Quality Assurance Agreement (QAA)

Operational Procedure : **QOP-74-04**	Revision: **A**	03/2019

1. Purpose

This document shall govern CP-CARRILLO's relationship with suppliers and service providers for delivering their products and services to our OEM business segment.

At the minimum, the supplier shall be ISO 9001 certified by an accredited certification body, and develop their QMS towards compliance with IATF 16949 requirements. IATF 16949 certified suppliers fulfil all our QMS requirements and this document does not raise any additional requirements for those suppliers.

The quality assurance agreement at hand is a binding agreement used by CP-CARRILLO and is available via the download and support area of our webpage. Each respective supplier is asked to acknowledge this agreement, and the document itself, while not included with each purchase order, shall firmly apply with any order confirmed by the supplier.

2. Scope

The document shall apply from moment of confirmation of a CP-CARRILLO purchase order for an indefinite period to suppliers providing the following products or services:

- Special processes (e.g. heat treatment, destructive- and non-destructive tests, coatings, etc)
- Raw materials
- Components (e.g. piston rings, pins, locks, bolts, bushings, etc)
- Mechanical processing
- Operating fluids (e.g. glue, varnish, primer, lubricant)
- Calibration of inspection devices and maintenance of machines and equipment

3. Terms

Any "shall" in this document means that implementation of the requirement is mandatory. Any "should" is to be understood as a recommendation.

FAI…… ..... First-Article Inspection
FMEA… ..... Failure Modes Effect Analysis
IMDS… ..... International Material Data System
MSA… ..... Measurement System Analysis
NDA…..... Non-disclosure agreement (= confidentiality agreement)
PPAP…..... Production Part Approval Process
QMS..... Quality Management System
RFD…..... Request for Deviation
8D-Form..... Form for root cause analysis and corrective actions

4. Organizational and QMS Requirements

4.1. Supplier approval

The objective of the approval process is to determine whether:

- the supplier maintains a QMS, which meets the requirements set out here and is capable of further development and improvement (see section 4.2), and
- the supplier is likely to meet certain performance criteria (on-time delivery, quality, flexibility, technology).

The basic requirements for approval are:

- Current QMS certifications (see section 1), or in lack thereof, QMS survey / questionnaire with special approval
- Audits conducted by CP-CARRILLO, if considered necessary
- Signed confidentiality agreement
- Customer references, special approvals and qualifications, if needed
- Positive initial sampling of a product or service provided

4.2. Supplier development

The minimum requirement is a valid ISO 9001 certification. If not met, a special approval may be issued by CP-CARRILLO weighing all other information including how critical supplied parts or services are for quality and performance of final product.

The supplier commits himself to steadily improving their QMS towards compliance with the requirements of IATF 16949, and improving their quality and processes towards zero-defects.

4.3. Supplier audits

The supplier agrees to audits performed by representatives of CP-CARRILLO, and shall, at the same time, maintain an audit program with its own supplier base.
The supplier further agrees to provide access to the relevant processes and products or services, including quality assurance measures and respective documentation and records. CP-CARRILLO will in return respect the protection of supplier's know-how, e.g. by signing a NDA.

Reasons for supplier audits:

- Approval of supplier or a process
- Changes in the product / process
- Repetitive complaints / quality issues
- Periodic surveillance audits

The supplier shall implement appropriate corrective actions within reasonable time frames in response to any non-conformities found during such audits.

4.4. Confidentiality

Prior to the acceptance of the order, suppliers shall sign a NDA and adhere to them throughout the whole customer-supplier relationship. The effective implementation of NDAs may be checked during audits.

4.5. Contact persons / Changes in the organization

The supplier shall inform CP-CARRILLO about its main contact persons (e.g. managing directors, quality manager, sales), and provide notice immediately in writing about material changes regarding the QMS, control of ownership, relocations, etc.

4.6. Quality responsibility

The responsibility for the quality of products and services supplied (including those of sub-contractors / sub-suppliers) manufactured or delivered by the supplier including the services and deliveries rendered by sub-contractors or sub-suppliers (see also section 5.2) shall rest solely with the supplier.

Any liability exclusion and/or restriction from supplier side is expressly excluded. Therefore, the supplier shall be held liable to the full extent for both, products and services rendered by him and rendered by his suppliers. In the event of any damage, destruction, or loss of products or material, the contractual partner shall not only be held liable for the value of product or services itself, but also for damages and costs incurred due to the non-fulfilment of statutory and regulatory requirements.

The supplier shall maintain an adequate (product) liability insurance policy.

4.7. Personnel qualification

All staff members working on orders for CP-CARRILLO shall be qualified in accordance with their field of activity, and training records and certifications shall be maintained.

