

Quality Assurance Agreement (QAA)

concluded by and between

hereinafter referred to as “Contractor”

and

GROHE AG and all companies associated with GROHE AG in accordance with Section 15 of the German Stock Corporations Act (AktG)

hereinafter referred to as “GROHE”.

– hereinafter together referred to as “the Parties” –

Preamble

This Agreement is an essential, integral part of each supply contract between GROHE and the Contractor. It applies to all products supplied by the Contractor under a supply contract. The Quality Assurance Agreement (hereinafter “QAA”) is concluded with the aim of setting up a long-term supply partnership of mutual benefit.

Its purpose is to assure the required quality with high reliability and maximum cost-benefit efficiency on the basis of a mutual strategy of zero defects.

Version : August 2015

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1 Scope

- 1.1 This Agreement applies to all current and future supply contracts between the Contractor and GROHE, unless otherwise agreed.
- 1.2 Any product-specific additions are set out in Appendices 1-5 of this QAA. Appendices 1-5 are a substantive and integral part of the QAA.

2 Quality Management System

- 2.1 The Contractor undertakes to operate a quality management system with current certification (hereinafter also referred to as "QM system" or "QMS") in accordance with ISO 9001 or ISO/TS 16949 (each as most recently amended). Notification of any renewal or revocation of certification shall be given unbidden and without delay. The QMS shall be applied to ensure that all quality assurance measures are planned by the Contractor, documented, and carried out by qualified personnel. The Contractor undertakes to apply preventive quality assurance and continuous improvement methods.
- 2.2 The Contractor shall require any subcontractors to likewise establish, consistently apply and maintain a comparable QM system with the objective of assuring that purchased parts are free of defects and in conformity with order.
- 2.3 In the event of reasonable doubt that subcontractors selected by the Contractor for materials, manufacturing and surface finishing meet the requirements agreed under this QAA, the Contractor shall on request provide GROHE with the names of the subcontractors.

3 Auditing

- 3.1 The Contractor shall allow GROHE to carry out audits to determine whether the Contractor's quality assurance measures meet GROHE's requirements. Audits may be carried out subject to prior appointment and in the form of system, process or product audits. For this purpose, the Contractor shall grant GROHE access during business hours to all operating facilities, test centres, stores and adjacent premises and shall permit inspection of quality-relevant documentation. GROHE's employees shall be required to treat the acquired information in strictest confidence. GROHE shall notify the Contractor of the audit findings in writing. Should GROHE consider action to be required, the Contractor undertakes within reasonable bounds to compile an action plan without delay, implement it on schedule and notify GROHE of the action plan and its implementation.
- 3.2 If quality problems arising at GROHE indicate defective supplies from any of the Contractor's subcontractors, the Contractor shall on demand conduct a corresponding audit at its subcontractor without delay and shall notify GROHE of the findings and any action plan compiled.

4 Information and Documentation

- 4.1 The quality requirements and specified tolerances to be observed by the Contractor are set out in technical documentation such as drawings, standards, specifications, test regulations, etc., which form an integral part of the supply contract. The Contractor shall ensure that production, testing and delivery are at all times in conformity with the technical documentation as most recently amended.
- 4.2 If it becomes evident that agreements reached, for example, with regard to quality requirements, deadlines or supply quantities cannot be met, the Contractor shall notify GROHE thereof without delay.
- 4.3 In the event of any nonconformity with product or service specifications, delivery shall not be made unless special release has been obtained from GROHE. This must be applied for at the competent plant quality office using the application form contained in Appendix 4.
- 4.4 Prior to any of the following:
- Any modification to production processes, sequence or materials (including at subcontractors)
 - Any modification to tooling or significant process parameters
 - Any change of subcontractor
 - Any modification to test procedures/equipment
 - Any transfer of production location
- the Contractor undertakes to obtain written approval from the ISIR plant at GROHE as well as to provide quality certification as agreed and as required by standards. These may include a complete re-qualification and initial sampling.
- 4.5 In order to document the quality level and verify the effectiveness of actions taken, the Contractor shall, in the event that the ppm target is exceeded and commencing with delivery of initial samples, compile a monthly statistical evaluation of the analysis results for the complaints raised by GROHE.
- The statistical evaluation shall include the following information:
- List of defect causes
 - ppm performance over a period of at least 12 months
 - 8D report in relation to the complaints raised by GROHE
 - Start date of each action item
- A specimen evaluation is contained in Appendix 2 to this Agreement. The Contractor may compile the evaluation in a different format provided it contains at least the information stated above.
- 4.6 All modifications to the product and the process chain shall be recorded by the Contractor in a product history sheet corresponding to the specimen contained in Appendix 5 and presented to GROHE on demand.
- 4.7 Test results, evaluations and all other quality-relevant documentation shall be retained by the Contractor for a period of ten years and made available to GROHE upon request.

