SUPPLIER MANUAL

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1. INTRODUCTION

Our customers expect us to meet and exceed their expectations. In order to do so, we need competitive, reliable and innovative suppliers, committed to our common goals.
The Suppliers' manual defines expectations and requirements of the SEP group towards its suppliers and practical instructions for their implementation.
By issuing a quotation or signing the Supply agreement, the Supplier undertakes to act in compliance with all indicated principles and processes.
SEP undertakes to respect all provisions of this manual and to maintain a long-term partnership with the supplier.

1.1. Policy

To ensure a reliable supply and improve competitive advantages in the entire supply chain through:

- continuous improvement of supplied goods and quality of service,
- streamlining of the supply costs
- efficient logistics
- supply risk management.

1.2. Vision

From our suppliers we expect competitiveness, reliability, developmental orientation and partnership, which is based upon:

- **»Do it right the first time«:** planning, knowledge, competence and responsiveness
- **»Do it right every time«:** excellence and reliability
- **»Continuous improvement«:** development orientation, enhancement of competitiveness, partnership.

1.3. Purpose

The purpose of this manual is:

- to present to its suppliers the requirements and expectations of the SEP,
- to define mutual obligations and responsibilities,
- to acquaint the suppliers with the supply processes,
- to ensure the right flow of information and efficient communication,
- to successfully manage changes in the introduction of the new products,
- to efficiently implement preventive and corrective measures.

2. GENERAL CONDITIONS AND PROVISIONS

2.1. Confidentiality

SEP considers operations with suppliers as confidential; such operations are considered as professional secrecy. Similarly, information and documentation originating from such a business relationship are also confidential. Confidentiality also remains after closing the business relationship between SEP and the supplier. All requirements that SEP transfers to its suppliers must be in hierarchy downwards to its sub-suppliers and other business partners, with whom they cooperate.
All documents originating and forwarded in a business relationship between SEP and the supplier are business secret and the property of SEP. The supplier must ensure suitable storage and availability of these documents to SEP.
Such documents cannot be forwarded to third parties without SEP's approval.
The supplier confirms their obligation with the ***Declaration of Confidentiality***, which it receives upon inquiry. The supplier must complete, sign and return the form to SEP.

2.2. Responsibility

The supplier is fully liable in material and moral sense to meet all contractual duties and process implementation, which are described in this manual. He has to ensure that the supplied products and services comply with SEP's requirements given in the relevant technical documentation and other formal requirements.
SEP requires from all its suppliers:

- JIT deliveries and
- Supplies without non-conformities.

2.3. Staturory and regulatory conformity

The suppliers are responsible for meeting the latest applicable statutory and regulatory and other requiremenst of the countries where they operate and in the customer-identified conuntries of destination.

2.3.1. Environmental requirements

In compliance with the accepted environmental policy, SEP transfers the environmental requirements to the suppliers by requesting them to consider the valid national environmental legislation and recommendations for certification to the standard ISO 14001. Using the questions about respect of environmental on ***Questionnaire for new supplier*** SEP checks the suppliers' environmental responsibility, which is one of the criteria for selection and approval of every new supplier. Environmental responsibility of the suppliers that are not certified to ISO 14001 is assessed in the same way by SEP every three years.

Supplier should address at least the following:

Waste Management: Waste should be minimized and items recycled whenever this is practicable. Effective controls of waste in respect of ground, air, and water pollution should be adopted. In the case of hazardous materials, emergency response plans should be in place.

Packaging and Paper: Undue and unnecessary use of materials should be avoided and recycled materials used whenever appropriate.

Conservation: Processes and activities should be monitored and modified as necessary to ensure conservation of scarce resources, including water, flora and fauna and productive land.

Energy Use: All production and delivery processes, including the use of heating, ventilation, lighting, Information Technology (IT) systems and transportation, should be based on the need to maximize efficient energy use and to minimize harmful emissions.

Materials and components built in the products of SEP must be manufactured in compliance with the EU Directive 2000/53/EC and its Annex II. of the European Commission Resolution of 27/06/2002.

2.3.2. Safety data sheet, declarations

In compliance with the requirements of SEP, the supplier is obliged to deliver with the supplied materials the following:

- Safety data sheets
- Material certificates,
- Others Declarations according to requirements.

2.4. General terms of delivery

General terms of purchase are a constituent part of every Request for Quotation (RFQ) and every Supply Agreement.
The following conditions must be met:

- it has to have arranged and maintained records of technical documentation,
- it has to have an arranged control over its suppliers and incoming materials,

- new materials must be sampled, approved, and appropriately stored,
- it has to make technological-control technical documentation and to use it in production,
- it has to have relevant and capable working tools and equipment
- it has to have all measuring devices, which are necessary to ensure product quality and have them regularly checked in metrological sense,
- implement control over quality in operations of a production system and make records on quality,
- in production, suitable labelling of products has to be used by operations of a technological process,
- at the end of a production process, it has to control the product quality before shipment,
- it has to ensure a working environment, in which the working process suits the conditions required by the product quality.

2.5. Quality system

The suppliers' commitment to supply products in compliance with the quality requirements has to be ensured by a modern and efficient quality management system, which includes the principle "zero nonconformity" in the development, production and all other processes. The emphasis has to be on preventive methods and not on methods of detection of nonconformities. **SEP requires suppliers to establish, implement and certify the quality management system that meets the requirements of ISO 9001 or the recommended standard IATF 16949. If the supplier does not have the correct certificate, he must obtain the consent of SEP**.

When a SEP customer requires quality management system evaluation at the supplier, the supplier has to enable it. The same applies for sub-supplier evaluation.

2.6. Technical requirements

Suppliers are obliged to maintain and suitably store all the received documentation. For this purpose, records must be kept of the received documentation and of all changes.

Technical issues must be solved exclusively with the responsible people in the Purchasing Division of SEP. The technical documentation given to the supplier can only be changed by SEP by the specified procedure.

2.7. Sub-suppliers

The requirements set by SEP to its suppliers must be transferred to their sub-suppliers. All manufacturers included in production-supply chain must use suitable quality management systems at their work, as only in this way it is possible to ensure quality of the final product.

