

Supplier Quality Systems Requirements

Revision 9



Vehicle Control Systems

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1.0 Introduction

1.1 Scope

The details stipulated within this manual are requirements for “approved” production (including aftermarket) goods and service suppliers to Meritor WABCO Vehicle Control Systems (Meritor WABCO), including Meritor and WABCO facilities supplying components to Meritor WABCO’s locations or shipped directly to Meritor WABCO’s customer facilities.

Meritor WABCO is committed to providing on time, quality products and services that meet our customers’ needs and requires a commitment from our suppliers to provide the same to us. Creating win/win relationships strengthened by success remains a cornerstone in meeting changing customer expectations.

1.2 Purpose

The purpose of this document is to communicate Meritor WABCO’s requirements with respect to the quality management system of those companies that supply production goods and/or services to Meritor WABCO.

Meritor WABCO requires that its suppliers:

- a) Implement appropriate systems and controls to ensure the 100% on-time delivery of conforming, defect free products to Meritor WABCO.
- b) Manage facilities, processes, quality systems and personnel to consistently and cost-effectively produce products and furnish services that meet the needs of Meritor WABCO and its customers.
- c) Develop and implement a documented Quality System, including an Advanced Product Quality Planning process, in accordance with the requirements of ISO/TS-16949 and the AIAG Advanced Product Quality Planning reference manuals in order to assure that all Meritor WABCO requirements are met.
- d) Provide objective evidence that all supplied products and services satisfy AIAG Production Part Approval Process requirements including acceptable process capabilities for Special/Control Characteristics and Safe Launch Control Plan and Audit Process for new product and/or engineering changes.
- e) Utilize appropriate statistical techniques for on-going process control and improvement (as established in the AIAG Fundamental Statistical Process Control reference manual).
- f) Continuously improve by reducing part-to-part variation and eliminating all waste.
- g) Conduct its operations to assure that all materials and products provided to Meritor WABCO meet or exceed all applicable environmental laws and regulations of the jurisdictions in which the supplier does business. Suppliers must meet the same requirements that our customers demand and require of us. Also, suppliers are strongly encouraged to install environmental systems in their facilities that are compliant to ISO 14001.
- h) Comply with all applicable government statutes, regulations and standards relating to motor vehicle safety or emissions within the territories of use (e.g. US FMVSS safety standards, 49 USC 301, et seq., and TREAD Act on Product Safety).
- i) Meet the requirements of Meritor WABCO Packaging and Shipping Guidelines with regard to the use, control and supply of returnable packaging. Suppliers are responsible for requesting any specific packaging documentation from receiving location.
- j) Are capable of receiving and sending EDI transactions (e.g., receiving Releases, sending Advanced Shipping Notices).

1.3 Background

The Meritor WABCO Supplier Quality System Requirements (SQSR) is based upon the latest edition of ISO/TS-16949 Quality System Requirements. These requirements are an integral and legally binding aspect of the Meritor WABCO Purchase Order Terms and Conditions. Although this does not alter or reduce any other requirements of existing contracts or agreements, it is intended to provide a concise understanding of our quality expectations.

2.0 Quality Systems Requirements

2.1 General Quality Systems Requirements

Present and potential suppliers to Meritor WABCO Vehicle Control Systems must operate within a comprehensive quality system with the goal of supplier conformity with the technical specification ISO/TS 16949:2009. Suppliers shall provide written confirmation and objective evidence of current third party certification to an active version ISO 9001 as a first step in achieving this goal. Certified suppliers must submit their initial and renewal quality system certifications to Meritor WABCO Procurement within 10 days of receiving the certificate from their registrar. Also, suppliers are required to immediately notify Meritor WABCO quality and procurement if the supplier's registrar places the supplier on "Probation".

Suppliers who are not ISO/TS 16949 certified may be required to have a working plan to become compliant to ISO/TS 16949 available for Meritor WABCO's review and approval.

Suppliers are required to follow the requirements of the current version of the Production Part Approval Process (PPAP) manual and meet the intent of the requirements specified in the following AIAG Reference Manuals: Advanced Product Quality Planning and Control Plan (APQP), Potential Failure Mode and Effects Analysis (FMEA), Measurement Systems Analysis (MSA), and Statistical Process Control (SPC). Additional requirements are noted in this Supplier Quality System Requirements manual. Meritor WABCO may communicate other requirements as our needs or the needs of our customers change. It is the responsibility of Meritor WABCO's suppliers, both present and new, to obtain and maintain the current issue of all ISO/TS 16949 and AIAG related documents (see 3.2 Supporting Industry Documents for ordering information).

