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Procedure title:	DIRECT DELIVERY AND OUTSOURCING: REQUIREMENTS AND DEFECT MANAGEMENT	Revision:	00

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1 DEFINITION

For the sake of making this Procedure easier to read, the involved suppliers are defined and classified as follows.

SUPPLIER(S) A: “upstream” supplier(s) (e.g. manufacturers of raw parts, semi-finished parts, components for assemblies) who deliver products that need further machining/assembly by another supplier before they can be used by BERCO.

SUPPLIER B: an intermediate supplier who processes/assembles the product supplied by A and delivers to BERCO directly.

DIRECT DELIVERY

For logistic reasons, supplier A delivers directly to another supplier, type B, which helps avoid transit through and checking by BERCO.

A $\Longrightarrow$ B $\Longrightarrow$ BERCO

OUTSOURCING

Products manufactured by a supplier type A transit through BERCO before they are processed/assembled by supplier type B under outsourcing conditions.

A $\Longrightarrow$ BERCO • $\Longrightarrow$ B $\Longrightarrow$ BERCO

The two situations above may be present simultaneously: supplier type A may deliver directly to supplier type B under outsourcing conditions.

Please also find below the definitions of the terms Repair and Reworking referenced in the procedure for Nonconformity (NC) Management implemented by BERCO S.p.A..

REWORKING: action(s) performed on a nonconforming product so as to restore it to conforming conditions.

REPAIR: action(s) performed on a nonconforming product so as to make it usable even if the nonconforming conditions persist - these conditions must be accepted under concession.

2 PURPOSE

To define the requirements that govern direct delivery relationships and the procedures to manage material found to be nonconforming, both under direct delivery and outsourcing conditions.

In other words, this procedure is intended to clarify that **BERCO must be fully informed and must have control over the entire supply chain** when it comes to NCs concerning the outsourced products as BERCO is the owner of such goods.

3 SCOPE OF APPLICATION

This Standard Procedure shall apply to all nonconforming materials manufactured by supplier A and processed/assembled by supplier B.

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4 RESPONSIBILITY

The Supplier Quality entity of BERCO S.p.A. shall:

- manage replies to NC Notifications and inform the involved suppliers about any decision made;
- draft the corresponding reports through QN (RNC);
- visit to the suppliers if the defective material report shows ambiguities;
- check that the corrective actions have been implemented at the time of initiatives at/with the external suppliers (meetings, audits, etc.).

The Purchasing Dept. of BERCO S.p.A. shall:

- manage the list of suppliers who are involved in the direct delivery relationship.

5 REQUIREMENTS GOVERNING THE DIRECT DELIVERY RELATIONSHIP

All the involved suppliers (type A and/or type B) shall have in place a quality system qualified by BERCO. At the time of PPAP order approval, the Supplier shall comply with the terms defined in the Production Component Approval Procedure (PS_001_ita_QAM) (link <https://www.thyssenkrupp-berco.com/it/company/downloads>).

6 LIST OF SUPPLIERS AND PRODUCTS INVOLVED IN DIRECT DELIVERY

The Purchasing Dept. of BERCO S.p.A. shall fill out and keep up to date (edition no. and date) a list of all the suppliers who are involved in the direct delivery relationship and the relevant product codes delivered by A to B and by B to BERCO.

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7 MANAGEMENT OF NONCONFORMITIES

Below are the definitions of the procedures to manage nonconformities in cases of “direct delivery” and “outsourcing”.

7.1 Definitions of defect types

As already defined in the Standard Procedure for NC management, 2 types of defects are identified.

TYPE 1: an isolated and evidently nonconforming component (cracks, surface damage, impossible to assemble, incomplete) - the fault does not cause production downtimes/delays.

TYPE 2: defective components likely to cause production downtimes.

Below are the defect management procedures, which are similar for both types.

7.2 Management of defects TYPE 1 and TYPE 2

7.2.1 NCs identified by BERCO directly

These NCs shall be handled by the Area Quality/Supplier Quality entity of BERCO following the guidelines laid down in the Standard Procedure for NC management. As clearly pointed out in the Standard Procedure for NC management, the request for an 8D Report is implicit where the defect is TYPE 2.

The Area Quality/Supplier Quality entity of BERCO shall timely contact supplier **A** and/or supplier **B** and inform them of the ongoing situation and about any decision made.

The Area Quality/Supplier Quality entity of BERCO shall handle the nonconforming material using the NC Report (following the guidelines laid down in the Standard Procedure for NC management).

7.2.2 NCs identified by intermediate supplier B

If the NC is found to have been caused by supplier A, supplier B shall immediately inform the Area Quality/Supplier Quality entity of BERCO who shall, in turn, involve A and A's Buyer.

B shall report the NC in writing and the report shall provide details of the defect type and extent, and the step in the process in which it was identified. If ambiguities are likely to arise, a sketch or the relevant part of the drawing must be attached.

Supplier B shall, where possible, sort the components to avert production disruptions while waiting for the undertaken decision.

After this, the Area Quality/Supplier Quality entity of BERCO shall check the supplier's report and, where ambiguities exist, they shall visit B directly to check the defect reported by B.

