**QUALITY ASSURANCE AGREEMENT**

between

# BPW Bergische Achsen Kommanditgesellschaft

Ohlerhammer, 51674 Wiehl, Deutschland

- hereinafter referred to as ʺBPWʺ -

and

**[Company]**

[Address]

- hereinafter referred to as ʺXYʺ -

- hereinafter also referred to individually as ʺPartyʺ or collectively as ʺPartiesʺ -

### **I. SUBJECT, SCOPE OF APPLICATION**

1. This quality assurance agreement includes the contractual definition of the technical and organisational frameworks and processes between BPW and XY which are necessary for the achievement of the quality objectives
2. The quality requirements defined here apply to all products and/or services which are supplied or produced by XY. his applies regardless of whether XY itself manufactures the products supplied. XY is responsible for transmitting and complying with the obligations contained in this quality assurance agreement in any event.
3. The relevant regulations (in particular Section II., Paragraph 1 and Section XVI.) in their currently valid version are not restricted by the quality assurance agreement. XY must ensure knowledge of all regulations referred to in this agreement and may not plead ignorance in this respect. Insofar as additional product-related agreements are required on an individual basis, these will be documented in writing. These agreements are also components of the contract between BPW and XY and apply in addition to other arrangements such as respective supply contracts.
4. The parties are unanimous that breaches of the obligations of this agreement, following an unsuccessful warning, shall entitle BPW to exceptionally and without notice terminate the supplies forming the basis of the contract.
5. Associated companies of BPW have the option, in terms of §§ 15 et seq. AktG (German Stock Corporation Act), to refer to this quality assurance agreement within the context of business relations with XY, and to include them as an integral part in their own contractual agreements.

**II. QUALITY MANAGEMENT SYSTEM OF THE SUPPLIER**

1. XY is obliged to permanently apply an appropriate quality management system, corresponding to the guidelines of the automobile industry, which must be proven, through a valid certificate, to be in accordance with IATF 16949 in the currently valid version. If XY may not be certified according to IATF 16949, then XY is obliged to maintain a management system in accordance with the currently valid version of DIN EN ISO 9001 and, in agreement with BPW, to nevertheless meet the specific requirements contained in IATF 16949 or the reference manuals of the Automotive Industry Action Group (hereinafter referred to as ʺAIAGʺ). In order that BPW may verify this obligation, an appropriate work plan is to be set up by XY, listing the measures being taken to meet the requirements. However, the objective in terms of XY shall be the alignment and demonstration of the quality management system in accordance with IATF 16949.
2. BPW shall perform a potential analysis or system audit according to VDA Volume 6, insofar as a business relationship between XY and BPW has been established, but XY has not yet received certification for its quality management system. The respective outcome will lead to an audit classification in accordance with VDA Volume 6 (A, B or C) and the following requirements for XY:

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| Audit results | Requirements |
| "C" | With immediate effect and only by means of special actions (e.g. individual acceptance, 100% outgoing goods inspection, etc.) shall XY be entitled to delivery to BPW. XY commits to achieve at least the audit rating “B” within a period of 3 months. BPW will assist with this realization upon XY’s request. |
| "B" | XY pledges to advance its processes within a period of 9 months in the sense that an audit rating “A” may be realized. |
| "A" | XY commits to implement a quality management system in accordance with the minimum requirements of DIN EN ISO 9001 within a period of 2 years. |

