

Supplier Manual

Version 01 - 15 February 2016

1. Introduction

This manual is intended to provide instructions for partnership cooperation between LUKOV plast spol. s r.o. and its suppliers. This manual is a binding document, which forms part of contract documents of LUKOV plast spol. s r.o. and is valid also in the pre-contract stage when the supplier submits a bid to LUKOV plast spol. s r.o., even with no signature. The current version of the manual is available on www.lukovplast.cz, under About /suppliers

2. The Importance and the Role of the Supplier

The supplier's performance is a major contributory factor to customer satisfaction. In response to the constantly changing and growing demands on the part of customers, suppliers are required to show a high level of flexibility and readiness to problem solving while minimising costs. The goods and services rendered by suppliers must comply with all agreed and legal requirements. In order to achieve and maintain "zero defect", the quality plan must be adhered to and the series production must be constantly monitored.

The supplier guarantees that the supplied products will be free from any defects. The supplier undertakes to fulfil the specific needs of our common customers (e.g. Formel Q for VW, ...). The supplier undertakes to transfer all customer requests to its subcontractors.

3. Supplier Quality Management System Requirements

The supplier undertakes to develop a quality management system, which will meet the minimum requirements laid down by EN ISO 9001. The supplier's objective shall be to develop and certify a quality management system according to ISO/TS 16949. The supplier undertakes to send a certificate to LUKOV plast spol. s r.o. (without being asked by LUKOV plast spol. s r.o.) in order to ensure that LUKOV plast spol. s r.o. always has a valid supplier certificate.

4. Specifications and Drawings

LUKOV plast spol. s r.o. selects suppliers and defines its requests based on specifications: information, drawings, requirements and instructions provided and communicated to the supplier using various means. The supplier agrees to respect these requirements as well as adhere to other generally valid legal regulations concerning the product. The supplier undertakes to define and respect the special attributes and parameters of required qualitative capability, in cooperation with the project team of LUKOV plast spol. s r.o. The supplier shall review the requirements. By accepting the nomination, the supplier confirms manufacturability. In case of incomplete documentation or inconsistent requirements, the supplier shall notify the project team and the purchasing department of LUKOV plast spol. s r.o.

5. Supplier Selection

Suppliers are selected based on an autonomous decision of LUKOV plast spol. s r.o. The supplier validation process includes carrying out a POT analysis at the supplier by LUKOV plast spol. s r.o. employees. The supplier undertakes to provide these employees with full support and cooperation.

6. Awarding a Contract to a Supplier

Suppliers will be awarded a contract through nomination, in the form of a nomination letter. The trade relation shall be governed by the documents published by Lukov Plast on its website under About LUKOV plast spol. s r.o./suppliers. They are especially the following general documents:

- General Terms & Conditions of Purchase
- this Supplier Manual including rates of compensation for damage

Other documents specifying the conditions of cooperation on the project concerned can be agreed with the supplier. They are especially the following specific documents:

- Quality Assurance Agreement and annexes thereto
- Logistics Concept

A framework agreement can be entered into by and between LUKOV plast spol. s r.o. and the supplier. In case of a conflict, the specific documents shall take precedence over any general documents.

7. Supplier Evaluation

LUKOV plast spol. s r.o. shall regularly evaluate its suppliers twice a year. The objective of the evaluation shall be to give feedback to suppliers and provide suggestions to improve cooperation. Evaluation criteria, their weights and scores range will be defined. When being evaluated, suppliers are awarded a certain number of points by the relevant departments of LUKOV plast spol. s r.o. based on their satisfaction with the cooperation with a particular supplier. The evaluation focuses on supplier's qualitative capability, logistics capacity and cooperation with the purchasing department, especially in terms of price optimisation. Based on the number of awarded points for individual criteria, the supplier shall be evaluated as follows:

100% - 90%	A - excellent
89.9% – 80%	B – conditionally acceptable
less than 80%	C - unacceptable

The supplier shall receive an evaluation report informing about the evaluation result. In case of evaluation B and C, the supplier shall send (in 3 weeks) measures to be taken in order to achieve A. Escalation procedure may apply to suppliers achieving "C" rating.

8. Escalation Procedure

Based on the results of supplier evaluation, or in the event of major non-compliance with quality, logistics, or purchasing requirements, selected suppliers will be included in the escalation programme. Such problems may include, for example, exceeding the agreed PPM level for monthly monitoring, interruptions of supplies, supplier rating "C", unsatisfactory reaction time, failure to deal with complaints within the agreed time, etc.

