



Supplier Performance Standards

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POLICY

It is the policy of IHI Turbo America (ITA) to strive for excellence through continuous improvement in the products and services we receive and through close working relationships with our suppliers.

PURPOSE

The purpose of the Supplier Performance Standards (SPS) is to present a minimum set of requirements to current and potential suppliers and provides the foundation for our working relationship with our suppliers.

ACKNOWLEDGEMENT / ACCEPTANCE

Suppliers must meet or exceed the requirements within this document for all shipments to ITA. Acceptance of an ITA purchase order is also acceptance of this standard.

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PURCHASING

1. Non-Disclosure Agreement (NDA)

To protect ITA's confidential and proprietary information and that of our customer's, ITA requires all current and potential suppliers to sign an NDA.

2. Supplier Selection Survey

All potential suppliers will be required to complete a pre-qualification self-assessment to assist ITA in evaluating suppliers' capabilities prior to issuing an RFQ.

3. Qualification Audit

If a supplier is deemed viable based on the Supplier Selection Survey and quote, a cross-functional team will conduct an on-site process audit.

ITA reserves the right to perform periodic on-site audits at the supplier which may include but are not limited to the facility, quality systems, customer owned tooling, etc. Suppliers are required to provide the appropriate level of access to personnel, facilities, documentation, etc as required for the audit. Reasonable restrictions for proprietary information will be acknowledged.

4. Quotes

Quotes should be prepared to the part specification / drawing. Each process must be identified on the quote along with its associated cost.

Example: Machined casting = \$41.35 (Casting = \$35, Machining = \$5.75, Heat Treat = \$0.80)

If an exception is requested, the quote must expressly state the nature of the exception and why it is being requested.

5. Tooling

Tooling is part specific and customer owned; e.g. dies, molds, patterns, fixtures, gages, racks and masking.

Suppliers utilizing tools owned by ITA or its customer(s) are required to submit a Vendor Tooling Summary (VTS). The VTS must be approved prior to reimbursement. Reimbursement pre-approval must be granted prior to tooling procurement.

Asset tags / numbers will be supplied by ITA. Checking aides owned by ITA or its customer(s) will be marked and included in the VTS.

New tooling will be invoiced preferably in installments.

Example: 30% up front, 40% after PPAP and 30% after first production.

Replacement tooling may be invoiced as above or amortized in advance.

Example: tooling cost (\$50k) divided by tool life (100k pcs) added as additional line charge (\$0.50) to piece part price. Supplier manages tool replacement as needed.

6. Packaging

Suppliers must provide packaging that delivers parts clean and ready for use. Packaging must provide damage, contaminate and corrosion prevention. Packaging must be approved by ITA no later than the PPAP submittal.

Pallets must not exceed 48" x 40" x 43" (L x W x H).

7. Lead-times

Firm (Frozen) Release – Quantity and date authorized by ITA for shipment. Releases during the firm period may be modified if agreed upon by both parties however this should be considered an exception and rarely used.

Planned (Forecast) Release – Quantity and date provided by ITA to be used for planning purposes only and does not constitute an authorized shipment. Releases during the planned period may be modified by ITA.

ITA will provide six (6) months of Firm + Planned releases. ITA requires a detailed breakdown of each supplier's requested firm period prior to entering into our Material Requirements Planning (MRP) system.

8. Payment Terms

ITA's standard payment terms is Net 30 days paid according to our semi-monthly payment schedule. Exceptions may be made upon mutual consent by both parties.

9. Inco Terms

ITA's preferred Inco Terms are FOB origin (Domestic and Asia) and Ex-works (Europe)

10. Delivery Performance

On-time delivery is defined as a release quantity shipped in full on the required date. If a release quantity cannot be fulfilled on the requested ship date, the supplier is expected to contact ITA immediately. ITA may, at its discretion, update the PO to accommodate the supplier's request. Changes to the PO should be considered an exception and should be requested infrequently.

ITA allows a shipping window of up to two (2) days prior to the required date or up to one (1) day late for domestic shipments. If a release is shipped outside of that window, the entire shipment is deemed not on-time.

ITA calculates delivery performance based on quantity received. However, partial shipments are not considered acceptable and freight for the balance of the order must be paid by the supplier unless approved by ITA's Purchasing Department in advance.

Example calculations: Release is for 500pcs due to ship 10/8/18.

300 pcs shipped 10/7/18 → $300 / 500$ pcs shipped on-time = 60% delivery performance

500 pcs shipped 10/10/18 → Shipped outside ship window = 0% delivery performance

11. Compliance

Based on governmental and/or customer requirements, suppliers must be willing and able to provide proof of compliance in accordance with the following regulations as required:

- Conflict Minerals
- US California Proposition 65
- REACH (Registration, Evaluation, Authorization and Restrictions of Chemicals)
- RoHS (Restriction of Hazardous Substances Directive)

QUALITY

1. Quality System Requirements

ITA requires our suppliers to be ISO9001 certified. Suppliers providing automotive components to ITA must have a plan to achieve IATF16949 certification. The supplier must provide a copy of its ISO / IATF certification and subsequent recertifications.

