**GENERAL QUALITY REQUIREMENTS FOR SUPPIERS OF INDUSTRIE ILPEA S.P.A,**
Viale Industria 887, 21020 Malgesso (VA) including its plant in Orcenico Superiore di Zoppola (PN)
(hereinafter "ILPEA")

**Scope and application**

This document sets out the general quality requirements applicable to all supplies of any nature (by way of example only, raw materials, components, tools and machinery and services (hereinafter for short "Parts") from Supplier to ILPEA and / or to any of ILPEA's Affiliates. A supplier will only be inserted in ILPEA's supplier base if and as long as these quality requirements can be guaranteed and observed by the Supplier. ILPEA reserves at all times the right to place the Supplier in "stand by" or definitively remove the Supplier from its supplier base. This means that such Supplier will respectively not be eligible for any new assignments of supply for a certain period of time or will definitively not be eligible. It is understood that these Quality requirements shall also apply to service parts of the Parts, if any.

**Should the Supplier have any questions, doubts, concerns or expect not be able to abide by these quality requirements for any reason whatsoever, Supplier shall immediately inform ILPEA hereof in writing at the latest upon submission of the requested quotation.**

## 1. Validity

These general Quality requirements shall be applicable to all Suppliers from which ILPEA has ordered through the issuance of a formal written purchaser order by its purchasing department any Parts and to all the supplies of such Parts following such purchase order. These general quality requirements shall remain in force until and unless ILPEA modifies the same at any time and at its sole discretion. ILPEA shall timely inform the Supplier of any modifications.

## 2. General obligations

The Supplier will only be eligible to be assigned with supplies to ILPEA if it has submitted to ILPEA the following documents **BEFORE** the purchasing department of ILPEA issuing any purchase order or at the latest upon acceptance of the purchase order by Supplier. Supplier is expected to keep ILPEA updated with the latest versions of these management system certificates:

Obligatory certificates;
- Quality Management System Certificate (ISO 9001:2015 and / or IATF16949:2016)
- IMDS (International Material Date System) / EU End-of-life vehicle directive 2000/53/ EC
- Documents regarding national and international legal rules and regulations. (Product Safety Certificates, ECE, E, CE, delivery, transportation, packaging etc.)
- Insurance certificate (see art. 7.2)

When mandatory by applicable law:
- Conflict Minerals Reporting Template
- REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) Regulation (EC) No. 1907/2006
- OEM and ILPEA Customer-specific Requirements (standards, specs, Formel Q, D/TLD etc.)

Strongly recommended:
- Environmental Management System Certificate (ISO 14001:2015)
- Occupational Health and Safety Management System Certificate (OHSAS 18001:2007)
- Social Accountability Certificate (SA8000:2014)
- Ethical code - Declaration for social responsibility (Regarding compliance with human rights, no childhood labor, ethics values etc.)

2.1. Supplier responsibility for quality. The quality of the Parts including but not limited to conformance to the Technical Documentation (as defined here below) is the total responsibility of the Supplier. Part quality includes the overall quality of each Part as well as its reliability and performance in the final products in which they are incorporated, during the lifetime of such products. The Supplier is responsible for the quality of the tools and raw materials it uses in its production process as well as for the actions of its sub-suppliers, if any, regardless of whether or not the tools it uses are owned by ILPEA and/or the raw materials or the sub-suppliers were chosen or suggested by ILPEA after Supplier having checked the compatibility of the tools, the raw materials and the sub supplier suggested by ILPEA with its own technology and the conditions of the tools.

2.2. Technical documentation. "Technical Documentation" means any specifications and other technical or aesthetic requirements communicated by ILPEA's purchasing department to Supplier in respect of the Parts or otherwise agreed between ILPEA and Supplier in writing. Supplier is aware that the Technical Documentation is essential but that it does not represent the only or entire statement of its contractual obligations towards ILPEA. Compliance with the Technical Documentation and completion of tests set out in the Technical Documentation does not discharge the Supplier of its obligations if the Supplier does not otherwise meet the quality requirements set out in section 2.1 above.

2.3. Definition of defect. As used herein, Parts which have "Defects" or are "Defective", means Parts which do not comply with sections 2.1, 2.2, 2.4 of these Supplier Quality Requirements.