The programme defines two levels:

Level 1: The supplier is facing problems. The supplier must define action plans and activities, or a meeting shall be held at strategic purchasing regarding further troubleshooting steps. Supervision by LUKOV plast spol. s r.o. in solving the problem.

Level 2: The supplier is not successful in solving problems. TOP Management level meeting. The supplier cannot win new contracts. De-escalation can only take place following a positive evaluation received based on a process audit conducted at the supplier.

9. Auditing Suppliers

LUKOV plast spol. s r.o. reserves the right to conduct audits of suppliers within the requirements of ISO 9001, ISO/TS 16949, or VDA 6.3. and the supplier undertakes to give LUKOV plast spol. s r.o. the best possible support on such an occasion. Reasons for conducting an audit may include the following:

- validation of a new supplier
- supplier facing problems with product quality or other aspect of supplies
- request of a customer of LUKOV plast spol. s r.o.

The supplier may be required to submit the process self-audit according to Formel Q -Capability. In case the VW Group is the end customer, the supplier is obliged to conduct this process audit once in 12 months.

The supplier undertakes to remove (in due time) any deviations identified during the audit and inform LUKOV plast spol. s r.o. accordingly about the method, the deadline and the result of such removal, e.g. in the form of an improvement programme or remedial measures. LUKOV plast spol. s r.o. and its suppliers aim to achieve "A" ratings on a stable basis. Suppliers can be charged the costs incurred in connection with recurring audits and audits with results worse than "A". In justified cases, LUKOV plast spol. s r.o. may decide not to conduct these process audits according to Formel Q.

Audit ratings:

Audit result ≥ 90%	A rating – qualified
Audit result ≥ 80% - 89%	B rating – conditionally qualified
Audit result under 80%	C rating – unqualified

10. VW Group Requirements, Special Attributes, D/TLD Parts, Product Safety Officer

Special emphasis on certain characteristics and attributes of the product is required in order to achieve high product quality and safety. These special product attributes must be taken into account throughout the entire supplier production chain (drawings, manufacturing schedule, control plans, archiving, etc.). Components with safety signs where the VW Group is the end customer are labelled as D/TLD parts. The VW Group extended its

requirements beyond standards, and requires suppliers to conduct self audits of managing D/DTL parts documentation in accordance with the Formel Q – Qualification methodology. Suppliers of D/TLD parts of LUKOV plast spol. s r.o. are required to conduct this self-audit, archive the audit results for the period of 15 years and provide them to LUKOV plast spol. s r.o. In case one of the answers to questions is "No", the supplier undertakes to inform LUKOV plast spol. s r.o. without being asked to do so and to take appropriate follow-up measures. Audits must not be older than 1 year.

In the event that the supplier delivers material or components where the end customer is the VW Group, the supplier has to appoint a Product Safety Officer (PSB). The powers and responsibilities of the officer are defined in the document "Responsibilities of Product Safety Officers" available on www.vwgroupsupply.com. Suppliers are required to provide the name, phone and e-mail of the Product Safety Officer to LUKOV plast spol. s r.o. and inform LUKOV plast spol. s r.o. about any changes in relation to this person, without being asked to do so.

Suppliers delivering parts with D/TLD characteristics shall appoint also a Deputy Product Safety Officer, in accordance with the requirements of VW, and inform LUKOV plast spol. s r.o. about any changes in relation to this person in the same way as in the case of the Product Safety Officer.

In case of dissolution of the supplier, LUKOV plast spol. s r.o. shall be entitled to obtain all documents relating to products supplied to LUKOV plast spol. s r.o., if the prescribed archiving period for these is still applicable.

All documents relating to D/TLD parts must be archived according to legal regulations and the archiving has to be ensured for a minimum period of 15 years after discontinuation of production.

11. Continuous Improvement

Continuous improvement is a necessary prerequisite for achieving customer satisfaction and must form part of individual supplier strategies. The supplier shall work actively and independently in this area, cooperate with LUKOV plast spol. s r.o. on achieving common goals of continuous improvement, which include in particular increasing quality and cutting costs. Continuous improvement is reflected also in the PPM targets, which can be agreed with the supplier in specific documents (Quality Assurance Agreement and any annexes thereto).

12. FMEA, Process Capability

The supplier shall use all tools to ensure perfect functioning of the product and reduce costs. FMEA (analysis of potential errors and effects) is one of the tools. Process FMEA will be conducted in accordance with VDA, Volume 4 or QS 9000. The supplier undertakes to consult any details with the project team of LUKOV plast spol. s r.o. FMEA will be submitted to LUKOV plast spol. s r.o. (upon request) for inspection.