5 Quality Assurance in the Product Development Process

- 5.1 If the Contractor's contract includes development work, the Parties shall set down the requirements in writing, such as in the form of Specified Requirements.
- 5.2 Prior to conclusion of contract, the Contractor shall verify feasibility following receipt of the order documentation and all technical documentation such as specifications, drawings, standards, bills of materials, test specifications, etc. In particular, the following shall be verified:
- That the required quantity can be produced using the production facilities planned; and
 - That all technical requirements can be met with the minimum capability required.

The Contractor shall give GROHE written notification without delay of any defects, risks and scope for improvements identified in this regard.

- 5.3 The Contractor undertakes to establish a project management system encompassing the planning and implementation phases of product and process development. This shall include the compilation of a QM plan (production control plan) detailing the individual work and test sequences projected. To this end, the resources needed shall be made available, a project plan with milestones compiled and progress monitored in regular reviews. GROHE reserves the right to carry out its own reviews together with the Contractor.
- 5.4 During the development phase, the Contractor shall apply suitable preventive quality planning methods such as DFM, QFD, DOE, FMEA, etc., and shall take experience from similar projects into account.
Design/process FMEAs shall be required if the Contractor supplies products on the basis of its own design drawings. In all other instances, it will be necessary to perform a process FMEA. Corrective action shall be planned and implemented if $RPN \geq 100$.
- 5.5 For prototypes and pre-production parts, the Contractor shall coordinate production and test conditions with GROHE and document these with the aim of producing prototypes and pre-production parts under conditions as close as possible to serial production.
- 5.6 For function-critical and process-critical characteristics, the Contractor shall verify the suitability of the deployed manufacturing facilities, test equipment and test procedures according to statistical criteria and shall document the results.
- 5.7 In quality planning for the serial production process, the Contractor undertakes to submit the test parameters and test strategy and to coordinate these with GROHE as part of sample inspection.

- 5.8 Before commencing serial production, the Contractor shall submit initial product samples manufactured under serial production conditions in the agreed quantity and on schedule, together with the initial sample inspection report (ISIR).
At the time of production of the first production batch (with serial production conditions fully implemented), the Contractor shall conduct a combined product/process audit. GROHE shall be notified of the audit findings on delivery of the initial samples.
The objective of the audit is as follows:
- To verify the implementation and effectiveness of all planned quality assurance measures between incoming goods and shipment; and
 - To establish and verify the serial production capability of all facilities.
- Production shipment shall commence only upon official release in writing by GROHE.
- 5.9 Should GROHE's initial sample inspection report be negative and noncompliance the responsibility of the Contractor, GROHE shall charge the Contractor €125 for the expense of renewed sample inspection.
- 5.10 Initial sample release does not relieve the Contractor of the obligation to supply on-specification products. If subsequent tests identify any noncompliance with specifications unable to be detected in initial sample inspection performed with due care, the Contractor undertakes to take appropriate action in order to ensure that the required specifications are consistently met.