1. Evidence of the establishment and functioning of the quality management system introduced is via unsolicited production of a valid certificate issued by an accredited institution. BPW is to be provided with duplicates of newly issued certificates unsolicited within 10 days of receipt. In the case of certification being revoked, BPW must be informed immediately.
2. XY is obliged to subject its performance to a continuous improvement process (herein-after referred to as "CIP").
3. The quality management system is primarily oriented towards prevention in addition to the discovery of defects. Appropriate methods for defect prevention and analysis are to be used.
4. Through the use of appropriate statistical procedures, XY is to ensure that machines, tools, measuring and test equipment, as well as the processes in which they are used, are appropriate and capable for the manufacture of the products supplied to BPW. Evidence of process capability (Ppk; Cpk) for functional and safety characteristics is to be continuously checked and recorded both within the framework of the initial sampling as well as in the course of series production. In general, capability certification may be carried out via process capability values, 100% testing, poka yoke, first and last piece testing with tool-based measures or statistical process control (hereinafter ʺSPCʺ). The approach is to be agreed with BPW.
5. In advance of the capability analysis, XY must use suitable procedures to verify the test equipment capability. Common methods for measuring system analysis ("MSA") are, among others, the MSA Reference Manual from AIAG and VDA Volume 5. If XY is not capable of conducting an MSA, corresponding proof of test medium capability evaluations by means of regular calibration shall be delivered.

In the absence of an alternative agreement between BPW and XY, a test equipment capability index of Cgk ≥ 1.33 is valid for the MSA as well as the use of Procedure 2 and/or 3 for automated measuring methods.

For machine and process capability, variable or measurable characteristics are valid in accordance with VDA Volume 2 and the SPC Reference Manual from AIAG, Volume 4, essentially the capability indices of Cmk ≥ 1.67, PPK ≥ 1.67 and CPK ≥ 1.33. Separate agreements in accordance with WN 1.051 apply to characteristics critical to safety, functioning and assembly, in addition to characteristics which affect statutory values (hereinafter "Special Characteristics"). If a characteristic cannot be proven on process capability values (e.g. with casting, heat treatment, coating etc.), proof of correlated secondary characteristics is to be obtained or a correlated non-destructive 100% test is to be used.

Should the minimum requirements not be met temporarily, then 100% tests are to be carried out until capability is regained through corrective measures. With 100% testing, the measurement uncertainty of the used measuring instruments, e.g. according to VDA Volume 5, is to be proven and taken into account. This is to be agreed with BPW within the framework of the sampling appropriate to the production process and product approval either following guidelines from VDA (in accordance with PPF) or AIAG (in accordance with the Production Part Approval Process - PPAP).

1. Insofar as production and test equipment are made available to XY by BPW, in particular resources and facilities with reference to supply by XY, these must be included by XY in the quality management system as its own production and test equipment, unless agreed otherwise with BPW.
2. For the entire series production, XY ensures the full implementation and application of the required tests in accordance with applicable written test instructions. The test methods applied must be coordinated with BPW. In the event of failure to comply with the capability values (process capability), defects, complaints and cancellations by customers of BPW, which are causally attributable to the product supplied by XY, preventive measures are to be introduced and the test documentation revised.
3. Regarding the manufacturing process XY shall conduct a process audit in accordance with VDA Volume 6, Part 3, of its own initiative. The result of this process audit including defined measures shall be communicated by XY to BPW prior to initial sampling.

BPW shall perform an adequate acceptance and approval of the series production process at the production site of XY for selected components. Therefore, the risk assessment by BPW shall be decisive. At the time of acceptance, the manufacturing process shall in all aspects, including product-specific measuring media, match the series production process. A preliminary process capability of Ppk >2.00 shall be proved in regard to particular as well as other agreed characteristics.

**III. QUALITY MANAGEMENT SYSTEM OF SUBCONTRACTORS**

1. XY is responsible for assuring the quality of the raw materials used for BPW, and individual parts purchased for BPW (see Section I., Paragraph 2). XY must therefore ensure that its subcontractors take appropriate quality control measures, so that the quality of the products to be supplied to BPW corresponds to contractual and legal requirements. The subcontractors employed by XY must use a certified quality management system within the meaning of Section II., Paragraph 1 or a system that at least complies with all content requirements of these standards. XY is to ensure this through appropriate contractual arrangements with its suppliers. To verify and ensure compliance, XY is to carry out systematic inspections or audits on-site with its suppliers.
2. Upon request, XY must provide BPW with appropriate evidence that the effectiveness of the subcontractor’s quality management system is ensured through appropriate measures.