2.8. Special tools, devices and measuring equipment

SEP is the legal owner of special tools and devices... The suppliers have them only on loan; they are irrevocably property of SEP. The supplier can under no circumstances use them for production of a third person's products, except in exceptional circumstances with SEP's written approval.
Special or standard production tools are also the property of SEP. The same is true of measuring instruments that SEP lends to suppliers on a short-term basis for faster execution of the order.
SEP does not allow any unarranged changes on the tools without its approval. A supplier can implement changes to these tools only after written approval by SEP. The procedures allowed are only those for maintenance, necessary for perfect tool operation and long life. The supplier must keep records of all encroachments into the tools. The maintenance costs are charged to the supplier.
The supplier has to suitably insure all tools and devices that are the property of SEP against damages of all kinds or loss.
The supplier is also obliged to metrological check the measuring instruments owned by SEP on a regular basis. For these the same requirements apply as for the tools.
After finishing the contractual work, the supplier is obliged to return to SEP all the borrowed tools and measuring instruments. He must do this within 14 (fourteen) days after maturity of the contractual relationship. The tools and measuring instruments must be returned in the same condition as they were received, except for normal wear and tear. The supplier is obliged to inform SEP about tools that are no longer in use and request further instructions. The tools and devices can only be written off after written approval from SEP. If tools are not the property of SEP special arrangement is required- ***Tool loan agreement.***

3. COMMERCIAL REQUIREMENTS – INQUIRY AND CONTRACT

3.1. Purpose

The purpose of the process of supply is to ensure a stable and efficient provision of material needs and services of the SEP by competitive terms.

3.2. Selection of possible suppliers

The suppliers' abilities and capabilities of meeting SEP's requirements are the main guidance in preliminary selection of a supplier.

At this stage, all potential suppliers are categorized in respect of their ability to meet the requirements regarding:
• quality (PPM, efficient claim solving),
• competitiveness (assurance of target prices, productivity),
• time of delivery (project time table, delivery dates),
• Support in development, innovation and communication and
• other abilities in compliance with the ***Questionnaire for new supplier.***

3.3. Demand and supply

In addition to the quality aspect, the supplier must also be price-competitive. SEP sends the supplier the request for quotation when:
- it is looking for new products,
- it is changing technical requirements for a product,
- it is implementing logistical changes (packaging, transport),
- it is conducting analysis of the supply market.

The Purchaser send to supplier ***Request for quotation along with List of requirements for material and Supplier feasibility statement***. The supplier's responsibility is to check all the necessary technical, safety, and environmental data before issuing a quotation and to determine their feasibility and risk assesment and/or confirm it in ***Supplier feasibillity statement***, which must be sent together with offer and signed ***List of requirements for material***. Every detail, requirement, dimension etc., which the bidder cannot ensure has to be indicated in the offer.

The supplier has to present suggestions for reducing product prices in the entire time of the validity of the order whereby the functional and quality requirements must remain ensured. SEP expects its suppliers to meet the annual goals of price reduction through process improvements and successful use of internal reserves.

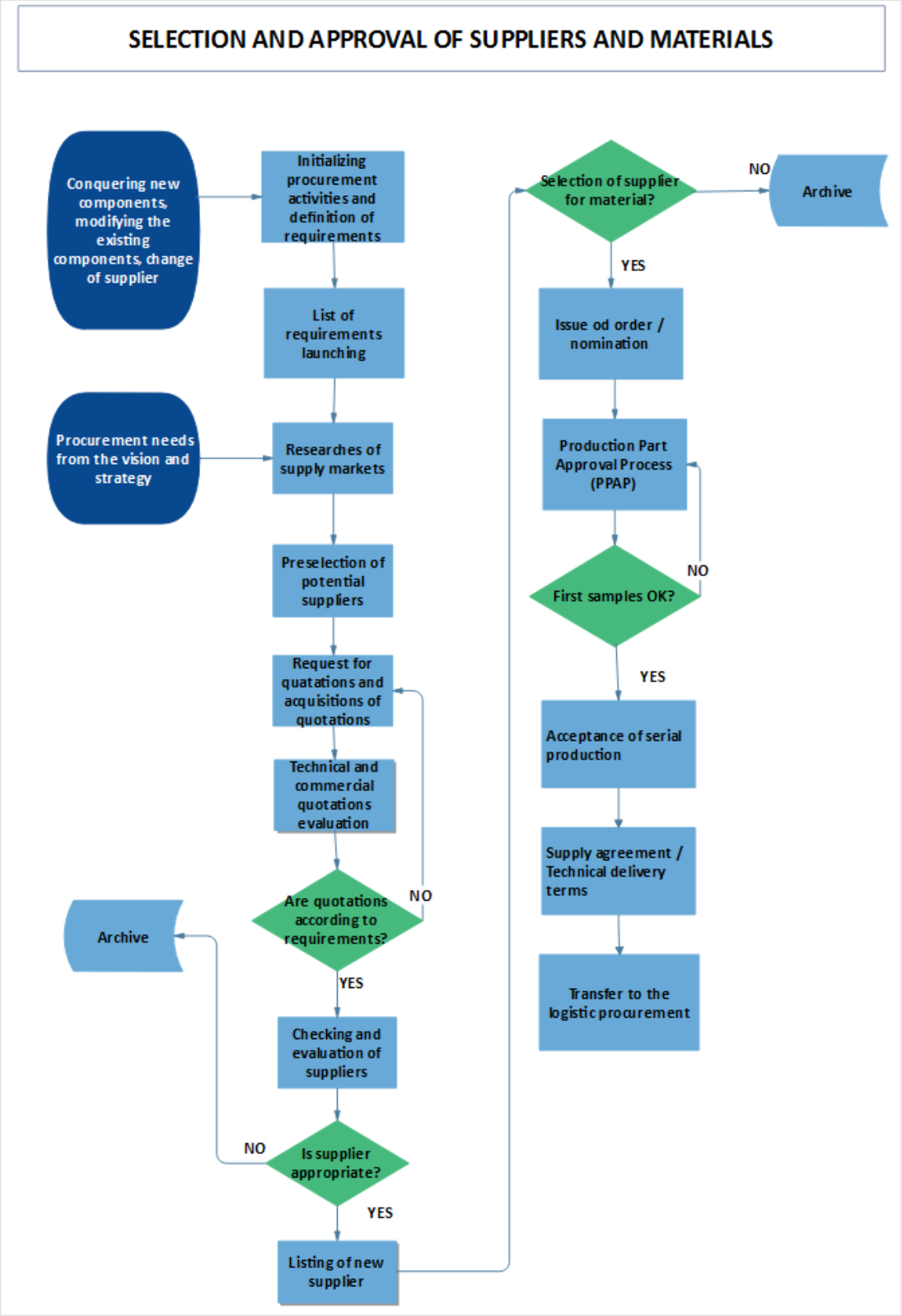
3.4. Supply agreement-TPP (technical delivery terms)