2.4. Parts warranty. The Supplier warrants that the Parts shall be free from Defects, including those of design, manufacture, assembly, workmanship, quality, materials and testing, during the period in which ILPEA's products are covered by the legally required warranty (guarantee) in the country where they will be sold. In any case, the above warranty will not exceed 30 (thirty) months from the date of delivery of the Part to ILPEA unless specifically requested otherwise in writing by ILPEA and agreed from time to time between ILPEA and Supplier (see 2.5 here below). The Supplier's specific obligations in respect of ILPEA 's direct costs, are in addition to and do not limit the rights and remedies of ILPEA in respect of any breach of the warranty in this subsection or any other breach of these Quality Requirements including ILPEA's rights to claim damages in respect of production losses and other economic loss. This warranty shall not apply in case the Part has been used or assembled improperly or not in accordance with the technical instructions or has been used for another purpose than the intended use.

2.5. Parts warranty during customer's warranty period. Upon ILPEA's explicit written notification, the Supplier shall, after joint technical and commercial feasibility analysis extend the duration of the aforementioned warranty period for those Parts that are incorporated into ILPEA's products and which may be sold to specific customers of ILPEA and/or in specific countries or regions if and to the extent so requested by ILPEA's customer. ILPEA's notification to the Supplier of such extension shall indicate (a) ILPEA's customer that has requested such extended warranty period and/or the countries or regions in which it is commercial practice to offer extended warranty and (b) the duration of the extended warranty.

2.6. Use of quality data. ILPEA will use its own or its customer's quality systems to support any possible claims under these Quality Requirements, including to determine the amount of defective Parts in the field in specific countries. ILPEA and Supplier will agree upon the number of defective Parts which ILPEA shall keep available for Supplier's analysis in writing.

2.7. Corrections by the Supplier and continuous improvement of Supplier's production process. The Supplier acknowledges that ILPEA expects each Supplier to have an appropriate quality organization in place to ensure continuous improvement and problem solving. The Supplier has the responsibility to identify failure modes and to set up corrective action plans, keeping ILPEA informed on a regular and continuous basis whenever Supplier suspects a problem with the Parts. The Supplier shall set up

continuous improvement plans concerning Parts and processes. ILPEA expects the Supplier to dedicate appropriate resources. Should the Supplier not be able to implement the possible corrective action(s) agreed with ILPEA, ILPEA may request Supplier to work in a team with ILPEA employees on quality improvement projects.

2.8. Collection of the Parts rejected by ILPEA. The Supplier shall take care of and pay for collecting the defective Parts rejected by ILPEA upon delivery or during the several production stages after joint analysis with Supplier. Such joint analysis will be carried out at ILPEA 's plant at the maximum within 15 (fifteen) working days from ILPEA's notification of defective Parts to Supplier. If no joint analysis has taken place within such period, ILPEA reserves the right to either return or scrap such Parts at Supplier's costs.

2.9. Control Plan, Flow Chart & PFMEA. All checks on the Parts carried out by the Supplier must comply with the quality process statement set forth in section 1 of Part 2 of these Quality Requirements. The Control Plan, Process Flow Chart and Process FMEA must be disclosed to ILPEA upon request. The Control Plan and any changes to such Control Plan, shall have to be agreed upon in writing between Supplier and the quality department of ILPEA. ILPEA 's agreement on controls and on the Control Plan does not limit the Supplier's responsibility for the quality of the Parts.

## 3. Changes to Parts or processes

3.1. Change of Parts. The Supplier shall inform ILPEA of any significant project change (material, dimensional or other similar) which, in view of the nature of the changes, are capable of having an impact on Part safety, quality, reliability or performance (irrespective of whether or not the Supplier believes such an impact is likely), and request ILPEA's prior written approval to implement such prospected change. In case of any project changes, the Supplier shall guarantee the inter-changeability between the former and the new Parts or the continuation of availability of the former Part for a period of time which shall be agreed upon by ILPEA and the Supplier in writing.

3.2. Change to the process. The Supplier shall notify ILPEA in due course of any of the following changes to the approved process and not implement the same before having obtained ILPEA's written consent:

- Manufacturing and control cycle changes.
- Introduction of new technology/machinery/equipment.
- Changes, refurbishment and/or duplication of the equipment.
- Replacement of sub-suppliers and/or sub-contractors.
- Any process change that might affect the safety, reliability, performance, efficiency, assembly and aesthetics (if requested) of the Parts.