6 Quality Assurance in Serial Production

- 6.1 The Contractor undertakes to harness the knowledge gained in the development phase and observation of ongoing production together with customer complaints regarding comparable products in order to assure and continuously improve its quality level. The Contractor shall pass along the requirements stipulated herein to subcontractors.
- 6.2 In the event of process disruption and deviations from quality, the Contractor shall analyse the causes, implement improvements and verify their effectiveness. GROHE shall be notified unbidden and without delay of any significantly high failure rates, process uncertainty or deviations from requirements detected by the Contractor. In the exceptional event that the Contractor is unable to supply on-specification products, special release must be obtained from GROHE before delivery (see section 4.3).
- 6.3 Information and suggestions from GROHE with a view to improving product quality through process and quality assurance modifications shall to the extent possible be taken into account by the Contractor under its own responsibility.
- 6.4 The Contractor undertakes to ensure that products/parts are correctly labelled and packaged and comply with the general packaging requirements set out in GSO 350.1.1001/ 350.1.010/ 350.1.030 and any specific stipulations agreed with GROHE.
- 6.5 The Contractor shall label materials, components, series, batches, assemblies and products designated to become part of and hence affect the quality of GROHE products in such a way in the processing chain between procurement and delivery to customers as to rule out mix-up, enable unequivocal identification and, in the event of a defect, ensure that the defective parts and batches can be traced and singled out.

- 6.6 The Contractor shall ensure that products made after implementation of a new revision status/index are not mixed with products conforming with an earlier or different revision status. Likewise, the FIFO (first in, first out) rule shall be applied, meaning that no more products conforming with an earlier revision status may be supplied after the first delivery of products conforming with the new revision status. This shall not prejudice the Contractor's obligation to obtain approval from GROHE for product-related changes in accordance with section 4.4.

7 Incoming Inspections at GROHE

- 7.1 GROHE expects stable product quality from its contractors on the basis of controlled processes. For this reason, no technical incoming inspections are carried out. Inspections pursuant to Section 377 of the German Commercial Code (HGB) shall be restricted in scope as follows:

Incoming inspections by GROHE shall be limited to examining for outwardly apparent damage occurring in transit as well as to verifying the quantity and identity of the ordered products by means of the delivery documents. Defects detected in such inspections shall be reported without delay.

- 7.2 The Contractor shall also accept defect notifications concerning defects discovered subsequently. Notification of such defects shall be given without delay following detection. In such instances, GROHE's warranty rights shall be preserved in full.
- 7.3 The Contractor must subject its products to full technical inspection, taking into account the reduced incoming inspections.

8 Complaint Management

- 8.1 In their mutual interest, the Parties aim to process any defect notifications without delay. The processing of defect notifications shall include systematic root cause analysis by the Contractor. GROHE expects the 8D report methodology to be used with a view to permanent defect correction and prevention. The action taken shall be subjected to renewed FMEA.
- 8.2 The Contractor must complete the first four steps of the 8D report and report these to GROHE within **five working days**, presenting a full, conclusive 8D report on every complaint within **ten working days**. GROHE shall be entitled to demand earlier submission if circumstances so require in any individual instance. If the Contractor does not submit within 28 days the technical causer to GROHE the complaint is accepted and valid as fault caused by the Contractor.

- 8.3 In the event of any defect, GROHE shall be entitled, without restriction, to the statutory warranty rights and the contractual rights under guarantee in accordance with section 9. If there is a risk of production stoppages at GROHE or supply shortfalls to customers due to the delivery of off-specification products, the Contractor must take immediate and appropriate corrective action in consultation with GROHE at its own expense. Within 24 hours of receiving a defect notification, the Contractor shall notify GROHE whether timely cure can be effected and, if so, what immediate corrective action is proposed. Should the Contractor fail to respond, GROHE shall be entitled to initiate appropriate and necessary action at the Contractor's expense.
- 8.4 The Contractor undertakes to ascertain whether further defective products or products suspected of being defective have already been supplied or are in transit to GROHE and shall notify GROHE thereof without delay.
- 8.5 The Contractor shall meet all expenses required for the purpose of effecting cure, including but not limited to transportation costs and charges, labour and material costs as well as any costs of removal and installation. In addition, the Contractor shall, provided that the respective requirements under statutory law are met, compensate GROHE for all loss or damage caused by defects. The costs to be reimbursed shall also include external costs of analysis necessary to establish the cause or causes of defects (external laboratory, university, radiological examinations, spectral analyses, etc.).

GROHE shall be entitled to charge the following lump sum amounts by way of compensation for its effort and expense:

- €200 per product in the event of guarantee/warranty claims (*primarily transportation costs and charges as well as labour costs*)
- €80 per defect notification in the event of defective incoming goods or production stoppages at GROHE or third-party production facilities. (*preparing/processing defect notification; technical appraisal; rejection; rework; dismantling; work instructions*)

The Contractor shall retain the right to prove that the loss or damage actually incurred by GROHE amounts to a lesser sum or zero. This shall not prejudice any claims to compensation for additional loss or damage.