The legal basis for supply is a ***TPP (technical delivery terms),*** which results from a mutual understanding of the business partners. TPP is normally signed in order to make long-term relationships with the suppliers. Approved quotation and written order approval in a broader sense is also considered as a supply agreement.
SEP and the most favourable bidder bring into line all terms of supply and agreement; SEP prepares the TPP and sends it to the supplier for signature.
An agreement is valid when it is signed by SEP team and an authorized representative of a supplier.
The prices and terms of delivery written in the agreement refers to all deliveries during the validity of the agreement. The invoices and requirements of the supplier which are not based upon a written order of SEP will be turned down.
The goal of SEP is to make a long-term supply agreement with the supplier, which gives a legal basis for development of a long-term partnership.

4. SELECTION AND APPROVAL OF SUPPLIERS

4.1. Selection and approval of new suppliers

The process of selection and approval of a new supplier is shown in the following diagram:



4.2. Self-presentation

Self-assessment is the first step to the process of approval of a new supplier. In this way SEP wishes to acquire new data on the producer. For this purpose SEP sends the supplier a ***Questionnaire for new supplier*** which must be completed and returned to SEP.

4.3. Supplier evaluation

4.3.1. Self-assesment

To ensure the adequacy of supplier quality system, the supplier carries out a self – assessment by completing questionnaire ***Audit at supplier***. The supplier is ranked to one of the following classes according to the acquired number of points:

Povprečje / Overall Score	Segmentacija / Segmentation	Opis / description
VSE ZELENO >79%	Level 1 - STRATEŠKI / STRATEGIC	**OBSTOJEČI DOBAVITELJ / CURRENT SUPPLIER:** Dobavitelj je ocenjen odlično Level 1 / *Supplier is currently performing at a Level 1* - **PRIPOROČEN za nove projekte /*Recommended strongly.***
		NOVI DOBAVITELJ / NEW SUPPLIER: Dobavitelj je dosleden, ocenjen z Level 1/ *Performance is consistent with Level 1 performance* **-PRIPOROČEN za nove projekte /*Recommended strongly.***
60-79%	Level 2 - PREFERIRAN / PREFERRED	**OBSTOJEČI DOBAVITELJ / CURRENT SUPPLIER:** Dobavitelj trenutno ni ocenjen odlično Level 1, vendar ima možnost z izboljšavami doseči ta level. */ Not currently performing at a Level 1 but has the potential with minimal improvements. Existing bussiness can continue and the supplier can be considered for new business -* **PRIPOROČEN za nove projekte /*Recommend with Corrective Actions.***
		NOVI DOBAVITELJ / NEW SUPPLIER: Dobavitelj ima možnost doseči Level 1 z minimalnimi zahtevanimi izboljšavami./ *Has the potential to perform at a Level 1 with minimal improvements require.* **-PRIPOROČEN za nove projekte / *Recommend with Corrective Actions.***
40-59%	Level 3 - VZDRŽEVAN / MAINTAIN	**OBSTOJEČI DOBAVITELJ / CURRENT SUPPLIER:** Potrebne so korektivne aktivnosti za izboljšanje ocene dobavitelja. Med tem časom se sodelovanje nadaljuje z zahtev po pregledu korektivnih aktivnostih. / *Corrective actions are needed for the supplier to improve performance. During this time, business can continue upon review of corrective actions.* - **NI PRIPOROČEN za nove projekte -Dobave s tveganjem / *Not recommended- Source with risk.***
		NOVI DOBAVITELJ / NEW SUPPLIER: Potrebne znantne korektivne aktivnosti, da bo ocena sprejemljiva - / *Significant corrective actions needed to bring the performance to an acceptable level.* - **NI PRIPOROČEN za nove projekte -Povpraševanje s tveganjem / *Not recommended- Source with risk.***
< 39%	Level 4 - NESPREJEMLJIV / NON-PERFORMING	**OBSTOJEČI DOBAVITELJ / CURRENT SUPPLIER:** Ocena ne zadostuje minimalnim zahtevam SEP-a. / *Performance not consistent with minimum SEP requirements.* - **NI PRIPOROČEN za nove projekte. Plan korektivnih aktivnosti mora biti načrtovan in izveden v roku 60 dni. Nesupeh se bo rezultiral v iskanje alternativnega dobavitelja. / *Not recommended fro new business. A corrective action plan must be provided and implemented within 60 days. Failure will result in alternative site sourcing.***
		NOVI DOBAVITELJ / NEW SUPPLIER: Dobavitelj ne more biti nominiran za nov projekt. / *No new business will be awarded.* **NI PRIPOROČEN za nove projekte / *Not recommended - do not source.***

Using the self-assessment as a reference, SEP makes a decision on how to continue with the process.

4.3.2. Supplier evaluation

SEP can, if necessary, implement its own evaluation of the quality management system at the potential supplier by if previously announced.
After the evaluation, SEP determines any further measures, which may be necessary to eliminate detected nonconformities. SEP sends the supplier a common evaluation in which the recognised nonconformities are listed. The supplier shall make a Plan of corrective measures and return it to the auditor by the set time limit. SEP has the right to check efficiency of the implemented corrective measures any time on first demand.

4.3.3. List of approved suppliers

Any supplier, which meets all conditions and criteria of SEP is placed on Approved supplier list.

5. QUALITY REQUIREMENTS

5.1. Purpose

A supplier's commitment to provide products in compliance with the quality requirements has to be supported by a modern and efficient quality management system, which includes the principle "zero nonconformity" in development, production and all other processes. The emphasis has to be on preventive methods and not on of detection of non-conformities.

5.2. APQP Planning

On SEP's request, the supplier shall make a project plan for new product industrialization. This has to include elements of advanced product quality planning (APQP), time plans, activity reviews, control points, target dates and a list of responsible people. The plan's objective is to meet the quality requirements in respect of a product and to implement the project in time.