Comments or questions regarding the Meritor WABCO Supplier Quality System Requirements manual may be directed to the Meritor WABCO senior manager of quality. Any exceptions must be approved in writing by Management of the Meritor WABCO senior manager of quality.

2.2 Advanced Product Quality Planning (APQP)

Suppliers are required to generate an Advanced Product Quality Plan in accordance with the AIAG APQP reference manual for review by the Meritor WABCO PDP (Product Development Process) Project Team or relevant Engineering group. This plan shall include, but is not limited to:

- a) Notification of risks that affect product integrity or the project plan.
- b) Implementation of error-proofing (poka-yoke) to achieve Zero Defects to Meritor WABCO.
- c) Identification of changes needed to product or process specifications.

2.3 Pre-Launch Meetings

Technical, quality, manufacturing, engineering, purchasing, delivery, and business issues shall be reviewed during Pre-Launch meeting to ensure supplier understands Meritor WABCO requirements. Supplemental agreements and clarification of requirements shall be documented in writing. Supplier acceptance of a supplemental letter of agreement may be required.

2.4 Engineering Prototype Sample Submissions

Engineering prototype parts with documentation of specification conformance shall be submitted to Meritor WABCO by the supplier as instructed by the Meritor WABCO PDP Project Team for engineering validation testing. Each sample or prototype must be clearly labeled as such and accompanied by completed Dimensional Results, Material Test Results, and Performance Test Results reports as described in the AIAG PPAP manual. Specific instructions, in addition to these stated requirements, may be agreed upon and documented by Meritor WABCO via the Pre-Launch Meeting or other formal communication. Parts that are to be used for Process Validation Testing must be from the PPAP run.

2.5 Special Characteristics

Special Characteristics are any product or process characteristics that affect safety or compliance with regulations, fit, function, performance or subsequent processing of product.

In accordance with the requirements of ISO/TS-16949, Special Characteristics shall be identified and specifically addressed in the DFMEA, PFMEA, Control Plans, Process Flows, Work Instructions and other associated documents. Meritor WABCO's designated Special Characteristics are identified on drawings/specifications or in a separate document that cross-references these characteristics to the

drawings/specifications. Suppliers are responsible to fully understand the usage of their product and also identify Special Characteristics, as appropriate. This includes “black box” design-responsible suppliers. Suppliers are also responsible for ensuring that relevant Special Characteristics are explained, understood and controlled by their sub-suppliers.

2.6 Process Capability and Control

Suppliers are required to meet the process capability requirements as defined in the AIAG PPAP and SPC reference manuals, unless otherwise specified by Meritor WABCO. The supplier is responsible to ensure process capability and control requirements are documented in their control plan and that capability indices are achieved and improved throughout production.

2.7 Sub-Supplier Control

Each Meritor WABCO supplier is responsible for the control and continuous improvement efforts of its suppliers. However, Meritor WABCO reserves the right to visit sub-suppliers and request/view all related Quality documents, drawings and specifications.

Meritor WABCO’s suppliers shall require their suppliers of production goods and services to conform to the requirements specified herein and must implement and document appropriate controls.

2.8 Supplier Tooling, Gaging and Returnable Containers

Supplier tooling (dies, patterns, molds, special tooling) and gaging shall be permanently marked with a unique serial number and company name so that the ownership of each item can be easily identified. Returnable containers shall be permanently marked with the company name of ownership. For Meritor WABCO or OEM owned tooling, a Meritor WABCO or OEM asset tag may also be required.

The supplier shall establish preventive/predictive maintenance procedures on all tooling, regardless of ownership. Evidence of procedure execution shall be made available upon request. Preventive/predictive maintenance schedules and tool history records shall be documented and available for review.

No supplier tooling shall be sold or consigned to another entity without proper notification and written consent from Meritor WABCO. In such cases, or in case of tooling relocation to an alternate supplier location or facility, it is the supplier’s responsibility to contact Meritor WABCO regarding potential re-PPAP requirements prior to moving the tool (and may include an exit PPAP for original entity).

2.9 Early Production and Pilot Part Requirements

Suppliers are required to meet Meritor WABCO’s Early Production/Pilot Part requirements. These requirements will be documented by Meritor WABCO via the Pre-Launch meeting or other formal communication. Required documentation (e.g., Control Plans) must be kept current. A pre-production control plan is required with increased inspection frequency for customer touch points, special characteristics, and other attributes and agreed to with Meritor WABCO Engineering and Quality prior to parts being produced.

Suppliers are expected to clearly identify “early production” or “pilot parts” to ensure that the Meritor WABCO receiving site does not mix such parts with “regular” production parts. Suppliers are also expected to work closely with Meritor WABCO plant Materials personnel to minimize unnecessary obsolescence.