The notification shall also include a description of the tests and activities carried out by the Supplier to ensure that the change will not unfavourably impact the quality level of the Parts.
In order to allow ILPEA to check the compliance with point 5.2.4 above, the Supplier shall provide ILPEA with a list of the sub-suppliers used in manufacturing the Parts **BEFORE** assignment of the manufacture of such Part by ILPEA to Supplier.

3.3. Production relocation. Should the Supplier decide due to organizational reasons to relocate the production of the Parts to a site other than the original one, it must inform ILPEA hereof well in advance in writing. ILPEA reserves the right to verify the quality of the new site and request a new qualification of the Supplier's production process at Supplier's costs prior to ILPEA possibly giving its consent. The authorization granted by ILPEA, if any, shall not constitute an assessment of the organizational / technological decisions, which are the exclusive responsibility of the Supplier. Any consequences due to such relocation which may impact the supplies of Parts to ILPEA which have already been assigned by ILPEA to Supplier shall be borne by Supplier.

## 4. Inspection and rework

4.1. Right to inspect and rework. ILPEA has the right, but not the obligation, to inspect the Parts at any time, including incoming inspection upon delivery or during the manufacturing stage of its products. The Supplier shall immediately replace Parts that are Defective. ILPEA may, at its option and with prior agreement of Supplier, sort and rework Defective Parts in order to provide an acceptable product for ILPEA's use. If a batch is either rejected or reworked or selected for replacement, the Supplier shall reimburse ILPEA for the rework and replacement costs.

4.2. Additional certification requirements. In case of any quality problem in connection with the Parts and if requested by ILPEA, the Supplier shall include for a period to be agreed upon between ILPEA and Supplier in writing, with each shipment of Parts certain specified certificates of analysis and/or tests and inspections. The cost for establishing and shipping such certificates shall be borne by the Supplier.

## 5. Problem solving, report, claims

5.1. Notification and response obligation. When ILPEA notifies a quality problem the Supplier will provide a written initial response within one (1) business day and a final response within ten (10) business days through an "8D" report. After receiving the notice, the Supplier must be available for on-site visits in the ILPEA factory(ies) involved within the next business day, to analyse the problem and to take immediate corrective actions as a first solution and to provide a final solution within ten (10) business days. If a final answer is not practicable within ten (10) business days despite Supplier's best efforts, the Supplier will provide a substantive interim response within the ten (10) business days together with a timeline for final resolution. In either cases contemplated above the Supplier shall use its best endeavours to avoid production losses by ILPEA. If and to the extent agreed from time to time beforehand in writing with the Supplier, ILPEA may require the Supplier to reimburse ILPEA for all reasonable and duly evidenced costs incurred by ILPEA in undertaking full or additional inspection of Parts delivered by Supplier until (a) Supplier demonstrates that the quality problem has been finally and fully solved and (b) the internal tests performed by ILPEA confirm this.

5.2. New Business Hold. The Supplier is aware that ILPEA applies a process called "New Business Hold". Supplier's quality performances will be regularly measured and ILPEA will keep Supplier updated of its PPM score, if any. If Supplier's quality performance is not deemed satisfactory. Supplier will not be eligible for new business for a certain period of time [ranging from a minimum of 3 months to a maximum of 1 year]. Supplier must in any event prepare and submit to ILPEA an extraordinary corrective action plan to recover an acceptable level of performance. The corrective action plan must be reviewed and approved by ILPEA.

## 6. Liability

6.1. General. The rights and remedies of ILPEA under this section 6 are specific remedies for particular incurred costs and do not limit or exclude any other rights or remedies which ILPEA may have under applicable law.

6.2. Civil liability. In case a Part causes death and/or personal injury and/or property damage, ILPEA shall immediately inform the Supplier and if and to the extent it has been established between Supplier and ILPEA or by a third party surveyor or court that the damage was totally or partially caused by a Part, the Supplier shall indemnify ILPEA and ILPEA 's successors, affiliates, agents and customers from and against any and all claims, demands, actions, judgments, decrees, costs and losses (including reasonable legal expenses) arising out of any such death, personal injury and/or property damage.

6.3. Faulty parts in production. The Supplier shall reimburse ILPEA for the cost of all defective Parts discovered on ILPEA's assembly line and/or during factory checks of ILPEA's finished products. ILPEA shall grant to the Supplier the possibility to examine the defective Parts. Upon request of ILPEA, the Supplier shall execute periodic joint analysis of the defective Parts with ILPEA personnel at ILPEA's premises. All the costs will be agreed in writing with the Supplier before being invoiced to Supplier.