4.8. Risk management / Emergency planning

The supplier shall maintain an effective emergency response program in order to keep the risks of an interruption or failure to meet delivery schedules as low as possible (e.g. following a machine breakdown, interruptions of power supply, staff shortage, fires, etc). The emergency planning describes the risk potentials and safety precautions taken with respect to all of suppliers operational areas of relevance.

4.9. Continuous improvement

The supplier shall strive for continuous improvement in order to achieve a high degree of customer satisfaction and working towards zero-defects.

4.10. Regulatory compliance

The supplier shall aspire to be aware of and comply with relevant laws, policies and regulations. Where necessary, the supplier shall apply for all required permits and licenses in a timely manner.

4.11. Special transportation costs

Supplier shall prepare and submit a breakdown of all unplanned transportation costs incurred throughout each quarter of the calendar year, including their reasons.

5. Order processing

5.1. Feasibility check

Prior to order acceptance, supplier shall carry out a commercial and technical feasibility check (specifications, schedule, capacity, available resources). In case of non-feasibility, supplier is asked for open and upfront communication.

5.2. Sub-suppliers & Sub-contracting

Partly or full sub-contracting of the order is not permitted without prior notification and approval by CP-CARRILLO.

If approved, all requirements of this agreement become binding for the the sub-contractor, and the supplier carries all risk and liability for meeting the requirements of the products or services provided.

6. Customer-supplied product and materials

Products / Components provided to the supplier shall be handled with utmost care. Even the slightest surface damages (e.g. scratches) may result in non- or restricted usability of parts. Supplier shall focus on handling, logistics and training of staff.

In case, supplier detects any defects or deviations upon incoming inspection, supplier shall inform the purchasing department immediately and make arrangements on how to proceed.

Provided material is also subject to traceability and the supplier shall not be allowed to arbitrarily use substitute material.

7. Production and service provision

7.1. Procurement of raw material

In the event that the order includes the procurement of raw material, the supplier shall request a material certificate by the supplier of the raw material, which is supposed to be checked and sent along with the delivery (see also section 7.3). As a general rule, material must only be purchased from sources approved by CP-CARRILLO or the final customer. In case that the material does not meet requirements, the supplier shall immediately inform CP-CARRILLO's purchasing department and the supplier of the raw material.

7.2. Inspection plan and Process flow chart

The supplier undertakes to plan, organize, and realize the production process and quality assurance on his own responsibility and in such a way, that an extensive monitoring and quality control is ensured at any time and all quality requirements are continuously met.

This applies to all products and services, regardless whether these are manufactured or rendered by the supplier himself or whether procured from sub-contractors.

Production documents calling out inspections and processes have to be compiled for all production processes and kept up-to-date. These documents shall include all work sequences, events, and inspections starting with receipt of incoming goods

through delivery. The supplier shall keep record of all activities and inspections performed. Setup processes shall be appropriately verified (first piece inspection e.g. after tool change, material change, new order).

7.3. Quality documentation

Any quality documentation requested with the order shall be provided together with the shipment, and CP-CARRILLO may hold payment until the required quality documentation is provided in full.

Unless otherwise specified, the standard documentation includes:

- Delivery note
- Completed inspection documentation resp. certificate of conformance to purchase order
- RFD Form (in case of deviations – see section 10.1)
- Initial sample test report / First Article Inspection Report (in case of an initial sampling delivery – see section 11)
- Safety data sheet (for chemicals, oil, lubricants, gases)

8. Preservation, Storage and Packing

The supplier shall be responsible for the protection and preservation of the products by usage of appropriate means and packings. The storage areas have to be kept protected, marked, neat and clean, in order to avoid environmental influences and mismatch of materials and orders.

If the packing material has been provided, their use is mandatory, and safe storage until such usage shall be provided.

When transporting or packing semi-finished or finished goods any contact between components shall be avoided.

8.1. Storage of material

When storing material for CP-CARRILLO, supplier shall:

- prevent the environmental deterioration of parts,
- continuously maintain material certificates, lot numbers, etc,
- clearly label customer-owned material as such,
- periodically reconcile inventory with CP-CARRILLO,
- use the material based on FIFO (first-in, first-out).

9. Configuration management

9.1. Traceability

Supplier shall provide for consistent traceability back to the primary material. This applies to all quality-relevant documents and data (e.g. process data, inspection records, approvals). Unless otherwise agreed upon, the retention period for those records shall be 15 years.

9.2. Process changes

The supplier shall inform the purchasing department about planned changes in manufacturing process (site, method, procedure, material) in such a timely manner, that CP-CARRILLO can evaluate those changes for their impact, and approve them.

10. Quality deviations

10.1. Request for deviation

Any deviations from requirements have to be requested in writing by submitting the following information to CP-CARRILLO:

- Order ID
- Nature and description of deviation (test reports, photo documentation)
- Root cause for deviation
- Quantity of parts affected and their serial numbers
- Possible corrective actions

Components shall not be released for delivery until approved by CP-CARRILLO.