Labeling must be done per Meritor WABCO receiving site requirements and shall be differentiated from regular production shipping labels, unless the parts are already PPAP approved. In particular, the Supplier Identification, Part Number, Engineering Level, and Quantity must be clearly displayed on the part-packaging label to ensure easy, visible segregation of containers/parts.

In addition, a brightly colored sheet of paper, at least 8 inches by 10 inches in size (A5 or greater), must be attached to at least 2 sides of the container or material, stating one of the following:

- Pre-Production Materials
- Pre-Production Parts
- Pilot Materials
- Pilot Parts

Suppliers not adhering to the above requirements may be placed on Containment, which is discussed in Section 2.24.

2.10 Manufacturing Process Review

A systematic review of a supplier's manufacturing process may be conducted at the supplier's facility prior to AIAG PPAP submission. This process may be a Meritor WABCO or Meritor WABCO customer specified process (e.g., PSO, PAPA, Run at Rate).

2.11 Production Part Approval Process (PPAP)

All production part sample submissions shall be in accordance with the AIAG PPAP manual requirements as stipulated by Meritor WABCO Quality. Level 3 PPAP, supplied electronically, is the default submission level unless otherwise agreed upon in writing with Meritor WABCO Quality. Supplier PPAP packages shall include all component (internal and sub-supplier) PSWs at a minimum and may require additional PPAP documentation as requested by Meritor WABCO Quality.

PPAPs shall be submitted to Meritor WABCO Quality at supplier.ppap@meritorwabco.com and any associated PPAP sample parts shall be clearly labeled as such. Full or interim approved PPAP is required prior to shipping parts to Meritor WABCO for production. Any production shipments received by Meritor WABCO prior to obtaining this approval will be rejected. Any exceptions must be documented and approved by Director, Quality and Compliance, Meritor WABCO. If Supplier does not supply documentation as required, Meritor WABCO may either reject the product or inspect and test the product itself and invoice Supplier for such work at the rate of \$100.00 USD per hour.

2.12 Changes to Approved Product and Processes

Suppliers and sub-suppliers are not to make any unauthorized changes to a product (e.g., material, component, subassembly, etc.) or the process used to produce a product that has been previously PPAP approved by Meritor WABCO. This includes changes to process control plans, packaging and labeling.

Meritor WABCO's notification and submission requirements are clearly outlined in Section 3.1 of the AIAG PPAP manual. The Meritor WABCO shall be notified of intentions to change a product or process prior to making any changes. The supplier must submit a change request, WTO178 Supplier Change Form, to change.manager@meritorwabco.com, and receive written authorization to proceed with the change from Meritor WABCO at least 14 weeks prior to change implementation to enable Meritor WABCO to meet our customer requirements. Any such change made without prior written approval by Meritor WABCO would not only constitute a breach of our purchase order terms and conditions, but would also be a serious breach of standard automotive practice. Suppliers who do not adhere to this requirement will be held responsible for all damages, losses and liabilities attributable to any unapproved change made by the supplier or one of its suppliers, including but not limited to customer rejections, customer line stoppage penalty fees, field failures costs and warranty expense.

First shipment of changed product must be properly marked. For 1st shipment of changed product resulting from an Engineering Change Notice (ECN) or Supplier Change Request (SPCR) the following guidelines must be followed:

1. Label should be on 8.5 x 11" piece of paper which is to be attached to at least two sides of each pallet in the first shipment of changed product. Please place in pouch or plastic sleeve so it will not get destroyed in shipping. Please use the red outline to ensure that information is highly visible.
2. Description of change must be on label
3. Method of traceability i.e. Serial Number, Date Code, etc. must be noted
4. ECN Number or SPCR Number
5. Meritor WABCO Part Number
6. Batch level, if applicable

See WTO057 PPAP Requirements Submission Form for visual example.

2.13 Annual Re-qualification

Unless waived in writing by Meritor WABCO, the supplier shall inspect and test annually a sample of each active product supplied to assure conformance to all Meritor WABCO specified requirements (e.g.

dimensional, material and performance). These inspection requirements shall be included in the supplier's production control plan. Material testing shall be carried out by a qualified laboratory. Annual validation documentation shall be on file at the supplier and available to Meritor WABCO upon request. If a nonconformance is found during the annual validation, the supplier must notify Meritor WABCO Quality immediately so that appropriate action can be determined and implemented.

Whenever Meritor WABCO is required to submit PPAP to their customer, suppliers with PPAP documentation over one year old may be required to re-PPAP as directed by Meritor WABCO Quality.

