General Commercial Terms for the Suppliers and Cooperating Companies of AGROSTROJ Pelhřimov, a. s. as of 1st June 2018

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1. Introduction

The quality of supplies from the suppliers of **AGROSTROJ Pelhřimov, a.s.** has an immediate effect on the quality of its manufactured products. The minimum requirements described in these terms for the suppliers of AGROSTROJ Pelhřimov, a.s. are also based on this fact. The supplier is responsible for the quality of its supplies. The aim of this agreement is to contribute to joint quality planning, as well as to ensure the relationships between the supplier and the customer. This agreement is an integral part of the contractual relationships concluded between AGROSTROJ Pelhřimov a.s. and its suppliers.

2. Definitions of Applicable Standards

This guideline applies to all suppliers of AGROSTROJ Pelhřimov a.s. and its subsidiary companies, such as Humpolecké strojírny Humpolec a.s. and Agrostroj Internacional, s. r. o., hereinafter referred to as "APE". APE requires that its suppliers have one of the QM systems recognised in the automotive industry in place (ISO/TS 16949/IATF 16949 or ISO 9001). All production material suppliers must be certified at least according to ISO 9001 + for the automotive industry and they must use supplies with the certifications ISO/TS 16949/IATF 16949 (min. ISO 9001). Certificates of these certifications must be given to the Purchasing Department.
The aim must be that the QM systems of suppliers are in conformity with the requirements of the ISO/TS 16949 standard. The supplier is obliged to enable APE to carry out an audit to check that the requirements for quality assurance are met.

3. Contract Review

After their receipt by its suppliers, APE's orders must be reviewed, including the attached documents. If the supplier concludes that such documentation is unsatisfactory, they must contact APE's Purchasing Department.

The supplier is obliged to obtain the necessary standards and directives (DIN, EN, ISO, VDA) to which APE refers in its order. Also, the supplier undertakes to check the validity of the documents on a regular basis and takes their valid status into consideration. Before sending any quotation, the supplier is obliged to carry out a feasibility study with the appropriate regard to its technical and capacity possibilities. The supplier must meet all requirements contained in the order documentation. The supplier is obliged to contact the Purchasing Department to obtain the necessary information for product production. The Purchasing Department must be in contact with the supplier and must coordinate all questions and answers.

Proposals for technical, qualitative, and other improvements or proposals for solving potential problems must be offered in writing. To select a supplier, constructive proposals will be evaluated positively.

4. Quality Planning

The quality of the required products is determined decisively during development. The customer undertakes to give the supplier important specifications, drawings, and, if necessary, data in due time, in a complete and unambiguous manner.

The supplier is required by the customer to have preventive methods in place for quality assurance as early as the development stage. These methods must contain at least the following elements:

Fabricability Analysis – a review that the demanded and required product can be supplied in the required quality, date, and quantity. The supplier's task is to discuss unclear and specifying requirements with the customer's Purchasing Department to obtain sufficient information for their determination. For automotive suppliers, we require a revised P-FMEA to be sent as part of sampling and in case of complaints and findings from the audit.

Control Plan – the scope of tests must be defined (features, frequency, scope, testing, when and where, with which records, etc.). The supplier must have the required test equipment and a control system for this equipment, or the supplier must be able to provide this.

Important Product Features – for critical and functional features, the supplier must prove the required values of fitness are met (Cm, Cmk – fitness of the machines and equipment ≥ 1.67, Cp, Cpk – process fitness ≥ 1.33).

Planning of Processes and Operational Equipment – production processes and operational equipment must be planned by the supplier to the required quality and capacity. The capacity of the operational equipment must be proven by the supplier.

Packing Planning – packing must prevent the products/goods from becoming damaged during transport and storage. When planning the packing, the supplier shall also meet the environmental requirements according to the applicable standards.

5. Production Process and Product Release

During a cooperation-based partnership, both parties undertake to provided comprehensive information on the product, production process, and all changes made. The evaluation of production processes and the inspection of the first samples form the basis which is to be submitted to release the samples. If documents are missing or are incomplete, APE may (at its discretion) reject the samples.

The carrying out of our quality planning must be proven by documents and records in accordance with the specified level of verification for the first samples of the released process. The basis is VDA Part 2 or PPAP. Unless otherwise stated in the order, the number of the first samples shall be at least 5. The documentation must be submitted with the samples, with the scope being defined by the level of verification. Unless otherwise stated in the order, level 2 (acc. to VDA 2 or PPAP) is considered as the standard.

Exception: Level 3 is required for components with critical functions.

Product / Process Change

The supplier undertakes to inform APE (Purchasing and Quality Departments) and agree upon the required scope of release before making any change to a product, production process, or control procedure or equipment, including a change in a subcontractor. Changes may only be made after their release by APE.