The final decisions shall be notified to supplier B and supplier A by the Area Quality/Supplier Quality entity of BERCO, and the respective Buyers too shall be informed.

The Area Quality/Supplier Quality entity of BERCO shall then start the Standard Procedure for NC management. As clearly pointed out in the Standard Procedure for NC management, the request for an 8D Report is implicit where the defect is TYPE 2.

7.2.3 Processing/assembly scraps

These are scraps of supplier B resulting from incorrect processing/assembly operations during the production process.

Supplier B shall timely inform BERCO and report the scrap using the goods return note showing the wording “scrap due to processing error” in the cause box. Based on the information specified, the Area Quality/Supplier Quality entity of BERCO shall handle the nonconforming material using the NC Report

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(following the guidelines laid down in the Standard Procedure for NC management) issued to supplier B.

As clearly pointed out in the Standard Procedure for NC management, the request for an 8D Report is implicit where the defect is TYPE 2.

8 MANAGEMENT OF DEROGATIONS REQUESTED BY SUPPLIER A

The guidelines given in the procedure for derogation/concession management have to be followed (ref. procedure PS_002_QAM).

The Supplier Quality entity of BERCO shall give supplier B a copy of the derogation/concession (only if approved) (ref. form MOD-002_QAM) requested by A.

The product that A delivers to B and the product shipping to BERCO from B must be identified with a copy of the derogation/concession document (form MOD-002_QAM) affixed on each container.

The product that BERCO inspects before its delivery to supplier B must keep the identification using a copy of the derogation/concession document (form MOD-002_QAM). The Supplier Quality entity of BERCO is responsible for this aspect.

9 REWORKING AND REPAIRS

Two possible options apply.

9.1 REWORKING/REPAIRS MADE BY SUPPLIER CAUSING THE NC

Nonconforming material is rejected and returned to the supplier guilty of having caused the NC - it may be both A and B - irrespective of the nonconformity having been identified at supplier B or at BERCO.

Having acknowledged the NC, the Supplier Quality entity of BERCO shall specify whether the component is to be reworked or repaired. If it is to be **repaired** (ref. definition in section 1), the supplier guilty of having caused the NC shall ask BERCO for a concession, which BERCO has to grant, before the part can be repaired.

9.2 REWORKING/REPAIRS MADE BY A DIFFERENT SUPPLIER OR AN INTERNAL ENTITY

If supplier B identifies the NC and supplier A has caused the NC, supplier B shall send the defective material to BERCO together with a goods return note. Supplier B shall be responsible for clearly marking the material for the sake of its traceability.

Based on the information provided on the note, the Area Quality/Supplier Quality entity of BERCO shall manage the material by way of storing it separately and identifying it.

Both when the NC is identified at BERCO and when it is detected at supplier B, one of the 2 cases below applies based on the information given in the NC Notification issued by the Area Quality/Supplier Quality entity of BERCO.

A RWORKING

The Area Quality/Supplier Quality entity of BERCO issues a NC Report (to notify QN) to the guilty Supplier (A). The material is reworked by an internal entity or by a third party - the third party may also be supplier B prior authorisation by BERCO - and the related costs are charged to the involved supplier.

B REPAIR

The guilty supplier (A), as previously informed by the Area Quality/Supplier Quality entity of BERCO, submits a request for a concession to BERCO, in compliance with the Derogation/Concession Procedure

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(PS_002_QAM), and uses the “Request for Derogation/Concession” form (MOD-002_QAM) to suggest that the component(s) be repaired.

Having received the concession outcome (concession approved or denied), the Area Quality/Supplier Quality entity of BERCO issues a NC Report to the guilty supplier and references the concession document either authorising or denying authorisation to the repair.

The Area Quality/Supplier Quality entity of BERCO shall ensure that the containers are identified by affixing a copy of the concession on each of them. This identification must also be preserved/guaranteed by the person carrying out the repair who may be a third-party entity or supplier B.

In both cases, the Area Quality/Supplier Quality entity of BERCO shall inspect the components to check the result of the repair.

10 MANAGEMENT OF NON REUSABLE PARTS

Supplier B may in some cases assemble several components together received from multiple suppliers. If B identifies a NC on the assembled component or on a part of it during the work processes, some parts may be reused while others need to be scrapped as disassembly may damage them.

Non reusable parts must be returned to BERCO together with a goods return note and a report for defective material will follow.

The Area Quality/Supplier Quality entity of BERCO shall issue a NC Report for each defective code to the person causing the scrap. The Area Quality/Supplier Quality entity of BERCO shall also inform the supplier who has caused the NC about the costs incurred to handle the problem, which the supplier will be charged.

11 SUSPENSION OF DIRECT DELIVERY RELATIONSHIP

If NCs are repeatedly identified on the products delivered by a supplier type A, the Purchasing Dept. of BERCO, as reported by the Area Quality/Supplier Quality entity, may decide to suspend the direct delivery relationship. As a result, standard receiving checks at BERCO shall start being performed again on the inbound products from supplier A.

The Purchasing Dept. are responsible for updating the list of suppliers involved and for sending a copy of such list to the concerned Entities (ref. Chap. 5).