**IV. AUDIT**

1. To determine whether the quality assurance measures meet the requirements of BPW, BPW is entitled to conduct audits of XY. These audits may be carried out as process, system or product audits. For this purpose, BPW and XY shall jointly define target setting in advance. The results of the audits shall be assessed against this target. Error analyses are required and shall be followed by appropriate corrective action in the event of failure to achieve the target. If requested, XY will also allow customers of BPW to conduct audits on XY or have them conducted (third party audit).
2. Essentially, BPW will announce the audit in good time. In the case of unforeseen incidents, BPW does however also reserve the right to arrange appointments at short notice. XY is obliged to make available the required documents and information, as well as to ensure the audit is carried out and, insofar as possible, to support it. For this purpose, XY grants BPW and, if required, their customers special access to all production sites, test centres, warehouses and adjacent areas, as well as access to quality-related documents. In the course of this, necessary and reasonable restrictions on the part of XY for the security of its trade secrets are accepted.
3. The obligations of this Section are also valid in analogous application to the conduct of audits by suppliers of XY, whose capability must be ensured by XY through appropriate agreements with these suppliers.
4. Within the scope of the risk classification, which takes into account the damage effect and the sales share of XY for BPW, XY is classified with an audit interval of xx on the part of BPW.
5. BPW regularly (at least annually) prepares a supplier evaluation for XY. This is used to evaluate adherence to deadlines, quantity compliance, number of defective articles (PPM), complaint rate, field complaints and credit rating. Finally, this results in a supplier classification from A = good, B = potential for improvement to C = measures for improvement required.

Depending on this classification, the following procedure is given in Section 4 concerning audits.

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| Classification | Requirements |
| “A" or "AB" | XY provides BPW with a process audit (min. cover sheet) according to VDA 6.3 (internal implementation is sufficient). |
| "B" | XY commissions a neutral organization to conduct a process audit according to VDA 6.3. BPW reserves the right to accompany the audit. |
| "C" | XY commissions a neutral organization to conduct a process audit according to VDA 6.3. BPW will accompany the audit and XY will cover the travel expenses of BPW. |

**V. DOCUMENTATION, ARCHIVING, INFORMATION**

1. With regard to the documentation and archiving of quality requirements, refer to the currently applicable version of VDA Volume 1 ʺDocumentation and Archivingʺ. Upon request, BPW is to grant full access to the documentation.
2. During the course of series production, XY must regularly check and record compliance with the required values for special characteristics according to BPW-WN 1.051 In accordance with VDA Volume 1, the archiving period for documents with special characteristics is 30 years after the end of supply by BPW.
3. All required technical documentation, such as specifications (e.g. company standards, drawings, parts lists, CAD data etc.) must be examined upon receipt by XY for completeness and plausibility. XY must immediately inform BPW of any identifiable errors. XY may not, in breach of this obligation, refer in retrospect to an inaccurate or incomplete transmission of information via BPW. The documents made available are thus deemed as approved in this respect.
4. In the case of a defect notification by BPW or a self-identified defect by XY on products already supplied, the following information process is to be complied with:
	1. BPW is to be contacted within one working day.
	2. Within 1 working days, XY is to report back the following information via an 8D report required by BPW:
		* responsible contact person and relevant team for resolving the problem,
		* preliminary description of the problem from the perspective of XY, as well as an indication of the method carried out for a defect cause analysis and its up-dating with relevant evidence,
		* immediate measures to ensure the availability of exclusively defect-free prod-cuts and, as far as possible, to limit the extent of the damage in the overall supply chain to the end customer,
		* agreement with BPW of a provisional schedule for a lasting solution to the problem, taking into account the information known at the time.

XY strives, following this initial feedback and depending on the circumstances, to complete analysis and coordination as quickly as possible and, within 14 working days at the latest, to submit a full 8D report including a structured problem solution process.

In the case of a detected defect, traceability of such must also be possible, in order that the quantity of defective parts may be limited (Section VI., Paragraph 10).

1. XY is obliged to inform BPW of any planned changes to the product and/or process in the form of a PPF or PPAP process, insofar as these could have a quality-reducing impact on the assured and/or generally assumed properties of the product (Release Matrix, VDA Volume 2). The information and accompanying impetus of a PPF - or PPAP process must occur in sufficient time so that BPW may test the change in their scope and oppose it prior to the products being used. The type and extent of the information are governed by the PPF or PPAP process.