6.4. Rework of ILPEA's products. In case rework, modification or any other type of intervention on ILPEA's products which are still in ILPEA's factory and/or warehouses are required because of defective Parts, the Supplier shall reimburse to ILPEA the cost of the replaced Parts, as well as all other reasonable and duly evidenced costs incurred by ILPEA related to such rework, modification or other intervention on these products. Same examination process of Defective Parts set forth in previous 6.3 shall apply. All the costs will be agreed in writing with Supplier before being invoiced to Supplier.

6.5. Liability for defects in the field. The Supplier is responsible for the Part cost and intervention cost of fixing the final products of ILPEA's customers which fail in the field because of defective Parts during the applicable warranty period. The Supplier shall reimburse ILPEA the amounts for all Defective Parts wholly or partially attributable to the Supplier.

6.6. Liability for epidemic failure and recall process. An epidemic Defect of a particular Part or type of Part shall be deemed to occur if ILPEA determines that the same kind of failure has occurred in more than one point five per cent (1.5%) of such Parts that were incorporated into ILPEA's products sold in a particular country or region. In case of epidemic failure, or where required for safety reasons or upon request of a regulatory (consumer) authority, ILPEA has the duty / right to take all measures it deems appropriate, including a recall operation. If ILPEA decides to undertake a recall or other measures because of a defective Part, the costs and expenses associated with the recall or other measures shall be paid by Supplier or reimbursed by the Supplier to ILPEA. Supplier is expected to have an active role in the decision making process relating to a recall or other measures, except in consumer risk situations mentioned above.

6.7. Decision-making process. For any decision related to the rework and recall provisions of this section6, ILPEA and Supplier will work together in good faith to determine the nature and extent of the applicable measures.

## 7. General provisions

7.1. Derogations requested by the Supplier. Should the Supplier have the need to derogate from the requirements of the Technical Documentation for production-related reasons, it must request authorization from ILPEA in advance and submit a formal request for derogation to the QA Manager of the relevant ILPEA plant who will assess the request and may authorize it in writing. If the request for derogation has been accepted by ILPEA in writing, the Supplier may deliver the accepted derogated quantity of the Parts. by clearly identifying these Parts by means of a notice card containing the details of the document authorizing the derogation.

7.2. Part Liability Insurance. The Supplier agrees to obtain and maintain, at its expense, liability insurance coverage and insuring against liability for any injury, property damage and other costs arising out of or in connection with an alleged defect or deficiency of the Parts, including coverage for products-completed operations hazard and consumer quality claims (meaning claims arising from interventions at ILPEA's customers' premises required as the result of defects in the Parts). Such insurance shall be primary to and not in excess of or contributory with other insurance available to ILPEA and provide coverage in an amount equal to the full amount maintained by the Supplier in the normal course of its business (including excess and umbrella liability coverage), but in no event shall such combined coverage be in an amount less than two million Euro (2,000,000 EUR) per occurrence. The Supplier shall provide ILPEA before starting the supply of Parts, with documental evidence of this insurance coverage.

7.3. Indemnity. The Supplier agrees that in case its designs/drawings are used, it shall, at its own expense, protect, defend, hold harmless and indemnify ILPEA and ILPEA's successors, affiliates, agents and customers from and against any and all claims, demands, actions, judgments, decrees, losses (including reasonable attorney fees) arising out of any alleged or actual infringements of any patent, copyright or other intellectual property right by reason of the manufacture, use, export, import or sale of any Parts. If the use or sale by ILPEA or the sale of a Part by the Supplier to ILPEA is enjoined due to a patent infringement claim, the Supplier shall, in addition to the obligations contained in these quality Requirements, at its own expense, either (i) procure for ILPEA the right to continue the purchase, use and sale of the Parts; or (ii) arrange to modify the Parts so they become non-infringing but remain acceptable to ILPEA. If the Supplier fails to defend or participate in any claim or action after receiving notice of it from ILPEA, the Supplier agrees to indemnify ILPEA for any judgment or settlement.

7.4. No subcontracting. Supplier is not allowed to subcontract in whole or in part the manufacture and/or supply of Parts without the prior written consent of ILPEA.