- 8.6 Despite every effort to assure product quality, it cannot be ruled out that defective products will reach the customer. Failed or defective products shall, wherever possible, be made available to the Contractor by GROHE at the Contractor's expense. GROHE expects a response to defect notifications for returned products in like manner to section 8.1/8.2. In the event that GROHE has already placed a defective product on the market and the customer has claimed against GROHE on account of the defect, the Contractor shall be precluded from effecting cure by remedying the defect. In such cases, the Contractor shall supply a product free of defects unless the Parties agree that the Contractor is to refund the purchase price for the defective product instead of supplying a replacement. This shall not prejudice any additional rights and claims on the part of GROHE.
- 8.7 The Contractor is obliged to take out product liability and recall insurance with minimum cover of €2,500,000 p.a. The Contractor shall present to GROHE documentary proof thereof on demand. This shall not prejudice any additional claims on the part of GROHE.

9 Contractor's Guarantee

- 9.1 GROHE grants end customers a five-year manufacturer's guarantee. An end customer is any purchaser of the product who does not intend to resell it and/or to install it for third parties in a professional capacity.
- 9.2 The Contractor shall likewise grant GROHE a five-year manufacturer's guarantee for the products it supplies, commencing from the date of purchase by the end customer or on installation of the product if later. Under said manufacturer's guarantee, GROHE shall have the rights set out in section 8 for the entire guarantee period.

10 Quality Objectives

- 10.1 The Contractor is expected to maintain a continuous improvement programme.
- 10.2 The Contractor is under the same obligation to GROHE to pursue the zero defects target as GROHE is to its customers. In the event that the zero defects target cannot be attained in the short term, the Contractor shall propose upper limits for defect rates as temporary interim targets together with suitable action and shall coordinate these with GROHE. Defect rates below the agreed upper limits shall not relieve the Contractor of its obligation to process all complaints and keep up continuous improvement. This shall not prejudice the Contractor's liability for product defects.
- 10.3 PPM targets shall be agreed separately with the Contractor and revised annually as part of annual supplier assessments by Procurement. In case new targets are not set by the end of June in any given year, the most recently agreed targets shall be automatically renewed for another year.
- 10.4 Should agreed ppm targets be continuously exceeded, GROHE shall be entitled to call an unscheduled Quality Meeting. The Controlled Shipping Level process in accordance with Appendix 3 can additionally be applied as follows until ppm performance is consistently below the agreed ppm targets.
- 10.4.1 Any complaint within agreed ppm targets shall solely result in a defect notification.
 - 10.4.2 Any complaint above agreed ppm targets shall result in status CSL1, prompting 100% quality control of the products concerned on Contractor premises.
 - 10.4.3 Any complaint above agreed ppm targets when CSL1 is in force shall result in status CSL2, prompting 100% quality control of the products concerned on GROHE premises by a third party at the Contractor's expense.
 - 10.4.4 Any complaint above agreed ppm targets when CSL2 is in force shall result in status "new business on hold" (NBH). This means that no new orders will be placed with the Contractor for the time being.

11 Environmental Protection

The Contractor undertakes to comply with all environmental, health and safety legislation as well as to organise and operate environmental protection programmes in such a way as to minimise impact on human health and the environment. To this end, the Contractor is expected to establish and improve an environmental management system (EMS) on the basis of ISO 14001. GROHE reserves the right to assess implementation progress by means of audits (see section 4).

12 Term of Agreement

- 12.1 This QAA was concluded by mutual agreement between GROHE and the Contractor. It shall enter into force on the date of signing by both Parties and is thus an integral part of all existing and future supply contracts entered into by the two Parties.
- 12.2 The QAA is concluded for an indefinite period. It may be terminated by either party with six months' notice to the end of a month. This shall not prejudice the right of termination without notice for cause. Notice of termination must be given in writing.

13 Severability Clause

If any provision of this Agreement is or becomes legally ineffective, the effectiveness of the remaining provisions shall not be affected. In any such event, the Contractor and GROHE shall agree upon a legally effective provision that comes as close as possible to the commercial purpose of the ineffective provision.