5.3. FMEA

The suppliers must make an FMEA of the process (PFMEA) for all parts subject to regular supplies to SEP. When a supplier is responsible for product planning, he/she shall make an FMEA for the construction (DFMEA).

An FMEA can be made for parts families, where the same processes, joint tools and the same control plan is used.
On SEP's request, the supplier will provide copies of documents from the FMEA for the revision of the SQE (Supplier quality Engineer). A copy must be provided in the language of the local supplier and also in English. If a document is considered confidential, the supplier can make available only certain chapters and/or offer technical support to the SQE in explanation of the FMEA, without submitting an entire copy of the FMEA. The correspondence that states confidential data is included in the certificate of the process PPAP. When preparing an FMEA, the supplier must use principles and evaluation in compliance with the last valid AIAG reports (FMEA manual), if not these must be otherwise agreed with SEP.

5.4. Key characteristics

Key characteristics or product properties, which are closely linked to safety aspects, legal regulations and product quality, are marked on ***List of requirements for material*** or drawing with symbols according to SEP's requirements.
The minimal requested process ability for every key characteristic is Cpk > 1.33. If with the key characteristics the required process ability is not achieved (Cpk at least 1.33), the supplier must carry out 100% inspection/control and/or he/she has to introduce other appropriate principles to achieve the required quality (POKA YOKE, milestones...).
In all cases SEP expects "zero defects" in all supplies.
Key characteristics are already established in the planning process (DFMEA) in SEP, in order to guarantee special attention in establishing process abilities and control. It is important that the supplier includes all key characteristics in its FMEA and control plan and makes sure that all suitable controls are carried out. Key characteristics require special treatment in the PPAP, implementation of the measuring system analysis (MSA Gage R&R), and statistical process control (SPC).

5.5. Control plan

The last valid version of instructions AIAG, i.e. APQP with instructions for the control plan, must be used as a basis for development and maintenance of the control plan (e.g. prototype, pre-series & production).
SEP reserves the right to approve the supplier's control plans.
The supplier must make control plans for all products or families of products. The plans for individual families can be used for products with common or similar processes. In products and process controls, it is necessary to focus on prevention rather than detection of faults and subsequent correction. Special attention has to be paid to finding the correct input control parameters. The suggested corrections or product reworking defined in the control plan must be submitted for approval by SEP as part of the initial PPAP or through a later request for change or submission of PPAP from the supplier.
A corrected or reworked product must be checked again according to the requirements set in the control plan and suitably documented.
The control plan must contain at least the following:

- consecutive number and operation name
- quality characteristics of a product or a process, which need to be checked
- sample size
- measurement frequency
- inspection or measurement method
- specification designation and/or the measure manner in case of nonconformities

5.6. Implementation of quality control

5.6.1. Series production control

The supplier must control their working process in respect of the given requirements so as to ensure the required quality.
Therefore the supplier makes and maintains technological, control and other necessary documentation for individual operations of the production process. Also SEP checks part of this documentation in the PPAP.

Similarly, the supplier is obliged to use statistical tools for process control by implementing appropriate corrective measures. The supplier is obliged to provide all measuring and testing equipment foreseen in the control plan.
The supplier has to record the measurement results for each operation in a final product; SEP has the right to review these records. On SEP's request the supplier has to deliver measurement results from output control (final control) and/or material certificates of conformity upon every delivery. The records are kept by the supplier for at least ten (10) years for the ordinary and fifteen (15) years for safety critical products. This also applies after the order has been cancelled.

5.6.2. Control before shipment

Before shipment, the supplier is obliged to recheck the product compliance in respect of the requirements. This control must be included in the quality documents as an obligatory operation of the production process.
The supplier has to inspect every delivery, regardless of the number of products included.
The control before shipment consists of:

- control of compliance of product packaging
- control of accuracy of the indicated amounts
- control of placing of the record labels and their correct completion
- control of inspection of implementation of all the specified production operations in a product
- control of implementation of all measurements and tests required by the inspection plan for production process and compliance of results

6. LOGISTIC REQUIREMENTS

6.1. Packaging

SEP and the supplier make an arrangement about the type of packaging, carton and manner of labelling of packaging units before the agreement is signed. The arrangement applies to an individual product and is a component part of the supply agreement.
In this, general principles and obligations apply:

- packaging must comply with SEP's requirements and the valid international environmental standard,
- The packaging must protect products against general impacts of storage and transportation; it has to make sure that the products reach the final spot, where they are put into use, undamaged.
- The packaging has to enable removal of samples, storage and further transportation, and it has to be adjusted to delivery at the point of supply.
- every packaging unit has to be marked with transportation labels,
- all transport units must enable machine operation,
- the packaging shall not constitute a hazard for the workers,
- delivery of full packaging units is recommended,
- every packaging unit must keep its initial form until the place of use,
- packaging unit dimensions must be consistent with the way of storage,
- a packaging unit has to contain the goods:

• of the same manufacturer,
• of the same part number or code,
• of the same date of manufacture (in principle)
• of the same batch (in principle).

6.2. Package labelling

Every packaging unit of a supplier has to be labelled in compliance with SEP's requirements. The supplier is liable for additional costs or material loss, which results from deficient labelling, packaging or transportation.
Every unit of packaging and transportation has to have a label. If not otherwise agreed by SEP and the supplier, labelling by the ODETTE or VDA standard is used.
The label has to indicate the following data:

- manufacturer's name,
- goods name,
- order number,

- identification number of a product of SEP,
- quantity in units,
- batch number,
- date of manufacture (of packaging),
- a stamp of the supplier's outgoing inspection,
- bar code

If a packaging unit consists of smaller packaging units, there should be a label with the same data placed to each of them. All chemicals shall have on every packaging unit data that are required by the Chemicals Act and the Safety Data Sheet.
The contents of the waste label shall be in compliance with the applicable waste legislation.

6.3. Transport

The supplier has to come to an arrangement with SEP regarding product transportation. The arrangement shall be an integral part of the supply agreement-Technical delivery trems. In this, transportation requirements and product specific characteristics must be considered.