2.14 Certificates of Conformance

Records of conformance will be maintained on file at the supplier and may be required to accompany each shipment of specified components or materials. The published certificate of conformance must contain the actual results of physical testing, measurements and/or analysis specified by the contract or initial purchase order confirming compliance with all identified requirements.

The supplier should have a system capable of retrieving and submitting the requested records of conformance within 24 hours of Meritor WABCO's request.

2.15 Materials / Conflict Minerals Reporting Requirements

Suppliers are responsible for ensuring compliance to the Global Automotive Declarable Substance List (GADSL) and any applicable substance regulations over time. Some customers require documentation of material and substance composition for each component in the vehicle through the IMDS (International Material Data System). IMDS allows the OEM's and suppliers to collect and to manage the information regarding the material and substance composition of all the components of a vehicle. Meritor WABCO's suppliers are required to report the contents of the products they supply to Meritor WABCO in the IMDS under IMDS ID Number 15080 upon request. Meritor WABCO utilizes iPoint for Conflict Minerals Requests submissions and acceptance of Conflict Minerals Reports. Please submit to Meritor WABCO iPoint IPCMP ID# 10955. All other communication and inquiries are to be submitted to ConflictMinerals@meritorwabco.com. Refer to the following links for more information:

- GADSL: <http://www.gadsl.org/>
- IMDS : <http://www.mdssystem.com/>

The Dodd-Frank Wall Street Reform and Consumer Protection Act, and in particular its Minerals provision (Section 1502), pertains to sourcing tin, tantalum, tungsten and gold ("Conflict Minerals") from the Democratic Republic of the Congo and adjoining countries ("DRC countries"). Suppliers are responsible to have supply chain policies and processes to undertake: (1) a reasonable inquiry into the country of origin of Conflict Minerals incorporated into products it provides Meritor WABCO; (2) due diligence of its supply chain, as necessary, to determine if Conflict Minerals are sourced from the DRC countries directly or indirectly; (3) the conduct of any risk assessment and mitigation actions necessary to implement these country of origin inquiry and due diligence procedures; and, (4) timely disclosure to Meritor WABCO on all its Purchase Orders/Subcontracts for products containing "conflict minerals" that are delivered during the current calendar year, upon request. Supplier shall take measures as are necessary to comply with the Act and its implementing regulations, as they may be amended over time,

The supplier will be liable for any damages or penalties in the event components being supplied to Meritor WABCO do not conform to the relevant statutory requirements. Any and all costs incurred in such instances shall be borne to their full extent by the supplier and not by Meritor WABCO.

2.16 Verification Reviews of Purchased Product

The supplier shall allow Meritor WABCO, an approved 3rd party representative or Meritor WABCO's customers the right to verify, at the supplier's premises that the product and subcontracted product(s) conform to specified requirements. Prior to conducting such verification reviews, the responsible Meritor WABCO contact shall specify both the arrangements and method of performing the reviews.

2.17 Product Identification and Packaging

Each container, rack, box, or pallet of material shipped to Meritor WABCO shall be packaged and labeled per the Meritor WABCO Supplier Packaging and Labeling Requirements on <http://www.meritorwabco.com>.

At a minimum, the Supplier Identification, Part Number, Engineering Level, Quantity and Batch/Lot Number must be clearly legible in both human readable and bar coded form on the part-packaging label. All bar codes must be scanned by the supplier to verify readability. Unique requirements will be identified and documented by Meritor WABCO at the Pre-Launch Meeting, Project Reviews (APQP meetings) or other formal communication.

Identification shall permit traceability back to the specific supplier raw materials lot numbers, as well as the manufacturing, inspection and test records. The supplier should also be able to trace where products made under similar conditions (same raw material lot, same manufacturing line/batch, etc.) were shipped. Suppliers are required to utilize and ship material on a first in first out basis. Sequence of batches must be identified on the packaging label by either a date code or batch/lot number. Safety related identification criteria shall conform to all government regulatory and Meritor WABCO requirements. No exceptions to this requirement shall be permitted unless acknowledged in writing by Meritor WABCO Quality.

Suppliers shall ensure their products are transported in a manner that prevents damage or deterioration to the product. Suppliers shall maintain documentation detailing proper packaging, cleanliness level, storage and shipping instructions of its products to assure conformance to the Meritor WABCO's requirements.

2.18 Delivery Performance and EDI Requirements

The supplier shall provide 100% conformance to the delivery requirements as specified by the Meritor WABCO receiving site. Costs incurred by Meritor WABCO as a result of a delivery nonconformance caused by a supplier shall be the responsibility of the supplier. Supplier shall be responsible for all resulting premium freight shipping costs if an order ships outside the on-time window.

