

Quality Assurance Agreement (QAA)

between: Schwäbische Werkzeugmaschinen GmbH
Seedorfer Straße 91
D-78713 Schramberg-Waldmössingen
– referred to hereinafter as "SW" –

and

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D-.....

– referred to hereinafter as "Supplier" –

1. Preamble

A contractual determination of the general technical and organizational conditions between SW and the Supplier is an indispensable precondition for protecting the competitiveness of SW in the long term. Our highest priority is absolute customer focus and complete customer satisfaction, while simultaneously considering cost-effectiveness. These are our fundamental company policies.

A high quality image and the competitive position connected to it are best reflected in the public standing we enjoy among customers by:

- Market-oriented product development
- Flat, process-oriented hierarchical structures
- Close contact with customers and efficient process structures
- Result-oriented company controlling
- A high level of professional and technical competence among employees
- Regular qualification of employees

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- Establishing and developing select suppliers as part of partnership-based collaborative work

This agreement describes the minimum requirements for the management systems of contractual partners and regulates the rights and obligations in terms of quality assurance for the products that are supplied. Minimum requirements are defined to ensure that there are no disadvantages due to quality reasons (identity, quantity, condition, time) .

2. Scope of application

The agreement refers to all products and services the Supplier provides for SW.

The supplier shall require its subsuppliers to comply with the obligations from this agreement which it has taken on. SW may require Supplier to provide documented verification that the Supplier is convinced of the effectiveness of the quality management systems of its subsuppliers. SW may also require the Supplier to provide written verifications of inspections and other quality processes from its subsuppliers.

3. Responsibility of the Supplier for the quality of its services

The Supplier is responsible for completely error-free execution and timely delivery of its products in accordance with the agreed technical and commercial documents. The Supplier must check the documents to ensure they are complete and correct. If necessary, additional information can be requested from SW. For development activities, the Supplier must at least inform SW of the requirements for the product and the installation environment.

The quality strategy of the Supplier must be aligned with continuous improvement of its products, services and processes (CIP).

The Supplier agrees to the zero error objective and to lowering costs. The Supplier shall immediately inform SW as soon as deviations from the agreed objectives are foreseeable, and shall present measures for eliminating the deviations.

The agreement for setting an objective shall not affect the Supplier's liability for warranty and damage claims from SW due to defects in deliveries. The specifications for the product must be observed in every case. The Supplier shall rather also be liable for any defects if the deficiencies are part of the agreed objective.

4. Requirements for the quality management system (QM system)

To fulfill its responsibility, the Supplier must develop and maintain a quality management system commensurate with the size and structure of its company that at least meets the requirements of ISO 9001, but ideally those of VDA 6.x, IATF 16949 in the currently valid version.

5. Assessment of quality assurance measures and the QM system

The Supplier shall make it possible for SW be satisfied regarding the execution of quality assurance measures.

To this end, the Supplier shall guarantee SW access to its production facilities to an appropriate degree and after agreeing on a date and time, and during this access shall make a professionally qualified employee available for support. The Supplier can refuse inspection of manufacturing processes it needs to keep secret and other operating secrets.

After prior notification, an audit can be carried out in the form of a system, process or product audit.

SW shall report the results of these audits to the Supplier. If measures are required from the perspective of SW, the Supplier agrees to draw up a plan of measures immediately, to implement it promptly and to inform SW about it.

6. Developing employee qualifications

All employees must be qualified in line with their area of responsibility. Employees must be sufficiently trained in quality assurance methods. The Supplier shall keep written records documenting training. Only persons with the required qualifications may be used for special processes (crack check, welding, etc.).

7. Technical documents

All documents required for processing the order, such as the order text, drawing, factory standards and work schedule, shall be made available to SW by the Supplier in the respective current version. The Supplier shall ensure that manufacturing is based on the current documents. If there are any ambiguities or contradictions in technical aspects (plausibility check), the Supplier must contact SW.

For the purposes of a contract review, the documents related to secure manufacturing must be verified. If deviations from the specification are expected, appropriate agreements must be made in coordination with SW.

8. Quality checks

The supplier must perform all required tests on the parts and attach corresponding verification to the delivery or submit it on request. For purposes of process monitoring, the tests should take place in parallel to manufacturing. Depending on the relevant machine capability and the work sequence, in some circumstances the Supplier's test steps must be specified beyond the minimum scope of tests defined by SW.