7.5. Confidentiality. The Supplier and ILPEA acknowledge that during the term of their collaboration they may learn certain confidential information from each other. As a consequence, Supplier and ILPEA shall not use, divulge or in any manner whatsoever disclose any such confidential information to third parties and shall use reasonable care to protect against disclosure. Supplier and ILPEA shall use such Confidential Information with the only purpose to fulfil their respective contractual obligations towards each other.

## PART 2: QUALITY PROCESSES

### 1. Control Plan, Product and Part Approval.

1.1. Control Plan. All checks on the Parts carried out by the Supplier must be included in a summary document, namely the so called "Control Plan", which must contain the following information: work phase (according to the Production Process Flow Chart), checks to be carried out and parameters to be checked, relevant classification, reference to check instructions/specifications, person/function responsible for the check, quantity and frequency of the checks, control instrument, means/criteria of the checks, check recordings and action plan to be implemented in the event of parameter non-conformity. The frequency of checks shall be proposed by the Supplier, as expert regarding the Parts, and shall be based on process capabilities and criticality of the Part characteristics. In case of a quality problem, for a specified period ILPEA may require that the Supplier puts in place 100% control on some characteristics to be agreed with ILPEA, which once agreed shall be binding on the Supplier and shall be integrated in the Control Plan.

1.2. Product Approval. The Supplier acknowledges that the first stage of ILPEA's product approval process (the **"Product Approval"** stage) is intended solely in order to identify whether a Part is capable of satisfying ILPEA 's design requirements. Any tests carried out during this phase are intended only to limit the risk of failure in the field and approval in the absence of defects does not constitute ILPEA 's acceptance that the Part is free of quality or reliability defects. ILPEA's expectation is to release its approval following the checks of the quality standards and reliability test carried out during the product approval stage.

1.3. PPAP (Production Part Approval Process). PPAP in ILPEA is carried out according to AIAG (Automotive Industry Action Group) reference. The Supplier must strictly follow PPAP and must get approval from ILPEA and Purchasing before the start of deliveries.

| | | Level 1 | Level 2 | Level 3 | Level 4 | Level 5 |
|---|---|---|---|---|---|---|
| 1. | Design Record | R | S | S | * | R |
| 2. | Engineering Change Documents, if any | R | S | S | * | R |
| 3. | Customer Engineering approval, If required | R | R | S | * | R |
| 4. | Design FMEA | R | R | S | * | R |
| 5. | Process Flow Diagrams | R | R | S | * | R |
| 6. | Process FMEA | R | R | S | * | R |
| 7. | Control Plan | R | R | S | * | R |
| 8. | Measurement System Analysis Studies | R | R | S | * | R |
| 9. | Dimensional Results | R | S | S | * | R |
| 10. | Material, Performance Test Results | R | S | S | * | R |
| 11. | Initial Process Studies | R | R | S | * | R |
| 12. | Qualified Laboratory Documentation | R | S | S | * | R |
| 13. | Appearance Approval Report (AAR), if applicable | S | S | S | * | R |
| 14. | Sample Product | R | S | S | * | R |
| 15. | Master Sample | R | R | R | * | R |
| 16. | Checking Aids | R | R | R | * | R |
| 17. | Record of Compliance With Customer-Specific Requirements | R | R | S | * | R |
| 18. | Part Submission Warrant (PSW)<br>Bulk Material Checklist | S<br>S | S<br>S | S<br>S | S<br>S | R<br>R |

1.4. PPAP resubmission. Supplier acknowledge that if PPAP status is 'Rejected', because of Supplier's responsibility, Supplier is obliged to prepare a new PPAP after solving the problem which caused the status. For every 'Rejected' PPAP where the rejection is fully attributable to the Supplier, there will be a charge back as per cost generated. Supplier is aware that the rejection of a PPAP can significantly impact the start of production for new projects and therefore Supplier will act in order to implement containment plans until new PPAP is approved. The Supplier acknowledges that the PPAP process is only intended for production approval purposes and PPAP approval does not in any way limit the Supplier's quality obligations including obligations to meet the agreed Specifications.

## 2. Data Collection and Sharing

2.1 Production process capability. With reference to the Critical Parameters specified in the Technical Documentation and/or communicated by ILPEA during the Part's qualification phase, the Supplier shall guarantee that the Production Process capability (Cp and Cpk indexes) ("**Capability**" and "**Production Process Capability**") is constantly greater or equal the threshold value specified by ILPEA and indicated in the Technical Documentation throughout the entire period of supply of the relevant Part. Should the Technical Documentation not specify any Capability index target, it is understood that the Cp and Cpk indexes must be not lower than 1.33.