14 Applicable Standards/Terms and Conditions

The requirements of the following standards and regulations apply except where the QAA stipulates otherwise:

DIN EN ISO 9000	Quality Management Systems: Fundamentals and Vocabulary
DIN EN ISO 9001	Quality Management Systems: Requirements
DIN EN ISO 9004	Managing for the Sustained Success of an Organization: A Quality Management Approach
DIN EN 14001	Environmental Management Systems
DIN EN ISO 19011	Guidelines for Auditing Management Systems
VDA 6.1	German Automotive Industry Association Standard: QM System Audit
VDA 6.2	German Automotive Industry Association Standard: QM System Audit – Service
VDA 6.3	German Automotive Industry Association Standard: QM Process Audit
General Purchase and Supply Conditions of GROHE AG	

In addition, the Contractor shall have due regard to the product specifications, drawings and customer requirements on which each order is based.

The Contractor shall be responsible for obtaining or requesting any missing documentation such as drawings, current standards, terms and conditions, and other specifications.



15 Final Provisions

- 15.1 This Agreement is governed by and construed in accordance with German law to the exclusion of the United Nations Convention on Contracts for the International Sale of Goods.
- 15.2 The place of jurisdiction for all disputes arising from or in connection with this Agreement is the location of GROHE headquarters.
- 15.3 Any amendments or supplements to this Agreement must be made in writing. The same applies to amendment or revocation of the written form requirement.