6. Process Fitness

Some of the characteristics of the products are fundamental for their function/features. These characteristics are marked in drawings and they must be kept. Production processes and production equipment must be designed in such a way so that these characteristics could be ensured. A process is fit when a min. Cpk ≥ 1.33 is kept; for the automotive industry, this is according to the customer's requirements.
The supplier must appropriately prove the process fitness using suitable procedures. Fitness must be monitored continuously by the supplier. Documentary proof must be made available to APE upon its request.

In the case of unfit processes, a 100% check of the specified features must be carried out only for a transient period until the process fitness is restored.

7. Purchase from Subcontractors

If the supplier obtains products or services from subcontractors, the supplier must extend the contents of this guideline to subcontractors and is responsible for its implementation by its subcontractors. The supplier is responsible for its subcontractors, their products, and services. The subcontractors must have a quality management system certified in accordance with ISO 9001; for the automotive industry, subcontractors must have at least ISO 9001. If there is a problem with quality (nonconformities), subcontractors must allow APE to carry out an audit any time upon the issuance of prior notice.

8. Evaluation of Supply Quality

APE carries out inspections of input materials. After the receipt of material, we significantly reduce our own inspections. The material quantity, identification, and package integrity are always checked. The other aspects are checked according to inspection plans.

Supplies or their parts which cannot be accepted by APE due to a defect will be included in a quality evaluation. The logistic performance (time-limit, quantity, etc.) and service are also evaluated. The supplier is informed of the evaluation results once per year if its evaluation changes. If problems with quality or

logistics are detected, the supplier is informed immediately and it must take corrective measures immediately.

9. Complaint Procedure

APE undertakes to inform its suppliers in due time on all cases of nonconformities detected in its supplies.

The supplier has 15 working days from the date of delivery of a Nonconformity Report (8D-Report) to prove that it is not responsible for what it is being blamed for and that it asks for the cancellation of its complaint accordingly. After 15 working days from the date of notification in the case of failure to submit formal and justified causes, the causes that led to the respective material being considered unsatisfactory are considered to be tacitly accepted by the supplier.

APE will inform its suppliers on the occurrence of such nonconformities by issuing a complaint report with a description of the nonconformity. The form of solving nonconformities within supplies by the customer is an 8D-Report. The period of response to the occurrence of nonconformities from a supplier claimed by the customer is set to 48 hours; the time-limit for sending an 8D-Report to D5 is 7 days by filling in an 8D-Report. If necessary, ISHIKAWA and 5 WHY will be required.

The supplier shall inform the customer within 2 working days from the receipt of a Complaint Report on how to further handle the retained material (whether it will be scrapped at APE at the supplier's expense or it will be returned to the supplier at its expense). This opinion is required by the customer in writing (e.g. by e-mail). In the case of a failure to keep to the time limit or the failure to submit an opinion, the material will be scrapped at the supplier's expense.

Penalty

A time limit of 15 working days from the receipt of a complaint is set for the full completion of an 8D-Report. If this time limit is exceeded by the supplier, the supplier will be charged extra costs amounting to 0.05% of the quantity of claimed material for each day of delay.

In the case of a justified claim, the customer will charge a one-time handling fee for settling the claim in an amount of EUR 50 for one claim.

Costs incurred to AGROSTROJ Pelhřimov a.s.

Costs connected with a discrepant supply will be exacted from the supplier.

The main items that generally contribute to the determination of total costs incurred to APE can be divided as follows:

- measurement
- hours worked for the correction and control of unsatisfactory material
- materials used for correction

- transport of repaired materials and/or the return of the material to supplier
- compensation of sums paid to supporting centres for possible corrective operations on-site
- all other costs necessary for the correction/control of unsatisfactory materials.

It is assumed that corrective operations are always performed by the supplier. AGROSTROJ Pelhřimov a.s. only acts in the case that these materials are necessary on an urgent basis.

10. The Environment

APE carries out all activities in compliance with the applicable legislation and has an environmental management system acc. to ČSN EN ISO 14001 in place. One of APE's goals is to minimise the adverse effects of its activity on humans and the environment. The supplier must make a significant contribution to achieve this goal.

The supplier undertakes to have obtained all necessary legal and administrative permissions for the manufacture of products for APE and that the supplier fulfils the requirements arising from these permissions under any circumstances.

11. Material Storage and Transport

If the storage of materials on the supplier's premises is agreed to between APE and the supplier, the supplier is obliged to store all materials designated for APE in such a way that the stored material is not damaged. The material can be damaged, in particular, by the effect of moisture – material corrosion (when storing metallurgical material, only dry interlayer wood must be used) and incorrect storage (particularly sheets and bar material must be stored on a flat floor using interlays of the same height, which must be aligned on top of the other so that components are not damaged by the effect of internal stress when the material is processed).