Upon request, suppliers shall submit corrective action plans for delivery nonconformances.

For further information on EDI requirements, refer to the applicable specifications located at:

<http://www.meritor.com/suppliers/ecommerce/default.aspx>

2.19 Contingency Plans

Suppliers are required to prepare contingency plans (e.g. utility interruptions, labor shortages, key equipment failure and field returns) to reasonably protect Meritor WABCO's supply of product in the event of an emergency, excluding natural disasters and acts of God.

2.20 Continuous Improvement

The supplier shall continually improve quality, delivery, cost and other services provided. To aid in fulfillment of this requirement the supplier's organization shall establish, monitor, prioritize, and act upon key performance objectives and targets. The objectives and targets should be established based upon (at a minimum) business plans, management systems, product quality, process capability, and customer satisfaction goals. Actions taken to regain previously sustained levels of performance are corrective actions, not continuous improvement.

Meritor WABCO reserves the right to visit any supplier site to assess its continuous improvement programs and lean manufacturing practices, and make recommendations for improvement. In addition, Meritor WABCO may deploy personnel to focus on a specific improvement issues. In most cases, savings generated from these exercises will be shared between Meritor WABCO and the supplier.

2.21 Supplier Problem Solving and Avoidance

Suppliers shall have trained (preferably certified) personnel with the ability to quickly and permanently resolve product and process issues using data driven problem resolution tools and techniques. Problem resolution must be conducted using a defined, structured process like the 8-Discipline process, Six Sigma DMAIC (Define, Measure, Analyze, Improve, Control) or any process that includes verification of the root cause and validation of corrective action effectiveness.

receiving locations), and the potential root cause(s) of the problem. In circumstances where the nonconforming product is still at the supplier, it will not be shipped to Meritor WABCO or any Meritor WABCO's customer sites. Containment must comply with Section 2.24 of this manual. For any nonconformance related to Motor Vehicle or Environmental Safety or which cause a major disruption (e.g., stop shipment, line shutdown, yard holds), an action plan is required immediately after notification.

A fully completed final 8D Problem Solving Report shall be submitted no later than thirty (30) calendar days after receipt of the nonconformance report, unless otherwise specified or agreed to by Meritor WABCO Quality. Additional documentation may be required for Customer specific issues as directed by Meritor WABCO Quality. Any corrective actions that result in a process, product or drawing change will require a re-submission of the PPAP.

Costs and charges incurred by Meritor WABCO associated with shipping, handling, processing, reworking (including tooling or equipment required for effective containment), inspecting, engineering verification and replacing supplier responsible nonconforming material including the costs of value-added operations prior to its discovery are the responsibility of the supplier. All Costs that Meritor WABCO customers charge to Meritor WABCO related to the nonconforming product will be passed on to the supplier for each specific nonconformance. Customer incurred charges may include line shutdown, containment, and rework taking place at the customer location.

Step 2 – Working Meeting

A working meeting is a Meritor WABCO plant led activity to address specific supplier performance issues not resolved in a timely fashion at Step 1. Working meetings focus on the development of an action plan to prevent or eliminate the root cause of the issue. The supplier is expected to submit periodic updates until the issue is resolved as directed by Meritor WABCO Quality. The updates may include EOL test and inspection results, capability studies and post production inspections by a third party.

Step 3 – Incoming Quality (IQ) Meeting

An IQ meeting is a Meritor WABCO plant led activity to address supplier performance issues not resolved in a timely fashion at Step 2. The purpose of the IQ Meeting is to identify, and mutually agree to, all actions required for the permanent resolution of the systemic and particular issues that led to the Supplier's unsatisfactory performance. The supplier shall come prepared to fully address the following:

- Summary of events relating to the Supplier's performance concerns.
- Completed 8D Problem Solving Report including containment actions, root cause analysis, corrective action and verification data and status.
- Preventive action plans and status to address systemic root cause(s)
- Strategic improvement plans

At the IQ meeting, Meritor WABCO and the Supplier must agree on the Exit Criteria. In addition, action plans that exceed 90 days duration may require supplier justification and may warrant interim IQ meeting reviews. The supplier is expected to submit periodic updates until the issue is resolved.

Step 4 – Super IQ Meeting

A Super IQ meeting is a corporate led activity involving the Executive Management of both Meritor WABCO and the supplier. The meeting addresses issues not resolved in a timely fashion during Step 3.