6.4. Orders and calls-off

SEP orders goods and services by two types of supply orders;

- Supply order with price, quantity and delivery term
- Fixed order + Delivery schedule with call off for 12 weeks, in case of continuis call offs

For planning of material requirements, SEP uses the system ERP, which is the basis for issuing supply orders.
An order with a call off consists of a fixed part and a forecast. The fixed part of a call off is conditional with the supplier's time of delivery therefore both data are as a rule the same.
The supply of the ordered quantities is delivered to the central warehouse or directly to production in compliance with the agreed parity from the supply agreement-TPP. Within the method of ordering with call offs, the times of delivery and manner of supply for the supplier are obligatory and do not allow delays or early deliveries.
SEP has the right to deny or store products delivered before the agreed term at the expense of the supplier.
In the case of failed deliveries (except in cases of force majeure), SEP has the right to:

- require from the supplier the entire or partial delivery and charge them for the incurred for the costs of elimination of consequences resulting from nonconforming deliveries, if not otherwise agreed,
- order products from another manufacturer at the expense of the supplier.

The supplier is obliged to ensure buffer stock and keep it in their warehouse in compliance with the agreement and/or at least fifty per cent (50%) of the monthly needs (based on average of the last three months). The supplier must allow the customer inspection of the buffer stock on first demand.
SEP and the supplier may make an arrangement to use a consignment warehouse at the customer's locations to ensure in time supply.
In case of force majeure, SEP and the supplier must make a special arrangement on new terms of delivery. A basis for such an arrangement is a written supplier's note to SEP regarding the impossibility to deliver the good in the originally agreed time period.

7. PRODUCTION PART APPROVAL PROCESS (PPAP)

7.1. Purpuse

Quality planning is essential for quality assurance, continuous improvement, prevention of nonconformities and process optimization.
PPAP (Production Part Approval Process) is a process that enables the supplier to start manufacturing products so that they prevent any kind of risk and guarantee long-term quality assurance.
By PPAP SEP checks if:

- the supplier understands all its requirements,
- disposes with all required documentation,
- has a process that is fit enough,
- the first parts, made under the conditions of serial production, actually comply with all the set requirements.

The samples are free of charge, unless otherwise agreed.

7.2. PPAP requirements

SEP requires from its supplier written proofs (submissions) for implementation of this inspection. A successfully closed PPAP and approval of the part from SEP is a condition to start regular deliveries.

A required level of submission is Level 3 defined in PPAP AIAG Manual, unless otherwise agreed. A normal volume of production for implementation of PPAP is at least 30 (thirty) parts consecutively manufactured using a series process, environment, measuring instruments, tools and staff, unless otherwise defined.
Requirements of PPAP:

- Drawing (last valid issue)
- Document changes (approval of changes before issuing)
- Approval of documentation from the customer (if necessary)
- FMEA constructions
- Process Flow Chart
- FMEA process
- Dimensional measurements
- Test results
- IMDS (SEP's ID: 31426)
- Certificate of used material
- Process abilities (key characteristics)
- Measurements system analysis (MSA) (analysis of measuring tool capabilities foreseen in the control plan)
- Documentation regarding suitability of laboratories
- Control plan (control plan for all operations of the process)
- PPAP requirements form – sampling (PSW)
- First samples (first samples from serial production)
- Reference sample (a sample that is used as a quality standard, approved by SEP)
- Measurement instruments (a list of the necessary measurement instruments)
- Records on conformity with special customer requirements

The supplier is obliged to carry out all the necessary processes and prepare suitable documents for the indicated items.
The Purchasing Division of SEP forwards to the supplier the PPAP requirements – sampling form, including all requirements, the level of submission and statement of documentation that needs to be submitted- – ***PPAP Submission requirements***.

A PPAP must be submitted in the following cases:

- new supplier,
- new products,
- design change,
- material change,
- technology change,
- tool renewal or replacement,
- change of production location,
- replacement of a sub-supplier or a source of supply.

7.3. Submission and forwarding information to SEP

A PPAP must be submitted in the following cases:

- new supplier,
- new products,
- design change,
- material change,
- technology change,
- tool renewal or replacement,
- change of production location,
- replacement of a sub-supplier or a source of supply.

7.4. PPAP Procedure

PPAP procedure is performed based on the "PPAP manual" following the AIAG Manual.

7.5. SEP's decision

After documentation and first sample review, SEP takes one of the following decisions and communicates it to the supplier:

- **approved:** the supplier fully meets SEP's requirements and can start with regular production and order deliveries,
- **temporarily approved:** a supplier does not fully meet all SEP's requirements, SEP therefore approves only limited amounts of products and requires the following from the supplier:

• to find out the causes of nonconformities,
• to prepare and submit a plan of corrective measures,
• to prepare a new submission of samples or documents to gain a total approval

- **rejected:** a supplier does not meet SEP's requirements.

SEP can also reject PPAP documentation and first samples in the cases when:

- documentation and first samples have not been supplied in the agreed time,
- the required documentation or quantity of first samples has not been delivered,
- first samples have not been labelled,
- reports with measurements are not complete,
- first samples have not been made in conditions of serial production.

The approval process of first samples can take plenty of time and expensive endurance tests of final products that must be carried out by SEP in order to approve the first samples. Thus SEP has the right to charge for all costs incurred by repeated product samplings (due to the supplier's fault).
A supplier can start with regular delivery of products only after written approval of PPAP. SEP will settle all the invoices for tools, material and test equipment only after approval of first samples.

7.6. Storage of records and samples

Both SEP and the supplier must keep records and samples that are subject to PPAP for the duration of the supply agreement and for at least ten (10) years after its termination/expiry. Traceability of document changes and first samples must be ensured.

8. NONCONFORMITIES OF A SUPPLIER

8.1. Nonconformities

SEP requires all products that it receives from suppliers to be in compliance with the quality requirements. Every received nonconforming product will be rejected. All direct and indirect costs incurred from this shall be charged to the supplier.
These costs are for example:

- transport and handling,
- picking-sorting
- extra work,
- downtimes in production,
- sales shortfall and
- administrative work,
- other costs according with invoices recived based on this defect.

In case of nonconformities of the supplied goods, SEP retains the payment, calculates account and all incurred costs according to price list in contract-Technical delivery terms- ***Claim costs*** and invoices the supplier.

In the case of hidden nonconformities of the purchased goods, which are found only at SEP's customer, SEP has to right to charge the supplier all incurred direct and indirect costs (repair, replacement of products at home and at the customer, call offs etc.).