Within the organization, XY shall have a change management process in place that ensures the control of documents and communication with BPW in the event of changes with respect to the process or product. XY shall document any changes liable to impact product quality by means of a product-part history, and shall inform the SCM and the relevant BPW department of quality control well in advance. BPW reserves the right to review and, if appropriate, to a fresh release in form of PPF before any planned changes are implemented. XY shall bear any costs thereby incurred by BPW.

1. XY will inform BPW promptly and comprehensively if knowledge exists according to which there could be a danger to persons or property when using the products from XY.

**VI. ADVANCE QUALITY PLANNING, TRACEABILITY**

1. The principle of "defect prevention rather than defect detection" and the following of the zero defect principle must always be considered by XY. A systematic advance quality planning is therefore to be implemented. To avoid potential defects, XY is obliged to apply appropriate advance quality planning methods (hereinafter "AQP") such as Advanced Product Quality Planning - APQP (according to AIAG) or maturity level protection (according to VDA). It is necessary, within the framework of AQP, to cover and reproduce all individual processes from development through to series production. Changes are to be coordinated in advance with BPW.
2. XY is obliged to check the deliveries and services ordered with regard to their producibility. The ability to be able to produce a product in accordance with drawings and specifications under series production conditions must be proven by XY in the assessment of producibility. Suitable methods are to be used for this, such as failure mode and effects analysis (hereinafter "FMEA"), process capability analysis, etc.
3. At the request of BPW, XY is obliged to perform, within the framework of the PPAP or PPF, an AQP or assessment of producibility.
4. Where required, XY is to create limit samples, which define the quality of non-measurable properties by creating a visual acceptance standard. The limit samples must be made from the shared series production process and marked accordingly.
5. The whole manufacturing process of XY is to be illustrated graphically in a process flow chart in accordance with IATF 16949. All stages of manufacture, automatic interrogations and inspection sites are to be marked appropriately and protected according to QS 9000 by indications of potential problems in the FMEA and the production control plan according to AIAG.
6. XY is to systematically perform FMEAs, according to VDA Volume 4 and/or the reference manual of AIAG, for the early detection and prevention of defects in products or processes. Insofar as product characteristics and process parameters are recognised as critical within the framework of the FMEAs, these are to be accepted as special characteristics in the production control plan and to be marked appropriately if they meet the criteria of BPW-WN 1.051.
7. In order to be able to ensure the supply of products in line with BPW's specifications at all times, a risk analysis incl. an emergency plan for tools and means of production is to be drawn up by XY and agreed with BPW.
8. The products supplied by XY must be traceable by means of documentation that is appropriate and agreed with BPW (see Section V.) in accordance with VDA Volume 1 and the applied quality management system across the entire process chain (including the raw material). This must be fully demonstrated by XY within the context of an analysis of the documentation chain. The production status and inspection result must be visible on all supplied products and/or documents. Unless otherwise agreed, different batches from XY are in principle to be separated and a single batch delivery ensured. This applies in particular in accordance with WN 1.051 for delivery of safety-related components.

XY guarantees the traceability of products supplied by XY at all times. By utilizing unique identification of products (e.g. date stamp, batch, etc.) or other appropriate measures, XY shall assure that in the event of a defective product, XY is capable of identifying any other affected products of the same period instantly. The method of labelling and the manufacturer’s label shall be coordinated with BPW in advance.