The supplier may be prohibited from bidding on new business and/or may be in jeopardy of losing current business at this stage of the 4 Step process. Suppliers who do not show improvement within 3 months of a Super IQ Meeting are automatically placed on New Business Hold. Suppliers who are placed on New Business Hold must remain in tolerance for six consecutive months in order to be removed from New Business Hold. Suppliers will be formally notified by Meritor WABCO procurement when they are placed on or removed off of New Business Hold.

Meritor WABCO may request an extra audit from the supplier's registrar in cases of on-going performance issues. The cost of the audit will be the responsibility of the supplier.

2.24 Containment Requirements

Containment for New Production Parts

- a) Containment of new production parts starts with Pre-Production builds and continues through the first 90 days of production after PPAP approval.
- b) New Production Containment requirements will be documented by the supplier in their Pre-Production Control Plan and must be reviewed by the Meritor WABCO Quality for concurrence prior to any Pre-Production builds. Concurrence from Meritor WABCO does not relieve the supplier of any responsibility or accountability to deliver 100% conforming product to Meritor WABCO.
- c) Suppliers may exit new production containment if they have achieved zero defects at the point of containment for 90 days after PPAP approval unless otherwise specified by Meritor WABCO. If defects are found at containment during this time the counter is reset and 90 clean days must be achieved from that point.
- d) Meritor WABCO may require suppliers to perform off-line new production containment.
- e) Suppliers are required to submit inspection data with each lot shipped to the receiving Meritor WABCO plant. This should include variable measurement data, where applicable.
- f) Suppliers shall develop action plans to address missed failure modes or capability improvement needs.

Containment for Nonconforming Parts

Suppliers shall implement Level I Containment immediately upon notification by Meritor WABCO of a nonconformance. Level I Containment shall include at a minimum:

- a) Submission of a documented action plan for the containment of all parts within the supply chain. This includes, but is not limited to, parts at the supplier, in transit and at the Meritor WABCO receiving plant. The plan will include a containment data sheet, PPM per batch, PPM per defect and an action plan to resolve the issues detected during the containment activity.
- b) Regular communication of the containment results to Meritor WABCO.
- c) Communication of the manner in which product will be identified as quality assured/inspected by container or individual product.
- d) On-site support to Meritor WABCO and, in conjunction with Meritor WABCO's personnel, to Meritor WABCO's customers as required.
- e) Utilization of a third party inspection service when circumstances prevent the supplier from providing expedient and efficient containment.

Suppliers, whose containment actions have been ineffective, may be placed on Meritor WABCO Level II Containment. Level II includes all of Level I, with the added inspection by a Meritor WABCO approved 3rd party. The approved 3rd party will be contracted and paid for by the supplier. Based on the severity of the issue and prior Quality record of the supplier, Meritor WABCO may elect to have the supplier go directly to Level II Containment.

Supplier shall remain in containment (either Level I or Level II) until permanent corrective action has been implemented and its effectiveness validated. Suppliers may exit from Level I or Level II containment when the following criteria have been met:

- a) 30 days of production have shown zero defects at the point of containment unless otherwise specified by Meritor WABCO. If a defect is found at containment during this time the counter is reset and 30 clean days must be achieved from that point.
- b) A full 8D Problem Solving Report, with supporting evidence, for the concern that caused the containment to be initiated has been submitted to the Meritor WABCO Quality Department and closure has been agreed.

Suppliers are required to accept all costs and charges incurred by Meritor WABCO associated with the containment activity such as shipping, handling, processing, reworking, inspecting, and replacing nonconforming material including the costs of value-added operations prior to the discovery of the nonconformance, as well as third party inspection costs, customer charges and an administrative fee.

2.25 Product or Process Deviations

It is the policy of Meritor WABCO to **NOT** accept product that does not meet the requirements of the applicable drawings and specifications. Requests for deviations on nonconforming product shall be submitted to Meritor WABCO's Engineering and Quality Representatives for review and approval and to obtain Meritor WABCO's customer approval, as required, prior to shipment. Deviations shall be approved only for a specific time period or quantity of parts. No permanent deviations are permitted.

A deviation request shall be accompanied by an 8D Problem Solving Report. This report shall include the identification of a clean point and the manner in which product will be identified, including how traceability will be maintained.