Clear labelling shall be used to differentiate those parts with deviations from rest of shipment and to clearly mark them as deviation. In addition, supplier shall include a copy of the RFD form for those parts (see also section 7.3).

10.2. Detected deviations after delivery

Any deviations detected after delivery shall be immediately reported to CP-CARRILLO, including the information stated in 10.1, where feasible.

10.3. Incoming goods reports

If non-conformities caused by a supplier are detected at the time of incoming goods inspection (or later), an official letter of complaint will be sent to supplier.
CP-CARRILLO expects their supplier to analyse the root causes and remove these in an effective way. A written statement (e.g. 8D-reports) containing the root causes and planned corrective actions has to be submitted to the purchasing department within 10 working days. In case of significant quality deficiencies or anticipated downtimes, the assumed causes and immediate counter-measures shall be reported within 2 working days.

The acceptance of products or services upon incoming goods inspection does not limit CP-CARRILLO's rights or claims with respect to any deviations, non-conformities, or other consequences which may be discovered or become obvious at a later point in time.

10.4. Failure costs

In the event of unforeseen expenses, inspections or tests, or reworks which become necessary due to incomplete delivery documents, wrong deliveries or missing resp. incomplete quality certificates, CP-CARRILLO shall be entitled to collect reimbursement of those costs from supplier.

11. Initial samplings / FAI

Samplings are to be taken in the following cases:

- First delivery to CP-CARRILLO
- Changes in specifications
- Process changes according to section 9.2

As a general rule, initial samplings must have been manufactured entirely using serial manufacturing equipment under serial operating conditions. Unless otherwise stated in the order, at least one component part shall be completely measured and documented. The sampled components have to be clearly labelled (e.g. by means of a tag) and enclosed with the initial sampling test report to the delivery. The release of serial production is granted after the initial sampling has taken place entirely and with a positive result.

As part of the process release, CP-CARRILLO may request a confirmation about the agreed quantity in line with the pre-established PPAP-requirement.

11.1. Initial sampling

Unless otherwise agreed, the initial sampling test report submitted to CP-CARRILLO shall include:

- Cover page resp. form sheets to be applied
- Test results of the material properties
- Test results of the dimensions, technical requirements, surfaces, functional requirements according to the specifications and standards set out in the drawings
- Preliminary process capability test with respect to critical characteristics
- Released drawing (with numbered dimensions), approved request for engineering changes, as the case may be
- Process flow chart (all stages of manufacturing and tests)
- Material data sheet per IMDS
- Control Plan
- MSA
- FMEA

12. Additional requirements for critical characteristics

Critical characteristics are bearing a significant importance with respect to the function, product safety or manufacturing process. They are specifically marked in drawings and other documents.

12.1. Process capability

The supplier undertakes to carry out regular process capability tests on the product- and process properties.

These properties or characteristics are accompanied by particular requirements with respect to the process reliability:

- Preliminary process capability amounting to at least ppk 1.66
- Long-term process capability amounting to at least cpk 1.33

These dimensions shall undergo 100% inspection incl. corresponding documentation, until process reliability is established.

12.2. Measurement system analysis

Supplier shall confirm suitability of the measurement system (capability) applied to the product- and process properties.

12.3. Process-FMEA

The manufacturing processes concerned shall be analysed and put to a risk analysis on the basis of a process FMEA by the supplier. The purpose and goal of this is to minimize the consequences of potential failures by means of appropriate (preventative) measures. The process-FMEAs have to include the appropriate producibility of at least the critical characteristics.

13. Miscellaneous

This Agreement shall be valid and in force for the entire time of the business relationship between CP-CARRILLO and the Supplier and shall be applicable for all current and future supply agreements. Any clauses of this Agreement that from their nature are not limited by the termination of this Agreement or any supply agreement shall survive the termination of this Agreement.

If one or several of the clauses of this Agreement become(s) void or ineffective, the validity of the entire Agreement is not affected whatsoever. CP-CARRILLO and the Supplier are obliged to act in line with the objectives of this Agreement and agree on a replacement clause that complies as far as possible with the purpose of the ineffective or void clause(s). The same applies to omissions in the Agreement. No verbal agreements have been made. Changes and additions to this Agreement - including a waiver to insist on the written form - must be made in writing to become effective.

The validity and construction of this Agreement as well as all actual and future business relationships between CP-CARRILLO and the Supplier shall be governed by the laws of California.

All disputes arising between the parties concerning the interpretation and/or execution of this Agreement and/or concerning actual and future business relations between CP-CARRILLO and the Supplier shall be exclusively deferred to the jurisdiction of the courts of Orange County, California.