Incoming deliveries shall be checked by SW only for completeness, correctness and externally visible defects. The Supplier and SW agree that no further inspections shall take place.

9. Testing equipment

The Supplier must be sufficiently equipped with testing equipment so that all necessary technical features can be tested according to this agreement. The testing equipment must be checked for accuracy regularly and kept ready for use. Regular monitoring, calibration and maintenance of testing equipment – in accordance with the Supplier's demonstrated QM system – must be verifiably documented.

The capability of the testing equipment must be demonstrated. The demonstration must be provided in line with the state of the art and must be made available to SW upon request. If necessary, testing equipment and test methods shall be coordinated between SW and the Supplier.

The Supplier shall ensure that all required testing equipment is available at all times for testing the deliverables that are manufactured for SW.

10. Faulty parts/special approval

Deviations from the technical specification must be coordinated with SW before the goods are sent for delivery. Special approvals and later improvements must be agreed on in writing (SW form: Special Approval) between SW and the Supplier. Faulty parts must be identified as such.

If a deterioration in quality occurs in ongoing production, SW must be informed immediately. A mutually agreeable solution must be found and agreed on immediately to prevent production outages at SW.

11. Expenses for faulty parts

The Supplier shall be informed immediately regarding faulty parts (material defects) to coordinate the procedure regarding rework and/or replacement deliveries. SW reserves the right to initiate appropriate activities immediately to prevent greater additional expenses for all involved.

12. Changes

The Supplier agrees to communicate changes to SW in advance.

13. Providing samples

With a requirement to provide initial samples, the Supplier provides proof that its products meet the relevant quality requirements of SW.

Other factors that may trigger a sampling process may include changes, etc. SW shall evaluate whether samples should be prepared and also whether an initial sample test report must be provided.

Provided there are no impermissible deviations present, approval shall be provided in writing by SW in the form of a test report.

The initial sample approval does not absolve the Supplier from its obligation and responsibility in terms of delivering products free of defects.

14. Identification of delivery/parts

For delivery notes and labeling of packages and containers, the requirements agreed by SW must be observed (see SW Logistics Manual). It must be ensured that the identification of the packaged products is also possible during transport and storage. If faulty parts are delivered after consultation with SW, the Supplier must attach a clear identification of the error on the faulty parts with the existing and approved SPECIAL APPROVAL using the SW form.

If delivery of already manufactured products based on the old version is no longer permitted, the parts must be scrapped in consultation with SW. Replacement by products based on the new version must not take place until after approval of the sample by SW and must be specially noted on the delivery papers.

Parts delivered to SW that require a serial number must include the serial number of the material on the delivery slip or on the accompanying papers (test reports). The purpose of this is so that the affected production quantity can be better determined if defects are discovered.

Since the required tests in accordance with this agreement are performed exclusively at the Supplier's facility, SW shall check the goods upon delivery only in regard to quantity and identity, as well as for transport damage discernible from the packaging or errors that are apparent upon simple visual inspection. The quality documents and certificates included with delivery shall also be checked on a random basis.

SW will make additional checks in justified cases.

If goods are delivered according to SW's instructions to a third party rather than to SW, SW reserves the right to assign these third parties to check the goods as outlined above.

Provided it is feasible within the orderly course of business, SW or a third party authorized by SW shall either check the components manufactured using deliveries before the beginning of the next manufacturing section or shall test the finished product manufactured using the component. To this extend, Supplier waives its right to object to late notification of defect.

15. Complaint processing – complaints and measures

If defects are discovered by SW, they will be pointed out to the Supplier in the orderly course of business. To this extend, Supplier waives its right to object to late notification of defect. The Supplier shall then immediately conduct an error analysis with appropriate support from SW if necessary.

Products subject to complaint shall be returned to the Supplier to the extent agreed on. The Supplier agrees to analyze every deviation and to promptly report to SW the cause of the deviation, measures introduced to eliminate the error and prevent it from reoccurring and the effectiveness of these measures in an 8D report.

In the event of redelivery of goods originally subject to a complaint, the corresponding test report must always be attached in combination with the 8D report. If the delivery of products not in conformity with the specification threatens to result in manufacturing outages at SW or customers of SW, the Supplier in consultation with SW must seek a remedy through suitable immediate measures (replacement deliveries, sorting work, rework, special shifts, express shipping, etc.) for which the Supplier is responsible.