2.2 The process capability must be determined and maintained according to the following operative rules:

2.2.1 During ILPEA's initial qualification of the Supplier's new and / or modified Production Process, the Supplier shall produce a meaningful number of Parts using the final equipment, the Supplier will be able to calculate and prove the process capability.

2.2.2 If the Process Qualification takes place when the Supplier manufactures the Pilot Lot or Initial Samples for PPAP submission, the Ppk index must be determined to qualify the process ("**Preliminary Process Capability**"). The Ppk index should be $\geq$ 1.67 to guarantee Cpk $\geq$ 1.33 in mass production or Ppk > 2.00 to guarantee Cpk > 1.67 in mass production. At least 50 consecutive pieces must be collected in the following ideal process conditions: the machine is running in ideal maintenance and adjustment conditions; the process method is the one specified in the Supplier's final technological cycle; the measurement equipment complies with the requirements and is well calibrated; the cycles and execution times are correct; the environmental conditions are known and stable; the characteristics of the process elements (material, structure, form, etc.) are known and within tolerance.

2.3 If the Process Qualification takes place in production, the Cpk index must be determined. The Cpk value should be > 1.33.to guarantee the process qualification. At least 125 pieces must be considered and analysed over a significant production run.

2.4 Following the Process Qualification phase, the Supplier must guarantee a steady Process capability, with special reference to the Critical Parameters according to the following operative rules:

2.4.1. monthly measurement of Cpk;
2.4.2. evidence of the problems that may have led to Cpk < 1.33.

2.5 Upon request of ILPEA, the Supplier shall give evidence of compliance with the set Capability requirements by sending the results of the measurements. Or in alternative, following ILPEA's written request, the results of the measurements may be carried out under the supervision of ILPEA 's staff.

2.6 In case of non-compliance with the requested Capability value, the Supplier shall implement additional controls agreed between the Parties, and bear the relevant costs, till the requested Capability value is achieved.

2.7 As for Critical Product Parameters 100% controlled by means of an automatic test with objective measurement, the Supplier is not requested to determine the monthly Cpk or maintain control charts. For a measurement to be "objective" the measurement and the rejection of the non-conforming part must be automatic both.

2.8 The Supplier must systematically collect the data on internal process defectiveness related to Parts on a regular basis and make it available to ILPEA; these data must be available, up-to-date and ready for inspection by ILPEA's personnel at the Supplier's site. On request of ILPEA, the Supplier will share data concerning internal scraps or other similar quality figures, Recording charts, functional and aesthetics control evidences, Cp/Cpk, etc.

## 3. Free pass exceptions and process.

3.1 Direct acceptance of supplies. The Parts will be made available to ILPEA production lines without undergoing, as a rule, any acceptance check ("**Free Pass**" system). The Supplier declares and guarantees that, under its exclusive responsibility, all the Parts delivered to ILPEA are conform to the agreed terms. Moreover, the Supplier guarantees that the Parts have been manufactured using suitable materials, equipment and processes and have been checked thanks to control procedures guaranteeing product safety and conformity with the agreed terms. ILPEA considers the "free pass" wording as a portion of the Part warranty for all purposes of law. In case of quality problems of the supplied Free Pass parts, ILPEA requests the Supplier the managing of Non-Conformity Report, in accordance with the provisions herein contained. In any case, the acceptance and/or receipt and/or payment of the Parts by ILPEA shall by no means be interpreted as qualitative or quantitative acceptance of these Parts.

3.2 Extraordinary checks, revoke Free Pass. If the Supplier's performance KPIs (PPM, field claims) show a not satisfactory deviation with respect to agreed target and the Supplier does not put in place resolute corrective actions to remedy the problem, ILPEA will implement: (a) additional inspections at the Supplier's site; (b) revoke the Free Pass status (and subsequent inclusion of the Supply in the "Incoming Components to be Checked" list managed by the plants). Once notified, the Supplier must reply within two (2) working days by indicating the additional checks it intends to implement and their timing. If the communicated actions are not deemed sufficient by ILPEA, the Supplier has to increase the control according to ILPEA's new request. The extraordinary checks shall terminate when the number of defects encountered in ILPEA's plants returns to normal levels.