Process capability audits are also one of the tools. Suppliers must submit evidence proving their capability regarding all audit and functional characteristic attributes. The calculation and implementation must be conducted in compliance with at least VDA, Volume 4 or QS 9000. Details will be provided in specific documents (Quality Assurance Agreement and annexes thereto) or by the quality department of LUKOV plast spol. s r.o.

13. Controls and Tests

On the basis of product requirements, the supplier undertakes to develop a control and test plan, which the supplier undertakes to consult with the project team of LUKOV plast spol. s r.o. The plan shall be developed in accordance with the project deadlines and is a subject to approval by the project team of LUKOV plast spol. s r.o. If the final product tests are unsatisfactory due to poor quality of the supplied part, the supplier shall pay the costs associated with repeating such tests.

14. Product History, Parts Labelling

Suppliers are required to keep histories of all products to document all changes made to products and processes. The product history shall be submitted to LUKOV plast spol. s r.o. as maybe required by the quality department or the project team. A product history shall include at least: part number, product name, index or change number, reason for the change, start-up date of change.

The parts that were once subject to a change shall be visibly labelled as "parts after change". The labelling method as well as its duration will be determined by the project team of LUKOV plast spol. s r.o. The supplier undertakes to visibly label each part in a manner that distinguishes whether it is a sample, a prototype or a pre-series part. If this is impossible, the smallest packaging unit shall bear the corresponding label.

15. Sampling

The range, method and requirements regarding sampling will be defined in more detail in specific documents and by a contact person from the quality department of LUKOV plast spol. s r.o. The supplier undertakes to deliver the samples free of charge, on time, properly labelled, including all related documents. Samples must be produced under the same conditions and with the same tools as the series production. In case of using more identical tools or multiple tools, it is necessary to sample each position separately. The supplier shall submit at least 5 pieces for each position, unless specified otherwise. The supplier shall provide the details about the material used through IMDS (www.mdssystem.com). The reasons for sampling are: new parts; technical changes; change of supplier manufacturing site (e.g. moving lines and machinery); changes at sub-suppliers; changes to the manufacturing process; a longer break in production. If any of the above situations occurs, the supplier shall submit samples without being asked to do so, unless otherwise instructed by an employee of the quality department of LUKOV plast spol. s r.o. Sampling is evaluated as follows:

Sampling complies without reservations, Note 1	Parts can be supplied
Sampling complies with reservations, Note 3	Parts can be conditionally supplied, should be further oversampled for verification of conducted optimisations
Sampling does not comply, Note 6	Parts cannot be supplied, must be oversampled after conducting optimisations

16. A Two-Day Production

A two-day production is used for preliminary demonstration and verification of customer requirements regarding the quality and quantity of the future series production. A two-day production can be conducted after prior agreement with LUKOV plast spol. s r.o. or can be performed internally by the supplier, who then submits the results to LUKOV plast spol. s r.o. Details will be specified by the project team of LUKOV plast spol. s r.o.

17. Requalification Tests

The supplier shall perform repeated tests (within the scope of the full sampling range) of all products and components within the period of every 3 years (every year for D/TLD characteristics), unless the specific documents (Quality Assurance Agreement and annexes thereto) provide otherwise. The supplier undertakes to provide corresponding evidence to LUKOV plast spol. s r.o., without being asked to do so and without any additional financial claims against LUKOV plast spol. s r.o. If the poor quality of the supplied part is the cause of unsatisfactory results of requalification tests of the ensemble, the costs of repeating the tests will be borne by the supplier.

18. Tools and Equipment Borrowed by the Supplier

The supplier undertakes to label, keep records of, properly store and exercise due care in keeping the tools and equipment owned by LUKOV plast spol. s r.o. or its customers, lent to the supplier to ensure production of parts, throughout the term of the project and the entire period of follow-up supplies of spare parts. Deliveries to third parties are not permitted without a prior written consent of LUKOV plast spol. s r.o. The supplier shall keep the tools in a perfect condition (at own expense) and inform LUKOV plast spol. s r.o. of any potential threats to product quality due to a deteriorating condition of a tool. The supplier undertakes to return all tools and equipment in case of termination of the project or dissolution of the supplier. The supplier undertakes to take out insurance in respect of the borrowed tools.

19. Warranty

All supplier efforts should be directed towards achieving the "zero defect" target. The supplier agrees to accept all costs (imposed on them by LUKOV plast spol. s r.o.) associated with the supplier's poor quality performance identified at our common customers as well as at LUKOV plast spol. s r.o. The supplier will be informed about such circumstance as soon as the costs allocable to them are identified. The warranty period shall be at least 24 months as of the vehicle registration date.