8.2. The supplier's requirement for non-conformity approval

If a supplier discovers non-conformity of a product during the production process or before shipment, he/she can ask SEP for an opinion in respect of product acceptability. For this purpose, he/she fills in a form ***Deviation authorization*** and sends it to the supplier quality engineer in charge for approval. In the case of approval, the supplier can deliver to SEP only the approved shipment.
The same applies for any other temporary change (related to certain tools or technology).

8.3. Claims

SEP starts a claim procedure when it finds a non-conforming delivery in respect of the agreed requirements. In such case it sends the supplier ***Claim record.***
Claims can result from:

- nonconforming packaging and designations,
- nonconforming quantities,
- nonconformities of the supplied products,
- the agreed documentation which has not been delivered.

Nonconformities are determined at the stages of:

- shipment acceptance,
- use in production or
- at SEP's customer.

By signing a delivery note, SEP confirms shipment acceptance, which does not mean however that the approved shipment conforms in respect of quality or quantity.
With regard to the seriousness of nonconformities and possible consequences, claims can be:

- a reprimand (supplied products are used) or
- rejection (supplied products are not used; they are returned to the supplier).

All further activities must be carried out through the buyer of goods in SEP.

8.4. Measures

SEP expects from the supplier immediate and efficient action to eliminate the causes of nonconformities and prevent their recurrence.

8.4.1. Immediate and corrective measures – corrections

In case of quality discrepancies in the material or the supply, the Buyer is obliged to inform the Supplier. In 24 hours after receiving the complaint report (an open 8D report), Supplier is obliged to commence mending the problem in question and to finish this immediately or in the shortest possible time, as stated in the order or in the complaint. Complaints shall be treated pursuant to the 8D procedure, which is to be fulfilled consistently by the Supplier and followed by appropriate actions:

Supplier is obliged to commence mending the problem in question and to finish this immediately or in the shortest possible time, as stated in the order or in the complaint. Complaints shall be treated pursuant to the 8D procedure, which is to be fulfilled consistently by the Supplier and followed by appropriate actions:

- the 8D report is binding
- Observance of 3D 24 hours (if not agreed otherwise with SEP SQE): plan of immediate damage control measures.
- Observance of 6D 10 days days (if not agreed otherwise with SEP SQE): corrective actions along with root cause analyse made by the Ishikawa method and 5x Why method. In terms of analyzing root causes, supplier must provide analysis:
  1. 5 reasons why – WHY NOK part was produced?
  2. 5 reasons why – WHY NOK part was delivered?
- Observance of 8D 30 days ((if not agreed otherwise with SEP SQE): complete report on the efficiency of the implemented measures on the 8D Report form.
- In the framework of problem solving, PFMEA (risk analysis) is obligated to submit. Supplier must also verify and revise other documentation related to the issue (Flow chart, control plan, work instructions, machine setting sheet, drawing, maintenance plan, training plan, change of system documentation, working/control means, etc.).

- If it is necessary to apply for an extension to the timing, please submit a detailed timing plan to SEP SQE for approval.
- The completed 8D report and confirmation by SEP are a condition for the completion of the complaint.
- Packaging of the material must be marked as 100% inspected for at least 3 consequent deliveries. In case of complaints concerning a material, for which the Supplier claims to be 100% inspected for the subject of the complaint, the Supplier assumes complete responsibility and is obliged to cover all costs concerning the second complaint.
- The Supplier is obliged to convey the error to all his suppliers, who influence the error in question.
- In case of a complaint, the material loses its AQP status
- If SEP finds the planned measures insufficient, it will require a new plan from the supplier.
- If the implemented measures (in respect of supplies) prove to be insufficient, SEP will send a supplier quality engineer to the supplier. The supplier must allow the quality engineer on first demand:
  a.) to conduct an extraordinary audit of a process or a system,
  b.) review the production process as well as the entire documentation in order to prepare a common plan of corrective and preventive measures.

In case the Supplier does not mend the error in the set deadline and does not reimburse inflicted damages, the Buyer holds the right to delay invoicing for performed services or to settle liabilities with the Supplier.

If a supplier does not respond to the requirement, SEP understands this as a breach of the supplier's obligations. In such cases SEP has the right to trigger claims against the supplier to refund all directly and indirectly incurred costs. In respect of the given possibilities SEP and the supplier must agree about the most suitable measure and carry it out.

8.4.2. Repeated claims

In cases of non-conformities that lead to higher costs or in cases of non-conformity recurrence, SEP requires the supplier to prepare a plan of a permanent elimination of non-conformities. The claim is being considered as repeatable when determined by the 8D team based on the following specifics:

- Has the claim repeated on the same product
- In the same size range
- At the same location
- With the same function of inadequacy

In the event that the 8D Team decides the claim is repeatable; the additional necessary measures for the repeatability analysis shall be followed where the development team and the supplier team are involved. Depending on the nature of the claim, additional laboratory analyzes (tests, validations, ...) can also be required.

9. IMPLEMENTATION OF CHANGES

After product approval SEP does not allow any change is made to a product, process or production location. This refers to technical requirements, documentation, own sources of supply, technologies, processes, production location. The supplier can change all the above only by prior agreement with SEP.

The supplier shall provide SEP with information in the following cases:

- use of different construction or material as was used in the previous confirmation
- production on new or changed tools, models, templates, including added or interchangeable tools (applies to tools which with their shape or function affect to completion of final product)
- updating or rearrangement of the existing production devices (improved capacities, Cpk, change of a process flow chart)
- change of production location with the same tools and equipment
- replacement of sub-supplier for parts or services that affect the product form or function
- for production by tools or equipment which has not been used for more than 12 months (except in small non-regular series production)
- changes of products or processes of internal suppliers or sub-suppliers, which affect the form, reliability or function of a product
- changes of testing methods (a new method must ensure the same results as the old one)

- change of products or internal processes at suppliers or sub – suppliers, that affect the form, stability or function of a product
- change of test methods (new method must ensure the same results as the old one)

9.1. Product changes by SEP

SEP will implement product changes following requests to the supplier and presentation of modifiaction on ***Modification at supplier notification.*** Based on this, the supplier carries out feasibility analysis, evaluation of all costs related to the change; in addition he/she prepares the time plan for implementation. Supplier should also present dimensional report along with required capabilities for special characteristis before and after required change.
SEP will inform the supplier about the planned date of sampling and change implementation. The costs of a change, unserviceable inventories and possible price change are subject to agreement between SEP and the supplier.