2.26 Warranty and Cost Recovery

For nonconforming parts not covered by a service campaign or a recall but are part of the normal warranty process and without limiting the supplier's total liability under the Purchase Agreement, the supplier shall pay to Meritor WABCO the following compensation for costs related to nonconforming parts and other components, which in Meritor WABCO's reasonable judgment had to be replaced due the nonconforming part:

Reimbursement is on a per claim basis subject to Meritor WABCO/OEM contractual obligations including

- 1) Parts cost including OEM and Dealer mark-ups as defined by Meritor WABCO/OEM supply agreements.
- 2) Labor cost according to customary hourly rates applicable for the time spent on take charge, fault diagnosis, removal/replacement or repair, and system testing/cleaning (as required) of the failed part(s) and all associated, contingent and consumable parts calculated on the basis of Meritor WABCO's applicable Standard Repair Time or the labor cost set out in the warranty claim description. (Not all repairs are appropriate to flat rate schedule and industry standards or good judgment will prevail in those situations.)
- 3) Costs incurred as a result of consequential damages resulting from the part failure.
- 4) Cost of freight to return material for evaluation when such returns are a requirement of warranty processing. The supplier shall reimburse Meritor WABCO for all the above costs and expenses associated with warrantable failures of supplier's products.

The supplier agrees that Meritor WABCO cannot in all cases recover all Parts for which Meritor WABCO has incurred warranty costs. The Meritor WABCO preferred method is not to return the part. Periodic sampling for quality control or failure analysis may be arranged by Meritor WABCO. When it is a requirement of the supplier to examine failed parts, the supplier shall pay freight costs for shipment of nonconforming parts as well as any duties, taxes or brokerage fees required to get the failed part from a dealer across an international border(s) to Meritor WABCO or supplier's inspection center.

In cases where Meritor WABCO and the supplier agree to the proportion of the liability based on *sample material evaluations or advance agreement*, the compensation payment may be automatically done pursuant to the proportion. The proportion may be revised based on an agreement of both parties.

Any additional costs related to nonconforming parts shall be agreed between Meritor WABCO and the supplier on a case by case basis.

All amounts set out herein are net of all applicable taxes, duties or other levies and shall be paid by the supplier in addition to the amount set out above. The supplier agrees that compensation payable to Meritor WABCO with respect to warranty claims, in some areas, where so defined by law, is considered as a service and therefore subject to applicable rates of value added tax.

Approved repair facilities may return failed material and claim copy directly to an authorized Meritor WABCO designated location for inspection. All material inspections require a claim disposition response in OnTrac within 15 days of receipt of part or equivalent dealer Proof of Delivery. The supplier agrees to accept a debit for the entire claim amount if no response is provided within 15 days of the receipt of the part or per agreed proportion.

NOTE: Supplier return locations shall be within the United States, and the supplier shall be responsible for setting up and bearing all additional costs related to any consolidation centers for returns outside the United States. Supplier also agrees to return rejected warranty parts to the dealer, upon request, freight collect to the dealer.

The supplier will reimburse Meritor WABCO for all applicable warranty expenses within 30 days from receipt of invoice and associated claim data for payment. If the supplier fails to respond within 30 days of receipt of the invoice, Meritor WABCO is authorized to debit supplier's account for the full amount of the warranty costs.

2.27 Product Safety and Compliance Requirements

Advance Notification of Potential Safety Nonconformities: The supplier must notify Meritor WABCO as soon as reasonably practicable, after discovering any nonconformity relating to the performance of the product, in a way that may result in undue risk to motor vehicle safety or compliance, because of the product's design, construction, or performance. This communication must be in the form of a written notice. Meritor WABCO and the supplier will cooperate fully using Meritor WABCO's Product Safety and Compliance (PSAC) process to identify the cause of the nonconformity and develop a plan for the prompt resolution of the nonconformity.

Regulatory Compliance: The supplier must be knowledgeable in all applicable government statutes, regulations and standards relating to motor vehicle safety (e.g. 49 USC 301, et seq., TREAD Act on Product Safety) within the territories of use.

Regulatory Notice: Supplier will provide Meritor WABCO written notice of the occurrence of any of the following within (10) days following such occurrence: (i) supplier receives a request for documentation or information from a U.S. or foreign governmental agency (a "Government Agency"), including an Information Request from the National Highway Traffic Safety Administration ("NHTSA") of the U.S. Department of Transportation, that may relate to products supplied to Meritor WABCO; or (ii) supplier submits documentation or information to a Government Agency, including a NHTSA Defect and Noncompliance Report pursuant to 49 C.F.R. 573, that may relate to products supplied to Meritor WABCO. In addition, supplier will provide Meritor WABCO with a copy of any and all of Meritor WABCO's Confidential Business Information (as defined by 5 U.S.C. 552(b)(4)), that it intends to submit to a Government Agency by supplier, whether voluntary or as compelled by such Government Agency, within ten (10) days prior to such submission to allow Meritor WABCO the opportunity to take reasonable measures to protect its trade secret and/or commercial proprietary interests in such information, or (iii) supplier submits and TREAD Early Warning Reporting data or other information to NHTSA regarding any Meritor WABCO products. The supplier must also provide Meritor WABCO copies of any data, materials, or information identified in subparts (i) through (iii) upon written request.