20. Complaints

The common goal of the supplier and LUKOV plast spol. s r.o. shall be customer satisfaction, which means supplies of goods free from any defects. Any complaint is an expression of failure on the part of the supplier. Supplies of poor quality products to LUKOV plast spol. s r.o. are the cause of additional costs incurred by LUKOV plast spol. s r.o.; these costs will be charged to the supplier. The amount of costs varies depending on the location of the defect/poor quality (incoming inspection by LUKOV plast spol. s r.o., outgoing inspection by LUKOV plast spol. s r.o., LUKOV plast spol. s r.o. customer, the end customer).

LUKOV plast spol. s r.o. will inform the supplier about any complaints. The supplier shall send an opinion instantly and take remedial action within 24 hours, and then send an 8D report, or other documents as required by employees of LUKOV plast spol. s r.o. The supplier is required to prevent any threats to production in LUKOV plast spol. s r.o. A replacement delivery for this purpose shall take place within 24 hours of reporting a defect, the supplier shall organise sorting within 6 hours of reporting a defect. The supplier shall cooperate with LUKOV plast spol. s r.o. on the method of managing the complaint and any related steps (sorting, etc.).

21. Flat-Rate Compensation for Damage

LUKOV plast spol. s r.o. shall be entitled to claim payment of a flat-rate compensation for damage in case of insufficient quality, process or administrative errors on the supplier's part. The compensation rate schedule is included in this document. The respective amounts will be set-off (upon notification) against payments for goods and services rendered by the supplier.

22. Environment

LUKOV plast spol. s r.o. is an environmentally responsible company, which prefers suppliers with an established environmental management system pursuant to EN ISO 14001. The supplier is required to ensure that all materials used in the manufacturing process comply with the legal requirements and the requirements of customers and LUKOV plast spol. s r.o. The supplier undertakes to enter the correct information regarding materials to IMDS (www.mdssystem.com) before submitting the first sampling.

23. Confidentiality and Non-Disclosure

All information and data provided to the supplier regarding the subject of cooperation with LUKOV plast spol. s r.o. and its customers should be treated as confidential. Confidential information includes all information explicitly identified as confidential as well as any and all information not in the public domain. The supplier shall bind its subcontractors (in writing) in the same extent.

24. Compensation Rate Schedule

Poor quality is a sign of supplier's default, which gives rise to additional costs incurred by LUKOV plast spol. s r.o. The supplier agrees to pay the following flat rate amounts for each incident, unless the specific documents (Quality Assurance Agreement and annexes thereto) provide otherwise. The supplier shall be informed of any sanctions imposed. It is the supplier's responsibility to prove that no damage occurred. The rates below are exclusive of VAT and shall be set-off against the next supplier invoice. This shall be without prejudice to the entitlement of LUKOV plast spol. s r.o. to claim other compensation for damage according to the actual amounts of damage incurred.

1.	For each delivery of defective parts (identification of causes of defect, writing a complaint report, etc.)	EUR 200
2.	Administrative and logistics costs, the cost of sorting and labelling parts for each commenced hour and every employee of LUKOV plast spol. s r.o.	EUR 20
3.	Downtimes caused by the supplies of defective parts, late or incomplete delivery for each commenced hour of downtime	EUR 500
4.	Supplier's sampling repeatedly rated as "Note 6" (except for first sampling) or repeatedly as "Note 3" (except for first sampling). The supplier will be charged the actual amount of associated costs incurred by a customer of LUKOV plast spol. s r.o.	EUR 300

5.	The cost of repeated tests also by customers, including requalification tests, shall be borne by the supplier in full, if the poor quality or any change of the supplied part was the cause of repeated testing.	
6.	The supplier will be charged the (full) costs of complaints and warranties charged to LUKOV plast spol. s r.o. by the customer in case a customer raises the complaint with LUKOV plast spol. s r.o. on the grounds of defects of the purchased part.	
7.	For each auditor and audit day, in case of a repeated audit with audit rating "C" or worse.	EUR 200
8.	Failure to submit the required documents or take required action for every such case and each follow-up reminder: a) a list of remedial action on the grounds of audits, supplier evaluation and complaints b) self-audit reports c) appointing a Product Safety Officer and a Deputy Product Safety Officer, if required d) a certificate proving implementation of a quality management system e) full sampling f) correct IMDS entry g) labelling of samples, pre-series parts and prototypes	EUR 100
9.	Failure to conduct a process self-audit; D/TLD audit; internal two-day production	EUR 200
10.	Supplier included in an escalation procedure, Level 1 for each commenced month of escalation procedure	EUR 200
11.	Supplier included in an escalation procedure, Level 2 for each commenced month of escalation procedure	EUR 500