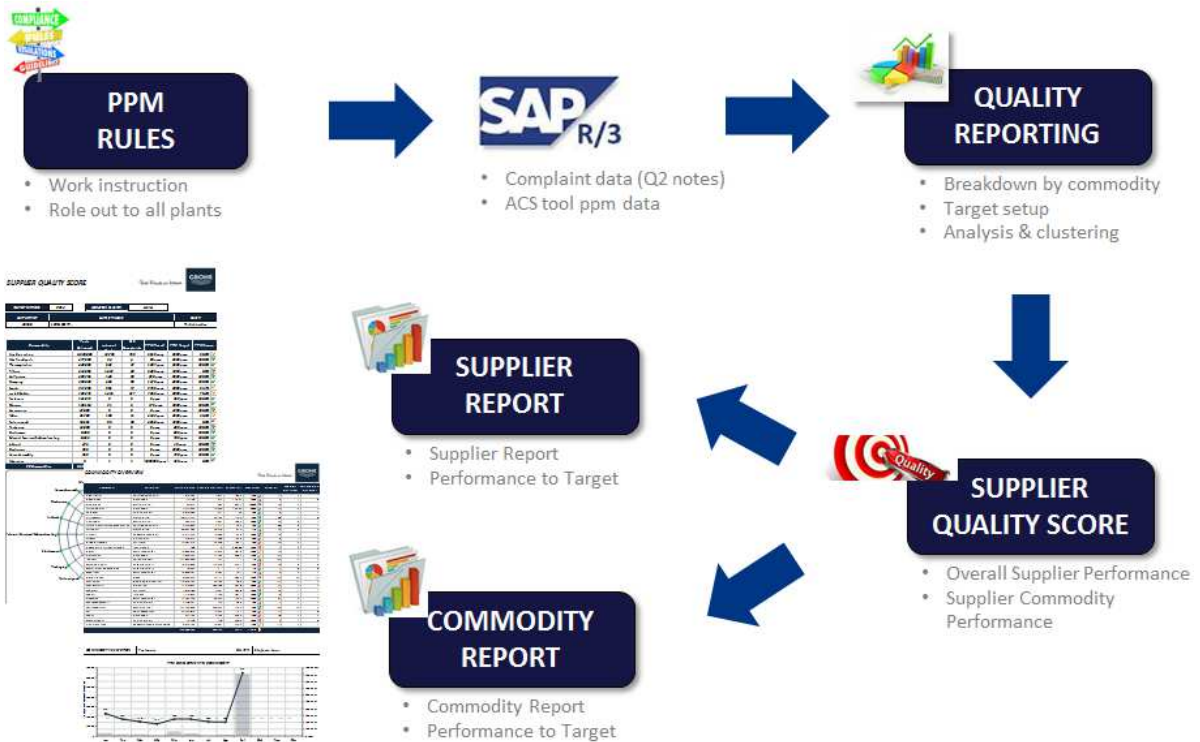
Place, date

Signatures for GROHE AG

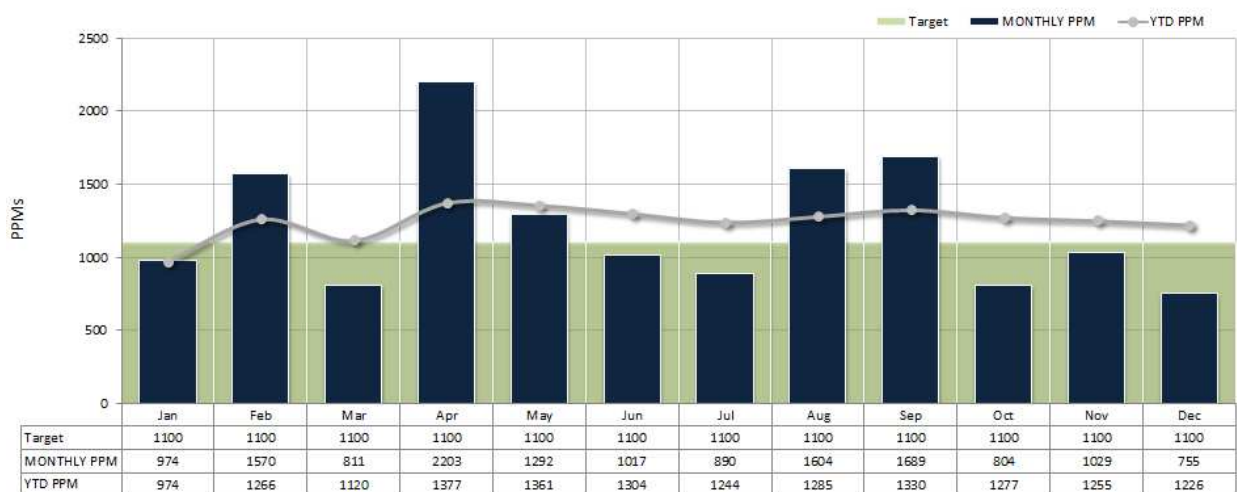
Place, date

Signatures for Contractor

Appendix 2



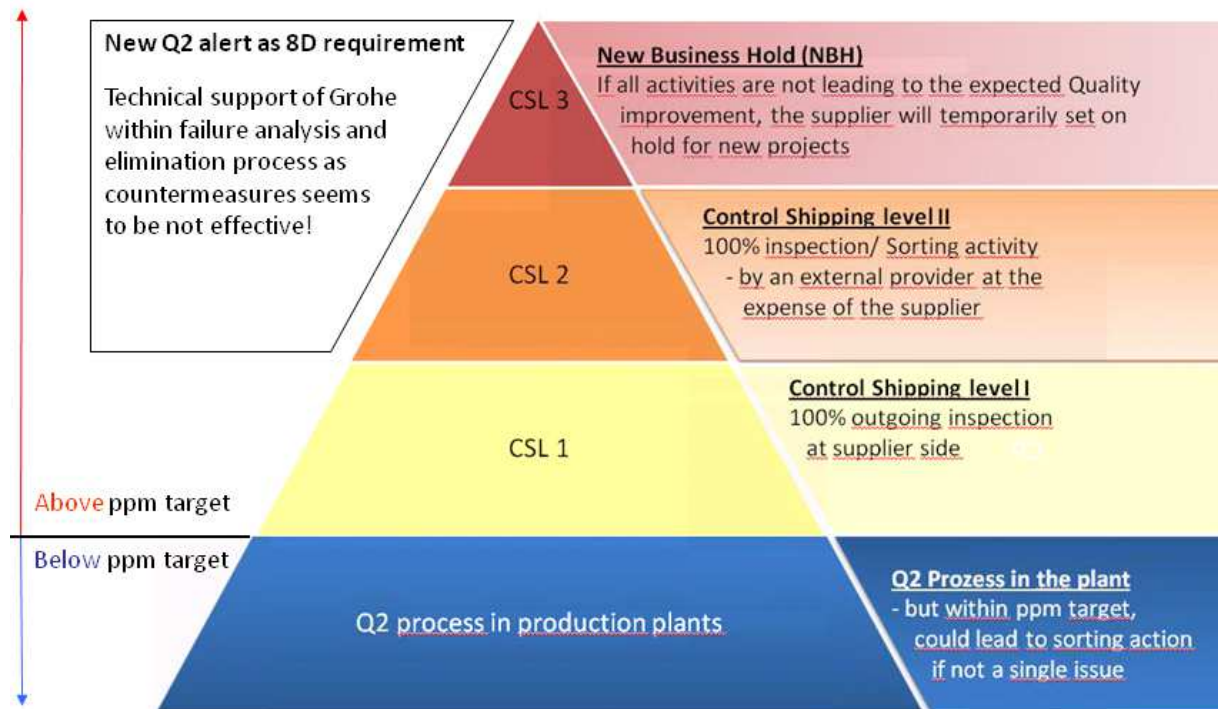
PPM DEVELOPMENT - YTD 2014



Appendix 3

PPM targets shall be agreed separately with the Contractor and revised annually as part of annual supplier assessments by Procurement. In case new targets are not set by the end of June in any given year, the most recently agreed targets shall be automatically renewed for another year.

Should the agreed ppm targets be continuously exceeded, GROHE will apply the Controlled Shipping Level process:



Appendix 4

SR	SRP	Sonderfreigabe/ Special release			
Issuer	Issuer	Quality Management			
↓	↓	<input type="checkbox"/> Special Release (SR): Genehmigung einer Abweichung bzgl. festgelegter Produkthanforderungen Authorization of deviation(s) regarding product requirements			
↓	↓	<input type="checkbox"/> Special Release Plant (SRP): nur bei Abweichungen, die vom Kunden nicht feststellbar sind only when deviations can not be detected by the customer			
↓	↓	<input type="checkbox"/> Neuanlauf Product launch	Freigabe berechtigt vor SOP: Projektleiter; TQ; TQ/.. Authorized function before SOP; TQ; TQ/..	<input type="checkbox"/> Serie Series production	Freigabe berechtigt nach SOP: TQ + Product Marketing Authorized function after SOP: TQ + Product Marketing
↓	↓	Antragsteller/ Applicant (Vorprüfung ok/ pre-check ok):			
↓	↓				