9.2. Changes recommended by the supplier

SEP expects all of its suppliers to implement continuous improvements in order to improve quality and reliability, and to reduce labour and product costs.
Requests for changes are triggered by submitting ***Change request from supplier*** to the Purchasing Division. After analysing a suggestion, SEP informs the supplier about its decision. In the case of a rejection, SEP must give its reasons for this. If a suggestion refers to product requirements, SEP triggers a change management procedure in respect of the product's documentation. Based on this, the supplier carries out feasibility analysis, evaluation of all costs related to the change; in addition it prepares the time plan for implementation. Supplier should also present dimensional report along with required capabilities for special characteristis before and after required change.

10. EVALUATION AND DEVELOPMENT OF SUPPLIERS

10.1. Purpose

The purpose of evaluation and development of suppliers is to monitor and enhance suppliers to achieve excellence in operations and in meeting of all SEP's requirements.
By evaluating deliveries, we continuously control quality of the supplied goods and services for the needs of production. The collected data helps when taking decisions on selection and implementing corrective measures at the supplier. SEP and the supplier are constantly informed about the level of quality of the goods.

10.2. Evaluation

10.2.1. Monthly evaluation

The main highlights of supplier evaluation are in the following areas:

QUALITY - ppm (goal ≤ targeted ppm)	20%
RESPONSIVNESS ON CLAIMS	20%
ACCURACY OF DELIVERIES	9%
NUMBER OF EXPRESS DELIVERIES	5%
ACCURACY OF ORDERED QUANTITIES	9%
SUITABILLITY OF REQUESTED PACKAGING AND LABELS	6%
SUITABILLITY OF REQUESTED DOCUMENTATION	6%

PRODUCTION ON HOLD AT CUSTOMER	5%
TECHNICAL SUPPORT	10%
QUALITY CERTIFICATES	10%

Evaluation of suppliers is carried out once a month, while the SEP sends the supplier assessment for review 1x per quarter – ***Assessment of supplier.*** SEP analyzes supplier's score every quartal, where three of the worst rated suppliers are indentify. For these suppliers multidisciplinary team carries out a more detailed analysis of the score using the ***Open list of deviations***. The purchaser monitors corrective actions until their realization. Possible consequences:

- escalation proces at hogher management,
- required action plan with timing of improvement and checking of these imporvements,
- audit on site,
- regular telephone conferences (based on agreement)

10.2.2. Risk assesment

It is carried out at least once a year for an individual supplier. The treated risk assessments are as follows:

- financial risk (because of small company at supplier or based on finantial indicators, trends)
- dependency on SEP (% of supplier's production for SEP)
- dependency on supplier (for suppliers materail there is no alternative)
- quality system (implemented system, indicators and goals...)
- new product/process at supplier
- long distance of supplier location (long transports, bigger risk for material loose)
- lond delivery terms
- indirect supplier (slow reactions, lack of technical support,..)
- material has no alternative material
- material available only for specific project
- capacity

Based on recognized risks, SEP notify about this suppliers and together with them create action plan to decrease risks.

10.2.2.1 Risk assesment at suppliers and their sub-supplier

Supplier is obligated to have a risk assesment process in place to identify areas within the supply chain process that could affect the ability to meet the SEP's requirements in the event of a deviation from the normal bussines process.

10.2.3. Supplier classification

In respect of the gained evaluation SEP classifies suppliers in 4 groups as follows:

GROUP	RATING
A	91-100 Supplier meets the requirements of SEP.
B	81-90 Supplier meets the most requirements of SEP.
C	75-80 SEP requires preventive and corrective action plan.
D	< 75 Supplier doesn't meet/satisfy the needs of SEP (conditionally supplier).

10.2.4. Opportunities for suppliers

The suppliers that are classified in class A can count on advantages in orders, partaking in new projects and acquiring new orders.

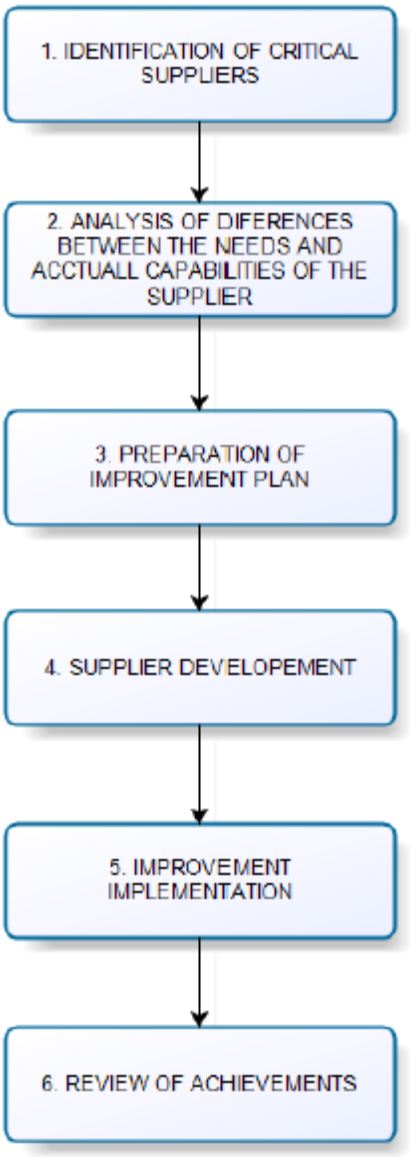
SEP expects its suppliers ranked as C or D supplier in quartal to prepare a plan of progress, which must show areas of progress, with implementation deadlines, and executers in charge. For these suppliers are new bussinesses on hold until it is not shown their progress, at least on B level.

10.3. Supplier escalation process

The purpose of the Supplier Escalation Process is to provide a structured framework for dealing with those suppliers who do not meet the requirements of SEP d.o.o. and represent a risk to the overall supply chain, (Quality, Delivery, or both). It is intended as a formal means of providing technical assistance, support and guidance to suppliers whose own concern management processes appear to be inadequate or out of control.

10.4. Supplier development process

Suppliers' development stages are as follows:



10.5. Supplier development plan

10.5.1. Continuous improvements

SEP expects its suppliers to follow the principles of business excellence and to continuously improve operations in all areas

- Quality
- Price efficiency
- Supply of material and services
- Research and development, and technological equipment
- Financial stability and efficient cash flow management
- Purchasing logistics
- HRM
- Risk Management.