1. If required by BPW, an evaluation of the entire process chain (packaging, internal transportation, logistics and installation) shall be carried out together with XY at BPW’s premises. Such preventative error cost avoidance will ensure that the delivered product is dealt with in accordance with product conformity during the entire internal assembly and handling process at BPW.
2. XY shall be obliged to draw up emergency plans to keep negative impacts on supply ability as low as possible in case of any unforeseeable events (e.g. machine or tool failure, flooding, etc.). The emergency plans shall be forwarded to BPW upon request and shall be subject to periodic updates (at least on an annual basis).
3. Insofar as deviations from the product or service specifications or the production process released are present, XY shall apply for a deviation permit issued by BPW before delivery of those products. The deviation permit may be obtained from the relevant BPW quality assurance department by making use of the specific application (available on www.bpw.de under the link “Supply Chain Management” and the key word “Design Deviation Request”). Any costs incurred by BPW as a result thereof shall be paid by XY.
4. Insofar as XY delivers product-related software or products with integrated software, XY is obliged to complete and retain the ‘VDA LISA’ provided by BPW within the framework of PPF sampling, and to make this available to BPW. XY must prove how the requirements of the specification are implemented in the software code and any over-functions of the software in relation to the requirements are to be shown.

**VII. TESTING PROCEDURE FOR COMPLAINTS**

1. XY is obliged to set in advance, with BPW, a ppm rate in relation to the supply of defective products. If BPW determines that XY has supplied defective products, the entire supply is considered defective. In this case, XY has the opportunity to demonstrate that the agreed ppm rate was not exceeded and the remaining products are in conformity with the contractual requirements.
2. In the context of complaints, the following escalation levels shall be applied:

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| Escalation level | Case  | Action |
| Level 1: Dialogue on quality | Complaints reported and consequential actions taken are not processed timely or lack efficiency.  | In the course of a dialogue on quality, BPW and XY agree on an effective problem-solving process to reclaim target values or specification requirements in the near-term. |
| Level 2: Dialogue on quality & supplier downgrade | Measures defined under level 1 are not met or ineffective. | BPW notifies XY of target deviation and lowers XY to C-supplier with immediate effect. At the same time XY is invited to submit to BPW expedient measures for sustainable quality improvement within 5 working days. |
| Level 3: Supplier support / supplier change | Measures defined under level 2 are not met or ineffective. | BPW introduces additional measures, such as a support for the supplier at the expense of XY or changing the supplier. |
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1. BPW shall have the option to stipulate, in addition to the escalation levels referred to under Paragraph 2 and depending on the nature of the complaint, supplementary actions to be taken by XY or to be carried out by BPW. These include in particular:
	1. Carrying out a 100% evaluation of characteristics agreed by XY.
	2. Presenting evidence (e.g. test records, analysis reports) on XY’s compliance with the specifications required by BPW.
	3. Process audits carried out independently by XY in accordance with VDA Volume 6 Part 3.
	4. Process audits conducted by BPW or a third party in accordance with VDA Volume 6 Part 3.
	5. Measures for the purpose of process assurance performed by BPW at XY’s premises.
	6. Preparation of periodic improvement reports on the measures introduced by XY and their effectiveness.
2. BPW may stop the escalation procedure insofar as a satisfactory, timely implementation of the agreed actions is available. The resulting costs incurred by BPW shall be paid by XY.

**VIII. PACKAGING**

The packaging requirements are to be agreed upon by XY with BPW before the start of series production at the latest. For Special Characteristics, separate packaging arrangements are to be made (e.g. single batch).

**IX. INCOMING GOODS INSPECTION**

1. With regard to the commitments undertaken by XY on quality assurance, the tests re-quire for this will be carried out by XY. BPW will therefore carry out an inspection immediately following supply of the products, by way of the accompanying documents on identity and quantity as well as externally visible transport damage. There are no further inspection obligations. If this inspection reveals a defect, BPW will immediately indicate this to XY.
2. BPW will immediately indicate to XY any other defects in the supply, once these are determined according to the conditions of proper business practice.
3. To this extent XY waives the objection to late notification of defects.

**X. PRODUCTS PROVIDED**

Insofar as BPW provides products for production by XY, these are to be inspected by XY following delivery for freedom from defects, unless otherwise agreed with BPW. Should this inspection reveal a defect, XY will immediately indicate this to BPW.

**XI. TRAINING**

The employees of XY are to be appropriately qualified to perform their respective tasks and given separate specialised training for each manufacturing process of the product with the aim of a faultless product quality. Appropriate qualifications are to be submitted to BPW upon request.

