided Customer asset tag and/or FACE asset tag in a visible location confirming in writing to the purchasing specialist that the tag was received and attached to the asset
- Annual Asset Verification
- Maintain full insurance coverage for the case of loss or damage
- Replace normally worn parts and bear the cost of normal wear repairs as required for maintaining the tooling in such a manner as to provide consistently high quality finished products per prints and processes approved by FACE
- Store tooling in a protected environment to avoid corrosion or other damage

17. Product Identification and Traceability

The supplier must be able to identify product status in all stages, as well as with respect to monitoring and measurement requirements.

Suppliers must have an adequate lot control system to trace problems, work in process or Supplier source.

18. Process Change

A process change is any change in processing concept which could alter the capability of the process to meet the design requirements or reliability of the part. This would include: new, different, revitalized production machinery or equipment, which can cause that the characteristic of a part being processed might be changed in a way that it would be unmeasurable by a normal inspection procedure.

Process change typically includes:

- Use of other construction or material than was used in the previously approved part or product
- Production from new or modified tools (except perishable tools), dies, molds, patterns, etc.
- Production following refurbishment or rearrangement of existing tooling or equipment
- Production from tooling and equipment transferred to a different plant location or from an additional plant location
- Change of subcontractor for parts, non-equivalent materials, or services (e.g. heat-treating, plating) that affect customer fit, form, function, durability or performance requirements
- Process changes related to components of the production product manufactured internally or manufactured by subcontractors that impact fit, form, function, performance, and/or durability of the salable product. Additionally the supplier shall concur with any requests by a subcontractor before submission to FACE.

In case of Process change need, the Process change request (PCR) (attachment 7) shall be submitted for attention to Purchasing Division FACE. Detailed schedule of change must be

included and also further supporting documents like capacity study or cost evaluation must be attached if applicable.

The supplier is required to have a documented process change procedure that includes a review of the effect of a proposed process change on final product design and/or characteristics. The supplier must complete verifications and tests necessary to ensure that products continue to meet FACE's expectations. The supplier shall identify the process changes and notify FACE using Process Change Request form at least 90 days before the planned change is implemented.

FACE reserves the right to execute a formal on-site process sign-off any time a process is changed.

Upon acceptance by FACE and the customer, FACE returns the approved PCR which provides a mechanism for implementation of the change. All FACE requirements marked in PCR shall be completed prior to shipment to FACE.

Suppliers are responsible for performing inspection and testing required in order to validate initial sample parts. Products (1 delivery) after process change must be identified by initial tag.

19. Process Capability

The supplier is required to use statistical methods to evaluate and control the variability of manufacturing processes.

For specific characteristics specified by drawing or by Inspection Standard, the supplier is requested to study process capability and submit data of Ppk/Cpk to FACE. FACE may choose to participate in this selection, or in some cases, may require process capability studies on specific part characteristics. Process capability data must be on file and available for review by FACE.

Manufacturing process control has to be agreed between FACE and supplier before PPAP submition.

Process capability studies are to be performed on stable processes operating under actual production conditions. Suppliers are required to re-evaluate process capability on all products regularly and when a process change occurs. Any use of Engineering approved alternate materials, new processing concepts, sequence of operation changes and changes in chemical compounds such as adhesives, sealers and lubricants, which are part of the product, require a minimum Ppk value of 1,67.

If it is determined that a process is not capable or that the process has changed from capable to a non-capable, the supplier is expected to determine the cause of variation, take corrective action and conduct 100% inspection, until process capability is proven. Appropriate containment actions must be taken to prevent shipping of non-conforming material.

20. Preventive Maintenance

The quality management system must include a program for total preventive maintenance. The supplier's preventive maintenance program must include the following:

- Identification of key process equipment,
- Planned maintenance activities (Preventive maintenance schedule),

- Spare parts program for key manufacturing equipment,
- Packaging and preservation of equipment, tooling and gauging,
- Preventive maintenance training programs,
- Monitoring of up-time and downtime,
- Program effectiveness – documenting, evaluating and improving maintenance objectives
- Records of maintenance program

21. Control of Inspection, Measuring and Testing Equipment

To assure conformance to requirements, FACE and its suppliers must agree on the
1) method of measurement
2) responsibility for providing/maintaining measurement and testing devices.
These devices should accommodate variable measurements and be calibrated at established frequencies that are matched against standards equivalent to the National Institute of Standards and Technology (NIST). The supplier must determine the amount of variation caused by the measurement system. This is accomplished by performing gauge repeatability and reproducibility studies referenced in the current version of Measurement Systems Analysis Manual (actual edition).

A documented system should assure maintenance and calibration for all measurement and test equipment. This system is to include calibration procedures, repair history, gauge identification numbers, gauge description, initial approval, last calibration date and the calibration due date. All personal measuring instruments, if used to determine process or product acceptability, must be also included in this program.

22. Inspection and Test Status of Products

The supplier is required to have a documented system for identifying and controlling production material/products through various stages of manufacturing with respect to monitoring and measurement requirements. This system shall include instructions and procedures for identification, segregation, disposition of nonconforming product, sorted and reworked material and accountability for the control of nonconforming material. The supplier is obliged to notify FACE without delay when suspected/ nonconforming products have been shipped.