Supplier will reimburse Meritor WABCO for all administrative, material and labor costs and expense associated with any Federal and Canadian Motor Vehicle, United States Environmental Protection Agency and California Air Resources Board recall and/or product repair program conducted due to the product being defective or in non-compliance with any Federal and Canadian Motor Vehicle Safety Standards or United States Environmental Protection Agency or California Air Resources Board Emissions Regulations, and where such defect or non-compliance is caused by supplier.

The parties agree to negotiate in good faith for the allocation of any other expenses, costs or losses incurred by Meritor WABCO as a result of any product recall / repair programs.

2.28 Charges for Supplier Responsible Nonconformance

In addition to specific costs incurred by Meritor WABCO associated with the failure/nonconformance (refer to section 2.23), an administrative charge will be imposed for each nonconformance for the following reasons:

- a) Nonconformance Report (e.g. DMN, NCR) or Nonconforming Service
 - \$100 - first occurrence
 - \$100 - overdue corrective actions not submitted within 30 days
 - \$300 - follow-up if overdue corrective actions not submitted within 15 days of first overdue notice
 - \$300 - second occurrence
 - \$500 - multiple occurrences; repeat issues due to ineffective problem solving
- b) PPAP submission rejections, delays or shipments of unapproved product.
 - \$300 - any PPAP rejection, including costs of 100% inspection that may be required.
- c) Delivery Performance Failures (in addition to any specific costs incurred by Meritor WABCO associated with the failure).

A supplier who causes a Meritor WABCO or OEM line shutdown, will be required to reimburse Meritor WABCO for the full cost of production downtime, as well as any OEM imposed charges.

If a supplier believes that they have been unfairly charged for administrative fees, they shall contact Supply Chain Manager to initiate a dispute resolution process. Dispute resolutions regarding actual nonconformance's are handled through Meritor WABCO Quality.

2.29 Record Retention

Suppliers are required to maintain production part approval process (PPAP) packages, annual layout and validation records, tooling records, traceability records, engineering records, purchase orders and amendments for the length of time that the part (or part family) is active for production and service requirements plus one calendar year or a minimum of 10 years whichever is longer, unless otherwise specified by Meritor WABCO. Corrective Action records are to be retained for 3 years. Quality performance records such as control charts and inspection and test results are retained for 3 calendar years after the year they were created, 10 years for records of conformance to safety/critical characteristics.

The above time periods are considered "minimum". All retention times shall meet or exceed the above requirements and any governmental requirements.

3.0 Supporting Documents

3.1 Meritor WABCO's Supporting Forms/Documents

Supplemental Meritor WABCO forms and documents are available at <http://www.meritorwabco.com>.

3.2 Supporting Industry Documents

AIAG (Automotive Industry Action Group) Core Tools are available at <http://www.aiag.org/>:

- Production Part Approval Process (PPAP)
- Advanced Product Quality Planning and Control Plan (APQP)
- Potential Failure Modes and Effects Analysis (FMEA)
- Measurement Systems Analysis (MSA)
- Fundamental Statistical Process Control (SPC)

4.0 Document Control

This manual supersedes all previous Rockwell WABCO and Meritor WABCO supplier quality systems requirements manuals. A controlled copy is available at: <http://www.meritorwabco.com>.

4.1 Revision History

<u>Revision Level</u>	<u>Date</u>	<u>Revision Description</u>
Previous	Various	See Rev 4 of SQSR Manual
5	Aug 13, 2010	Replace previous SQSR in compliance to ArvinMeritor SQSR Rev 5 adapted to MW processes and NA requirements; add Insurance, C-TPAT and ITAR compliance.
6	March 30, 2012	Update various wording; requirements.
7	August 5, 2013	Remove Insurance 2.30, minority reporting, C-TPAT 2.33, export compliance 2.34 (moved to PO T&Cs), revise 2.15 to remove ELV and include GADSL, remove specific form list, replace Meritor legacy Pre-Award with Pre-Launch 2.3, move 2.23 admin charges to 2.28 and clarify. Add packaging & labeling to changes 2.12 and Supplier Packaging and Labeling Requirements to 2.17.
8	March 19, 2014	Added change notification form, location and timing to 2.12
9	September 18, 2015	Added supplier PPAP email address and corrected title in 2.11 Added changed product marking requirements to 2.12, Added iPoint ID and Conflict Minerals email address to 2.15

4.2 Prepared By

Anne Balkcom
Director, Quality & Compliance

September 18, 2015

4.3 Approval

Stephen Hampson
President and General Manager

September 18, 2015