↓	↓	(Name)	(Org.-Einheit / function)	(Telefon / phone)	(Datum / Unterschrift) (date / signature)
↓	↓	Verteiler / distribution:		Cc: (TQ; TQ; TS; TDP; MM..)	
↓	↓	Teile-Nr. / material number:	Rev.-Stand / ECN-No.:	Benennung / name:	
↓	↓	Endprodukt / finished product:		Werk / plant:	
↓	↓	Bereits gefertigte Teile (# of parts produced):		Erforderliche Vorlaufmenge (required quantity):	
↓	↓	1. Art der Abweichung kind of deviation	2. Antragsbegründung reason for request	3. Sofortmaßnahmen containments	4. Abstellmaßnahmen corrective actions
↓	↓			Verantwortlich, Termin responsible, date	Verantwortlich, Termin responsible, date
↓	↓	TQ/.. des Werkes / TQ/.. of plant (Vorprüfung ok / pre-check ok):			
↓	↓				
↓	↓	(Name)	(Org.-Einheit / function)	(Telefon / phone)	(Datum / Unterschrift) (date / signature)
↓	↓	Bedingungen* / Conditions*: *: Kundenrelevante Abweichungen erfordern die Genehmigung durch TQ und Marketing (Sonderfreigabe) Customer relevant deviations require approval by TQ and Marketing (Special Release)			
↓	↓	Release plant or project manager (GIP); cost center:			
↓	↓				
↓	↓	(Name / name)	(Org.-Einheit / function)	(Telefon / phone)	(Datum / Unterschrift) (date / signature)
↓	↓	TQ-Freigabe für / TQ-release valid for: Stück bis zum / pieces until:			
↓	↓				
↓	↓	(Name / name)	(Org.-Einheit / function)	(Telefon / phone)	(Datum / Unterschrift) (date / signature)
↓	↓	Distribution (by TQ) / Distribution (by TQ)			

96.176/02/14/TQ

The **Special Release** form is a separate document.