Transported materials must be secured against movement. Damp, rusty, and otherwise damaged supplies and supplies without documentation will not be unloaded at APE. For transport, the supplier must use interlays of at least 8x8 cm for the trouble-free unloading of metallurgical material. Vehicles transporting metallurgical material must allow for unloading the material from the side and from the top (by crane).

12. APE'S Specific Requirements

Metallurgical material – metal semi-products such as sheets, pipes, hollow sections, and solid sections of various cross-sections must meet the above-prescribed standards:

1) Residual magnetism must not exceed 10 Gauss
2) For sheets rolled acc. to EN 10051, EN 10029, and EN 10131, a maximum of ¼ tolerance of flatness allowed by the standard is allowed.

3) The surface of the sheets must be of such quality that after painting (without the use of sealants) with a cataphoretic paint and the subsequent application of a powder or wet paint, no defect is visible on the surface at a distance of 1 m.
4) The content of silicon in grades S235JR, S235J2, S355J2, S315MC – S550MC must be up to 0.03%.
5) The agreed upon prices are NET prices and if conversion is used, the coefficient of 7850 kg/m3 is used (for metallurgical steel semi-products); the delivery party shall be DAP Pelhřimov, Humpolec, or Počátky.
6) If sheets in lengths above 3.5 m are supplied, such packaging must be used so that its allows the unloading of bundles of sheets without damage by a handling truck (fork pitch 1.3 m).
7) The surface of the sheets must not be damaged by a mechanical marking by engraving or a paint that cannot be repainted.
8) The bar material must be marked with a colour before shipment in accordance with AGROSTROJ's standard No. AVN 00 0066.

13. GDPR

In relation with the introduction of the GDPR, the supplier gives their consent to the processing of its personal data by APE and its subsidiary companies.

14. Product Safety Officer (PSB)

The Supplier shall appoint a Product Safety Officer (PSB), who is responsible for the product safety. Suppliers are obliged to notify APE of the name of this person.

15. Confidentiality agreement

The supplier undertakes that any data received from APE will be confidential and may not be improperly used, reproduced or disclosed to the third parties.

16. Goals for Suppliers

The evaluation of suppliers is carried out once per year and the monitoring of the fulfilment of goals by automotive suppliers is carried out once per month.

The following criteria are evaluated:

PPM	5000, unless otherwise stated in the contract
Number of complaints	4 per year
Fulfilment of delivery dates	min. 80%

In the case of the non-fulfilment of the goals, the information will be sent in the form of an escalation letter.

17. Escalation Rules

Evaluated indicators/goals: a) Monthly PPM b) Number of complaints c) Fulfilment of dates (min. 80%)	1/ Evaluation is carried out once per month 2/ The Purchasing Department is responsible for evaluation

Level	Reasons for inclusion	Rules for notification	Requirements	Responsible party	Requirements for escalation level reduction
0	a) One of the set monthly goals is not fulfilled (PPM, number of complaints) – only the first occurrence b) Insufficient communication	Sending information to the supplier	No specific requirements	Purchasing Department	
1	a) 2 monthly goals are exceeded concurrently in one month b) The set goal has not been fulfilled in 2 successive months c) Recurrence of a defect d) Insufficient communication e) Evaluation acc. to VDA 6.3 – Level "C"	Sending an escalation letter to company management	a) CSL 1 (100% inspection by APE's staff paid by the supplier) b) Carrying out a process audit (acc. to VDA 6.3) c) Preparation of measures in the form of PDCA and their presentation in APE	Purchasing Department Supplier's QM	Fulfilment of the goal and requirements in the following period – 1 month period
2	a) The set goal has not been fulfilled in 3 successive months b) Insufficient communication	Sending an escalation letter to company management	a) CSL 2 (100% inspection by APE's staff paid by the supplier + resident in APE) – depending on the problem severity b) Carrying out a system audit c) Preparation of measures in the form of PDCA and their presentation in APE	Purchasing Department + Purchasing Manager Supplier's QM Supplier's PM	Meeting the goal and requirements in the following period – 2 month period
3	a) The set goal has not been fulfilled in 4 successive months – with an increasing trend	Sending an escalation letter to company management	a) Blocking of new orders b) CSL 2 + resident in APE c) Escalation to ownership level d) Preparation of production transfer programme	Purchasing Department + Purchasing Manager Supplier's QM Supplier's PM	Meeting the goal and requirements in the following period – 30-90 day period (depending on the efficiency of the introduced corrective measures)