ITA also requires our suppliers to follow the core AIAG (Automotive Industry Action Group) tools:

- APQP (Advanced Product Quality Planning)
- FMEA (Failure Mode and Effects Analysis)
- PPAP (Production Part Approval Process)
- MSA (Measurement System Analysis)
- SPC (Statistical Process Control)

2. PPAP

Suppliers are required to submit a Level 3 PPAP to ITA unless otherwise defined in a PO or PPAP submission list. PPAPs should be submitted electronically.

A minimum 30-piece must be produced on production tooling to fulfill PPAP requirements. PPAP materials must be packaged separately from production parts and identified accordingly. Production parts should not be shipped prior to PPAP approval unless otherwise granted through an interim PPAP.

a. ISIR (Initial Sample Inspection Report)

A six (6) piece sample must be measured against the drawing(s) and engineering spec(s). The data must be recorded in an ISIR and submitted along with the six (6) pieces labeled with a Supplier Special Material Label to ITA for verification. Any feature measured out of tolerance fails the PPAP.

b. SPC

All special characteristics must be measured on at least 30 pieces of the production run. Special characteristics are identified on the drawing (◇). Measurements must be within specification with a minimum Cpk value of 1.33 and included in the FMEA, control plan and operator instructions for inspection purposes.

c. PSW (Part Submission Warrant)

The final PPAP submission must include a completed and signed PSW.

d. International Material Data System (IMDS)

Suppliers will be provided ITA's IMDS number and must enter all required material information; some exclusions apply. A copy of the completed IMDS must be included with the PPAP submission.

e. Tier 2 Suppliers

Suppliers are responsible for approving sub-contracted material and to ensure all sub-contracted suppliers and materials meet ITA specifications. A PSW and material certification must be submitted for all components attached or installed in the final

product that will be delivered to ITA. Tier 2 PSW's cannot have a signature more than three (3) years old.

f. Material Safety Data Sheet (MSDS)

All product containing hazardous materials (e.g. rust preventative, paint) are required to have an MSDS on file at ITA. This must be included with the PPAP.

g. Shelf Life

Suppliers must include a document stating the shelf life of the final product with the PPAP.

h. IATF / ISO Certifications

A copy of IATF / ISO certifications must be submitted with the PPAP. Suppliers are required to provide current copies as certifications are achieved / renewed.

i. CQI Special Processes

Suppliers providing components containing special processes as defined by AIAG Special Process – CQI (e.g. heat treat) must complete the System Assessment Process Audit and submit with the Supplier Selection Survey.

j. Cleanliness

Suppliers providing components requiring a cleanliness specification must be able to evaluate the cleanliness by reporting total contaminate weight and maximum particle size. Packaging must be considered to ensure cleanliness is still met when delivered to ITA.

k. Production Develop Run Capacity Verification (PDR/CV)

Suppliers must demonstrate the ability to produce their stated maximum capacity over an eight (8) hour shift.

3. Material Certifications

Suppliers are required to provide lot specific material and test results as specified on the drawing. The physical sample used for testing and test results must be kept at the supplier in accordance with your retention policy. A copy of the test results must be emailed to supplychain@ihi-turbo.com with the subject formatted as "Material Certification – Part number – Lot Number".

The material certification must contain the following information:

- Common material name (e.g. ASTM, UNS)
- Actual material composition
- Specification limits per the drawing

Shipments will be placed on hold until corresponding certification is received. This may have a negative impact on the supplier's delivery rating if not received timely.

4. Non-conforming Material

Material identified as suspect will be segregated from production intent product and tested appropriately to determine if it is out of spec. If rejected, ITA will contact the supplier within 24 hours of initial suspicion and be provided inspection documentation detailing reason for

rejection. Suppliers must provide details containment of all suspect parts at their facility and inform ITA of parts in transit within the next 24 hours.

a. Disposition

Suppliers are required to disposition suspect product in one (1) of the following ways:

- Provide a Return Material Authorization (RMA) for immediate return to the supplier at supplier's expense; replacement parts must be shipped in a manner that does not cause line disruption at ITA
- Schedule an employee of the supplier to be on site at ITA within 48 hours to sort and disposition parts; any rejected parts will require an RMA for return
- Schedule a third party provided to be on site at ITA within 48 hours to sort and disposition parts; any rejected parts will require an RMA for return

If ITA must sort parts in order to keep the line running, suppliers will be debited the cost for this sort. It is expected suppliers still conform to one (1) of three (3) dispositions listed above.

b. Corrective Action

Suppliers are required to complete ITA's Supplier Corrective Action/Material Rejection Report (SCA MRR). The timeline for completion is as follows:

- One (1) business day: initial response identifying the individuals responsible for the investigation and what actions are being taken to determine root cause
- Five (5) business days: completed corrective action plan
- Thirty (30) business days: completed SCA MRR evidencing implementation and sustainability of corrective action approved by ITA
- Next three (3) shipments must be labeled "certified"; subsequent shipments will be inspected until released by ITA to ensure corrective action was effective

c. Controlled Shipping

Recurring instances of non-conforming material will require the following extra measures, referred to as controlled shipping:

- Update Process Failure Mode Effects Analysis (PFMEA) and Control Plan addressing the cause for rejection and submit to ITA for review / approval
- Implement additional inspection steps, submit to ITA for review / approval
- Suppliers are required to provide certified product labeled "100% certified" once steps 1 & 2 have been completed

Controlled shipping may be removed after the successful implementation of these extra measures and a minimum of three (3) consecutive defect-free shipments of the product to ITA.

d. Vendor Scrap

ITA will disposition supplier scrap at the end of each month. Suppliers will be notified of the part number, quantity, defect and supporting evidence. Suppliers must respond within five (5) business days stating if the parts should be returned at the supplier's

expense or scrapped at ITA. No response within five (5) business days will be taken as authorization to debit the supplier and scrap the parts.

Subcontract suppliers must visually inspect all incoming product for obvious defects. If defects are found upon receipt or during processing, subcontract suppliers must contact ITA immediately for disposition. If scrap occurs during the subcontract process, scrapped parts must be tagged with part number and defect. If rejected parts are returned to ITA, they must be identified as a separate line item on the shipper.

e. Warranty

Suppliers are required to participate in field and line returns resulting from their non-conforming material. Reimbursement may include but is not limited to sorting, rework, third party charges and material replacement. Occurrences will be handled on a case by case basis.

5. Deviations

Suppliers may submit a Supplier Request for Deviation for a non-conformance identified at the supplier which does not affect fit, form or function. Adequate documentation is required to prove usability and sample parts may be requested for testing at ITA. If the Request for Deviation is accepted, parts must be identified with a Supplier Special Material Label. If the request is declined, the supplier have the option of trying to successfully rework the parts or scrap them. Parts received at ITA with this non-conformance will be returned to the supplier at their expense. Regardless, an SCA MRR must be completed as stated in section 3, Non-Conforming Material above.

A non-conformance identified at ITA which may qualify for a deviation will be led by ITA Supplier Quality with assistance from the supplier. An SCA MRR is required in this instance as well.

6. Design or Process Changes

Suppliers may submit a Supplier Request for Design Process Change Approval form for design or process improvement ideas. This must be submitted and approved by ITA prior to implementing any changes. Design related changes will require a marked-up print and adequate information to support the change will not negatively impact ITA. Process related changes will require a detailed analysis of why the change is requested and adequate information to support the change will not negatively impact ITA. If approved, suppliers must provide a detailed timeline of how / when the change(s) will occur and identify the last box / pallet of the current design / process as well as the first box / pallet of the new design / process with a Supplier Special Material Label for ITA's traceability records.

LOGISITCS

1. Shipping Instructions

Shipments must be sent according to the routing instructions listed on the PO including packaging, carrier selection, freight terms and FOB point. Deviations from these instructions which increase the cost of the shipment may be charged back to the Supplier.

2. Shipping Documentation

Packing slips, bills of lading and invoices must contain the following information:

- PO Number

- Ship Date

- Sold To information

- Ship To location

- Quantity ordered / shipped

Bills of lading must also include

- Part Description

- National Motor Freight Classification (NMFC) including freight class

 - Example: 92.5 (class) 12345 (NMFC)

- Total Quantity shipped (e.g. pieces / pallet, number of pallets)

- Gross Weight for each line item

- Net Weight for each line item

3. Pallet Load Stability

ITA requires the use of stretch-wrap or banding on the exterior of a pallet load taller than two (2) layers. ITA will determine on a case-by-case basis whether additional stretch-wrap is required.

4. Receiving Hours

6:30am – 4:00pm Monday – Friday

Other hours by appointment only

SUPPLIER SCORECARD

The purpose of the ITA scorecard is to drive continuous improvement throughout our supply chain and promote a close working relationship with our suppliers. Suppliers will be added to the program in waves or as business need dictates.

Scores are based on both quality and delivery weighted equally over a 6-month period.

- Quality: MRR score (number of quality defects per month)
- Delivery: Percent of releases shipped on time

We currently do not assign a rating however any supplier whose overall score falls below 50% is considered probate and will not be eligible for new or additional business until their score improves above this threshold.

Suppliers who fall into probate will begin the Supplier Development Process which is initiated through a Corrective Action Request (CAR). Suppliers must respond to the CAR within 30 days detailing the root cause(s) and a recovery plan. Once accepted, the supplier must conduct a weekly teleconference to track the progress of the recovery plan. These meetings will be held until the supplier has either achieved a score greater than 50% or has demonstrated a clear line of sight to achieving 50%. If no or slow progress is made, ITA may choose to escalate the issue which may include but is not limited to management participation, site visits and/or increased communications.