**XII. INSURANCE**

XY is obliged to provide evidence of both (extended) product liability and recall insurance with an insured sum of at least 5 million EURO. XY is obliged to always maintain these insurances and to always provide evidence of this through unsolicited submission of appropriate documentation. To prevent the loss of coverage protection, XY will submit this agreement to its liability insurer.

**XIII. SAMPLING and REQUALIFICATION**

1. The procedure for the sampling of products is to be implemented by BPW according to PPF (VDA) or PPAP (AIAG). This is stored on [www.bpw.de](http://www.bpw.de/) under the link ʺSupply Chain Managementʺ and the keyword ʺProduct/Process Approvalʺ. XY shall bear any additional expenses incurred by BPW due to non-compliance with the sampling targets such as re-sampling. An approval granted by BPW in this procedure does not release XY from the contractually agreed and statutory obligations.
2. Material data collection is part of the sampling. XY is obliged, at the request of BPW, to enter the necessary data into the International Material Data System (IMDS) and to make this available free of charge to BPW. In addition, at the request of BPW, XY must present a concept for the disposal or recycling of used materials.
3. All products delivered to BPW by XY must be subject to a complete dimensional and functional test (Requalification test) in accordance with the production control plan and taking into account the respective customer specifications for material and function. The results must be made available for the purposes of customer assessments.

The frequency and scope of requalification testing shall be agreed with BPW. Without a specific agreement in this regard, there are no stipulations on the side of BPW. BPW reserves the right to demand an extension of the annual requalification test in the event of poor quality performance in the form of complaints.

**XIV. COMPLIANCE WITH THE LAW**

1. XY guarantees that the relevant laws and regulations for the manufacture of products or the provision of services, especially in the areas of occupational safety and environ-mental protection, chemicals and dangerous substances legislation, as well as machine safety, will be observed and adhered to.
2. XY expressly confirms that no child labour is used to manufacture the products or to provide the service.
3. In particular, XY is obliged to comply with all statutory regulations relating to environ-mental protection. BPW expects continuous improvement of environmental performance from its suppliers. For this purpose, XY will establish and develop, within its capabilities, an environmental management system (e.g. in accordance with DIN ISO 14001 and or Regulation (EG) No. 1221/2009 of the European Parliament and of the Council (EMAS).
4. XY is further obliged to comply with the requirements of the RoHS EC directives and REACH regulation.
5. XY is also to fulfil all obligations and requirements that exist for manufacturers of products (e.g. product monitoring obligation). Should third parties claim damages against BPW on the basis of product liability law or another non-contractual liability, XY releases BPW from all claims, provided that the damage is due to a defect in products supplied by XY.

**XV. DURATION**

This agreement comes into effect upon being signed by both parties and is valid for the duration of the business relationship existing between the parties.

**XVI. ADDITIONAL DOCUMENTATION**

Reference is made in various provisions of this quality assurance agreement to the fool-lowing documents, and this will also apply to their respectively valid versions:

BPW-WN 1.051

DIN EN ISO 9001

IATF 16949

 VDA Volume 1 - 6

Reference manuals of AIAG (APQP, MSA, SPC, FMEA, PPAP)

**XVII. GENERAL**

1. Amendments and additions must be in writing, as is the case with revocation of this written form requirement.
2. The agreement is exclusively subject to German law under exclusion of UN sales law (CISG). The sole place of jurisdiction for all disputes arising from the agreement is Cologne.
3. Should individual provisions of this agreement be ineffective or unenforceable, or be-come ineffective or unenforceable subsequent to the conclusion of the contract, the validity of the contract remains otherwise unaffected. In place of the ineffective or unenforceable provision, an effective or workable provision shall apply, whose effects most closely correspond to the economic objectives which the parties were seeking to pursue with the ineffective or unenforceable provision. The above provisions shall apply in the event that the agreement proves incomplete.

Wiehl, ... [Place], ...

**BPW Bergische Achsen** **[Company]**

**Kommanditgesellschaft**

**(Limited Partnership)**

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