

Escalation Process

Below is a description of MEKRA's escalation process for suppliers.

1. Defining the Status

As a rule, each supplier is at level E 0. Should quality issues occur that were caused by the supplier, the supplier can be conditionally assigned to one of the escalation levels listed below (see Section 3). For this to happen, the supplier does not need to have gone through the previous escalation levels. The same applies in reverse to the deescalation process, with one exception: level E 0 cannot be reached without first going through level E 1. Using the form "Escalation Process Status Report" the supplier's executive board is informed of the escalation level assigned.

2. Defining the Scope

Depending on the type and scope of the supplier's performance deficit (quality, delivery performance, communication/provision of information), MEKRA defines and schedules the measures and conditions to be taken. The supplier agrees to proactively provide MEKRA with an action plan containing the defined measures and requirements, and to do so in a timely fashion.

3. Escalation Levels

3.1 Escalation Level 0 (E 0) – Standard Procedure

According to standard procedure and as contractually agreed, deliveries are inspected by MEKRA using regular dynamic sampling for incoming goods, and are rejected, if deviations from specifications are detected.

Following a rejection, MEKRA's quality assurance unit may issue an informal inspection report for individual deliveries requiring the supplier to carry out special inspections, such as inspecting 100% of the upcoming three deliveries. The special inspection requirement applies to both the rejected characteristic and the rejected product.

3.2 Escalation Level 1 (E 1) – Intensified Procedure

If the number of quality issues caused by the supplier continues to increase, MEKRA may require the supplier to inspect the goods more stringently. To this end, MEKRA moves the process up to escalation level 1 and issues a formal status report (QSV_A_Eskalation Prozess-Escalation Process) to inform the supplier's executive board of the respective conditions.

If the supplier, by means of appropriate corrective actions, does not cause any further rejections for a period of time defined by MEKRA, a formal *status report* is issued to downgrade the escalation level from E 1 back to E 0.

3.3 Escalation Level 2 (E 2) – Warning

If the supplier causes additional quality issues while assigned to escalation level 1, MEKRA is entitled to escalate further. To this end, MEKRA moves the process up to escalation level 2 and issues a formal *status report* to inform the supplier's executive board accordingly.

In the event of especially critical faults, escalation level 2 can be invoked even if escalation level 1 was not assigned before.

If the supplier, by carrying out appropriate corrective measures, does not cause any further rejections for a period of time defined by MEKRA, and complies with any additional requirements that may have been imposed by MEKRA, a formal status report is issued to downgrade the escalation level from E 2 back to E 1.

3.4 Escalation Level 3 (E 3) – New Business Hold (NBH)

If none of the activities result in a marked quality improvement, or if escalation level 2 is maintained for too long, MEKRA will lock out the supplier from new project contracts temporarily, by invoking the *New Business Hold* (NBH) status. Using a formal status report which also contains the criteria to be fulfilled for having the *New Business Hold* status revoked, the SQA informs the supplier's executive board accordingly.

Additional reasons for invoking the status *New Business Hold* include the following:

- The quality management system certification expired more than six months earlier or is invalid
- Lack of cooperation by the supplier regarding necessary corrective measures
- Inadequate security of supply

The *New Business Hold* status is revoked only after MEKRA has validated the effectiveness of the imposed measures. The supplier is officially informed of this fact by way of a *status report*.

3.5 Escalation Level 4 (E 4) – Disqualification

If no significant quality improvements can be reached despite MEKRA's support, or if the defined conditions are not met, the supplier will be excluded permanently from new business contracts and replaced for the existing business with a new supplier as soon as possible.

4. Conditions

4.1 Controlled Shipping Level 1 (CSL 1)

Controlled Shipping Level 1 (CSL 1) means that in addition to the regular inspection tasks, the supplier must perform a full (100%) inspection regarding material numbers and characteristics defined by MEKRA before each delivery to MEKRA. The supplier is informed of these and any documentation requirements by way of the *status report*.

The inspected products and the packaging must be labeled separately. MEKRA must be consulted regarding labeling type and content.

4.2 Controlled Shipping Level 2 (CSL 2)

Controlled Shipping Level 2 (CSL 2) means that in addition to the regular inspection tasks, the supplier must engage a third-party service provider to perform a 100% inspection regarding material numbers and characteristics defined by MEKRA before each delivery to MEKRA. The supplier is informed of these and any documentation requirements by way of the *status report*.

The supplier shall provide the third-party service provider with sorting instructions which have to be pre-approved by MEKRA. The supplier is responsible for the proper performance of sorting tasks, the documentation of results and the quality of the products delivered.

The inspected products and the packaging must be labeled separately. MEKRA must be consulted regarding labeling type and content.