23. Control of Nonconforming Product

- Non-conforming products may be detected during an incoming inspection, during manufacturing, during outgoing inspection or at customer.
- Material determined as non-conforming must be identified, separated and isolated

23.1. Incoming Material Control

As a FACE supplier, the following must be ensured so that the quality of incoming material meets all specified requirements.

- Any Special characteristics on purchased material must be verified with documented results

23.2. In-Process Control

Suppliers must have a system to assure that products and processes are controlled as defined in the product control plan. In case that non-conforming material is produced and needs to be

reworked, a temporary manufacturing process must be documented to ensure consistent rework is adequately performed on all non-conforming products. Reworked products must be re-inspected to assure conformance with the original requirements. Suppliers shall maintain a system to assure that outgoing products conforms to the applicable requirements prior to shipment. These processes shall be in accordance with the Quality System Requirements.

No shipments of non-conforming products are permitted without prior FACE approval. Details of any deviation from engineering specifications must be formally transmitted from the supplier to FACE using the Request for Inspection Deviation Form (see Attachment 8) together with samples prior to shipment. FACE will judge necessity of testing.In case of testing, the approval procedure can take up to 30 days. Samples quantity will be defined by FACE QC division. The supplier must define the exact nature of the proposed deviation, quantity of products or time period and corrective action plan to eliminate the need for the deviation. Documentation specific to the deviation content (inspection data, material certifications, etc.) and a part drawing with all requested deviation items marked on a drawing must be provided by the supplier. If approved, FACE will provide Supplier with a copy of the approved/signed deviation authorizing the shipment. The supplier shall not deliver the non-conforming parts without written approval from FACE. The supplier must identify the first lot of deviated parts by attaching the approved deviation form to the first shipment of deviated parts.

23.3. At Customer Control

If non-conforming products or services are detected in FACE or at FACE ´s customers, the supplier will be notified of the rejection (using MRR form see attachment 9). After notification the supplier has 24 hours to communicate products disposition in written and send completed MRR form.

If the supplier fails to communicate a disposition within the required time, FACE will dispose the products as deemed appropriate. This disposition will be one or more of the following:

- Return & replacement to the supplier for full credit plus incurred freight expenses
- Sort by FACE at the supplier's expenses
- Rework by FACE at the supplier's expenses
- Scrap at FACE for full credit

Any excess costs incurred to acquire replacement products and to ensure FACE ´s customer requirements will be transferred to the supplier.

24. Problem solving method

Suppliers are required to complete a Material Rejection Report (MRR see Attachment 9) after a material rejection has been issued and 8D report.

Satisfactory responses must be received within the time frame indicated on the MRR and 8D form. Incomplete or inadequate responses will not be accepted. This adversely affects the Supplier's rating. FACE may require on-site verification of permanent corrective actions.

NOTE: *In some cases, an 8D final response cannot be completed within the prescribed time frame (example: verification of long term corrective actions). If this occurs, an action plan with time line for implementation may be substituted with FACE concurrence.*

25. Corrective and Preventive Action

The Supplier shall have a documented procedure to estimate potential or detected non-conformity risks and implement appropriate preventive/corrective actions throughout the product life cycle. Detected risks or non-conformities shall be directly submitted to all FACE locations, to which the products have been or will be delivered.

The Supplier's system shall include verifying the effectiveness of corrective and preventive action.

26. Quality System Audits

The Supplier has the responsibility to audit their complete quality system and shall have documented audit procedures. Corrective action resulting from the audit should be completed promptly. Audit results and documented corrective action must remain on file for the period specified in the Supplier's quality procedures.

As a minimum, the Supplier is required to audit his quality system annually. The results of these audits may be requested periodically for review by FACE.

Audit Performed by FACE/FACE´s Customer

In case of FACE request, the supplier has to allow audit by FACE or FACE's customers at supplier side. This may also include the Supplier's sub-suppliers. The Supplier shall provide the necessary resources for the performance of this task. The Supplier is, however, obligated to reveal any proprietary information after a mutual non-disclosure-obligation.

FACE can decide that physical audit itself is not necessary, in such a case supplier has to perform selfaudit by usage of selfaudit form (see attachment 12).

27. Training

Suppliers system shall have a documented quality training program for all plant personnel that affect quality of products.

28. Statistical Methods

Suppliers are required to use statistical methods for the control and continual improvement of special or important characteristics. Suppliers are also expected to utilize statistical methods and tools for problem solving (MRR claims) and any process investigation or control, where it may be applicable and appropriate. For this SQAM, as statistical methods and tools are considered mainly: Pareto analysis, Histogram, Distribution testing, Statistical Process Control (SPC), Measurement System Analysis, Sampling inspection, Desin of Experiment. FACE expects that responsible supplie's staff receive sufficient training about above mentioned methods and tools and supplier is able to demonstrate this by corresponding training records.

29. Revision notes:

Chapter 4 – additional requirements for supplier evaluation – PPM and 8D report evaluation

30. Attachments

1. Part Approval Request Form
2. Initial Sample
3. Master Sample
4. Limit Samples
5. Measurements Results
6. ECR
7. PCR
8. Request for Inspection Deviation
9. MRR
10. Green “OK parts” tag
11. Supplier Evaluation Form
12. Selfaudit Form