10.5.2. Price efficiency

To stay competitive in world markets, SEP is continuously forced to reduce its product prices. Therefore SEP and its suppliers must use a carefully planned approach towards reduction of costs and consequently acquisition prices.
SEP will reduce purchasing prices through long-term agreements with suppliers, benchmarking and redirecting orders to less expensive suppliers. SEP believes that suppliers should develop a process of continuous cost reduction with an efficient and successful implementation of programmes of quality improvement, concurrent development and value analysis techniques. Irrespective of other requirements, SEP expects every supplier to give suggestions for cost reduction every year by submitting the form **Suggestion for cost reduction**. Before implementing the suggestion, the supplier must acquire written approval from SEP when dealing with a product change. The achieved cost reductions must reflect in the supplier evaluation.

10.5.3. Productivity

SEP stimulates suppliers to continuously implement operative improvements in their production capacities and to strive for the use of a lean production policy. In this way we will ensure an enduring and competitive business environment in the global market.

10.5.4. Suppliers' training

An important approach to suppliers' training includes:

- workshops, the purpose of which are improvements, searching for and realization of additional savings in the supply chain; workshops can be organized on the initiative of SEP or the supplier
- conferences with suppliers, the purpose of which is to inform suppliers regarding the business or development trends of SEP, expectations of SEP towards suppliers and presentations of new techniques in operations with suppliers
- other ways of training and education.

10.5.5. Implementation of improvements and review of achievements

The suppliers are obliged to concurrently check and analyse the effects of the planned measures and goals set in the suppliers' development plan in cooperation with SEP. After a successful realization of the set improvements, the suppliers shall inform SEP about their performance at least twice per business year.

11. »CONFLICT MINERALS«

On July 16, 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). On August 22nd 2012, U.S. Securities and Exchange Commission (the “SEC”) established rules requiring companies that file certain reports with the SEC to provide an annual disclosure as to the source of certain materials designated as “conflict minerals” in their products.

"Conflict Minerals" currently include gold, as well as tin, tantalum and tungsten, the derivatives of cassiterite, columbite-tantalite, and wolframite, respectively. These conflict minerals are referred to as "3TG."

This provision in the Dodd-Frank Act is an effort to further the humanitarian goal of ending violent conflict in the Democratic Republic of the Congo (the "DRC") and the adjoining region. This conflict has been partially financed by the trade of certain minerals, known as "conflict minerals," in the DRC and in adjoining countries, which include Angola, Burundi, Central African Republic, the Republic of the Congo, Rwanda, South Sudan, Tanzania, Uganda and Zambia.

SEP Group is required to comply with the above requirements and must therefore perform due diligence on, and make disclosures concerning, its use of conflicts minerals originating in the Democratic Republic of the Congo (DRC) and adjoining countries.

As a SEP supplier you are required to respond to information requests from SEP regarding the uses and sources of conflict minerals (tin, tungsten, tantalum and gold) in your products including information about minerals that are recycled or scrap. In order to respond to SEP's information requests, you will need to make similar inquiries to your suppliers as a means to investigate the source of materials in your products, and to provide SEP the requested information based upon the results of such inquiries.
As a consequence SEP requires from its Supplier base the following actions:
1. To be in conformity with the Dodd-Frank Wall Street Reform and Consumer Protection Act. Additional information are available at : www.aiag.org
2. Fill in the available Conflict Minerals Reporting Template available on: http://www.conflictfreesourcing.org/conflict-minerals-reporting-template
3. Return the Template dully filled in to Purchasing SEP.

12. CONTINGENCY PLAN

The supplier shall prepare contingency plans to satisfy SEP requirements in the event of an emergency such as utility interruptions, labor shortages, key equipment failur. When the supplier knows in advance of an impending production interruption, the supplier shall notify the SEP receiving plants (Logistics), the Buyer and the SQE at least 24 hours, if possible, before that interruption. The nature of the problem shall be communicated with the immediate actions taken to assure supply of product. Production interruptions may include (but are not limited to) natural disasters, political unrest, war, capacity issues, quality issues, labor strikes or other events that prevent the supplier from meeting the specified capacity volumes. The supplier is required to advise SEP of the plan for recovery and work toward minimizing its effect on the SEP plant.

13. SOCIAL RESPONSIBILITY, HEALTH AND SAFETY, CODE OF CONDUCT

In addition to all applicable laws and regulations to be observed by the Supplier, it is also Supplier's obligation to respect social responsibillity duties, specially but not limited to requirements based on Universal Declaration of Human Rights (UDHR) proclaimed by the United Nations General Assembly in Paris on 10. December 1948 and International Labour Organization (ILO) conventions proclaimed to respect employees rights, age and working hours limits, etc. SEP requests from supplier to sign ***Sustanibillity commitment*** each year.

14. ATTACHMENTS AND REVIEW OF RELATED DOCUMENTS

OBR 7.4-01-08 Declaration of confidentiality
OBR 7.4-01-01 General conditions of purchase
OBR 7.4-01-15 Questionnaire for new supplier
OBR 7.4-01-25 List of requirements for material
OBR 7.4-01-27 Supplier feasibillity statement
OBR 7.4-01-05 Tool loan agreement
OBR 7.4-01-11 TPP-Technical delivery terms
OBR 4.0-01-23 Audit at supplier
OBR 7.4-01-10 PPAP Submission requirements
OBR 7.4-01-14 Claim record
OBR 4.0-01-58 Claim costs

OBR 7.4-01-17 Modification at supplier notification
OBR 4.0-01-19 Deviation authorization
OBR 7.4-01-04 Change request from supplier
OBR 7.4-01-24 Assesment of supplier
OBR 7.4-01-16 Suggestion for cost reduction
OBR 7.4-01-20 Sustainibillity commitment
NZD 7.4-01-04 Supplier escalation process

ANNEX TO SUPPLIER MANUAL (OBR 7.4-01-20 / Rev. 02/ 22.1.2018)

☐ accepted with remarks ☐ accepted without remarks

DOBAVITELJ	**SEP D.O.O.**
SIGNATURE SALES Date/Name and surnate/position	SIGNATURE PURCHASING Date/Name and surnate/position
SIGNATURE QUALITY Date/Name and surnate/position	SIGNATURE QUALITY Date/Name and surnate/position

Item in Supplier manual	**Cause of disagreement**	**Proposoal for change**