3.3 CSL (Controlled Shipping Levels). The Supplier is aware that in case of repeated and severe defects in Parts identified at a ILPEA's factory, the factory might request the application of a procedure called "Controlled Shipping Level", with different levels of escalation:

3.3.1. CSL1 (Controlled Shipping Level 1) requires the supplier to perform at its own cost 100% inspection of all Parts and identify each of them (where possible) or boxes of parts using a green label confirming that the parts have been 100% controlled. CSL1 will continue for at least three consecutive shipments;

3.3.2. CSL2 (Controlled Shipping Level 2) requires the same activities of CSL1 and, in addition, as first option the Supplier will check the Parts in ILPEA factory. In case the Supplier's activities don't give the expected benefits, ILPEA and Supplier will appoint an external provider to sort 100% of the Parts in the incoming inspection area. The cost of this activity will be at Supplier's charge. CSL2 will apply if during CSL1 the same type of defect is still being identified at ILPEA. CSL2 will continue for at least a further three consecutive shipments.

3.3.3. CSL3 (Controlled Shipping Level3) requires the extension of CSL2 until the problem is definitively solved (meaning that no defects have been identified during a minimum of three consecutive shipments). The Supplier enters New Business Hold status. Any additional entry and exit conditions will be discussed and agreed case by case between ILPEA and the Supplier.

## 4. Process requirements

4.1 Inspections, monitoring, calibrated measuring devices. The Supplier must guarantee that the Technical Documentation necessary to define/manufacture the Part is complete, up-to-date and available at the place of use. The Supplier must guarantee the quality of each delivered batch of Parts by carrying out suitable checks on the process and final tests, and must record and file the results.

4.1.1. The Supplier must plan and carry out a periodic "Product Audit" on the finished Parts ready for shipment to ILPEA, by means of checks that are appropriate to the importance of the characteristics. The results of the checks must be recorded and filed.

4.1.2. In the event of the following: i) a change-over that implies a new set-up of the machine parameters; ii) a machine start-up following a downtime; iii) the start of each shift, the Supplier must perform and record the "first part approval", i.e. the execution of all the checks included in the Check Plan on all characteristics involved in the manufacturing process. The results must be recorded and filed.

4.1.3. The Supplier must assign trained and skilled staff to carry out the processes and to perform the controls.

4.1.4. The Supplier must use measurement devices that are calibrated using procedures ensuring metrological traceability to national/international reference standards.

4.1.5. The Supplier must guarantee the continuous operation of equipment, machinery and accessories by arranging planned maintenance at supplier's expenses (preventive maintenance) and extraordinary on failure maintenance activities; such activities must be planned and documented, and recorded once they are carried out.

4.2 Product identification and traceability. The Supplier must identify the Part with suitable means throughout the Production Process, from the goods receipt stage to the delivery to ILPEA. The Supplier must apply an identification system capable of tracking the date of changes effected on the Part. The Supplier must also ensure that the management of modified materials/components (index change) does not cause mixing with materials/components produced before the change, by implementing the FIFO (*First In First Out)* or equivalent method in managing warehouse stock. In case the Part and/or any of its subcomponents be obtained from multiple lines/cavities/moulds, the Supplier must guarantee the traceability, on the Part, of the line/figure/mould used to manufacture the Part and/or its subcomponents**.**

4.3 Identification. Each single packaging unit of the Part delivered to ILPEA must carry a product identification tag according to ILPEA request.

4.4 Storage of records. The Supplier must store the results of the tests and checks demonstrating the conformity of the Part for a period of three years (thirty-six months) from the date of shipment to ILPEA and guarantee the traceability of the results of the supplied Part. These records must be promptly sent to ILPEA upon request.

## 5. Audit rules

The Supplier agrees that, in case of quality problems, it will allow ILPEA access to the relevant production area for inspection, to audit the systems and processes used to manufacture the relevant Parts and inspect the Parts involved in the quality issue. ILPEA shall must announce such inspection at least two (2) business days in advance and indicate a person responsible for the auditing performance. For other kinds of audits ILPEA shall give one (1) month prior notice**.**
ILPEA may conduct process audits according to ILPEA qualification process rules as have been agreed beforehand with the Supplier.

**INDUSTRIE ILPEA S.P.A**
By:
Printed Name: Enrico Riva
Title: Purchase Director