The following response times for the Supplier must always be observed in case of a complaint:

- 1 weekday - response confirming that the Supplier has received the complaint
- 2 weekdays - response regarding the immediate measures (D3) of the Supplier
- 14 weekdays - response to cause analysis (D4) and measures for permanent correction of defects (D5 or D6)
- 30 weekdays - final completion of the complaint

16. Supplier's responsibility for testing product quality

The nature and extent of suitable tests must be defined by the Supplier so that it is possible to demonstrate conformity of products ready to ship with the technical documents, drawings, specifications, standards, legal provisions and other required features.

If the delivery quality of the product at SW does not meet the agreed requirements (failure to observe limit values, limit samples, drawing requirements, data sheets, etc.) and if repeated errors occur (same error pattern on the part or on different but similar parts from the same manufacturing process), the Supplier agrees to conduct a 100% check until the effectiveness of corrective measures can be proven.

17. Emergency planning

The Supplier agrees to create an emergency plan which will show that the delivery supply is ensured in terms of the following points among others:

- Interruption of the power supply
- Shortage of labor (sickness rate)
- Failure of important operating resources and machines
- Capacity bottlenecks with rising demand
- Capacity bottlenecks with complaints
- Quality and delivery problems of its subsuppliers
- Other serious events that could endanger delivery supply
- Foreseeable environmental factors and effects (for example flooding)

If delivery supply cannot be ensured despite all emergency planning, SW (Purchasing, Logistics) must be informed in writing immediately together with consultation.

18. Documentation/retention period

The Supplier shall retain the following test documentation for a period of at least 3 years: Route cards or control charts and if applicable special test logs required by SW. Initial sample reports for new parts must be retained for at least 15 years after the first time they are ordered. The retention period for documents and records is extended to 30 years if they are relevant to safety. SW shall be permitted to view the documents and records after agreeing on a date and time.

19. Environment, safety, ethics

SW has the objective of minimizing negative effects of products on people and the environment, taking technical and financial aspects into consideration. Compliance with applicable laws and regulations (RoHS, REACH, MiLoG, etc.) therefore represents a minimum requirement for the Supplier.

Certification of the Supplier's management system in accordance with ISO 14001 is desirable. This certification is indispensable for industries and manufacturing processes that are detrimental to the environment (galvanic processes, disposal, chemicals for production as well as oils, greases and preservation for products, etc.).

The Supplier agrees to provide the corresponding documentation related to hazardous goods and substances.

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The materials used must be in compliance with the legal provisions regarding safety, the environment and recycling as well as the agreed requirements of SW.

The supplier affirms that the delivered goods have not been produced through exploitive work, work that negatively affects health or safety or by child labor under slave-like conditions, nor by forced labor or exploitive prison labor or work which otherwise violates human dignity.

If any such provisions are violated, the supplier must indemnify SW and release it from all claims of third parties, including regulatory authorities.

20. Supplier evaluation

SW shall conduct a Supplier evaluation at regular intervals based on the quality of the delivered products. The basis for the evaluation shall be test reports which are sent to the supplier after complaints for faulty products in incoming goods, production or from customers.

In addition to product quality, the delivery reliability of Suppliers will be evaluated. If applicable, Suppliers shall receive information regarding the current status of their delivery reliability. The development of Suppliers in terms of product quality and delivery reliability is tracked by SW-QA and SW Purchasing. The objective is to support and/or develop Suppliers sustainably in terms of the implementation of corrections and preventive measures. If no further development can be discerned, a more extensive procedure will be derived and defined. The high quality standards required by the end customers make it necessary for the entire delivery chain to ensure an extremely high level of consistent, continuous improvement and to guarantee product and delivery quality.

21. Non-disclosure

SW and the Supplier explicitly warrant confidentiality and secrecy in regard to all knowledge and information obtained. The SW non-disclosure agreement also applies.

22. Severability clause

If one or more of the provisions stated above shall be invalid, that shall not affect the remaining provisions or the agreement as a whole. In this case the parties shall agree to a

new provision that comes as close as possible to the intent of the ineffective provision or provisions in a form that is effective.

23. Validity

This QAA refers to the underlying supply relationship and/or to legal provisions. The confidentiality obligation remains in effect.

Changes and additions to this agreement must be made in writing to take effect.

This QAA is binding.

SW:

Schwäbische Werkzeugmaschinen GmbH

Purchasing Manager

.....

Date, Signature

Supplier:

...Supplier name

.....

.....

Position, name

Date, Signature