



Supplier Quality Requirements Manual

SQRM Revision 1

Quality Statement

Kalyani Mobility Drivelines is committed to be a preferred partner for our customers by providing reliable innovative solutions. By controlling our quality objectives, we can achieve customer satisfaction. KMD will provide continuous improvement in all aspects of our quality process, while striving for the wellbeing of our employees and the environment.

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SECTION A – GENERAL QUALITY STANDARDS FOR PURCHASED MATERIAL

SQM-1.0 PURPOSE

The purpose of this Supplier Quality Requirements Manual (“Manual”) is to define the supplier quality requirements for KMD to ensure that purchased product conforms to specified purchasing requirements. KMD reserves the right to amend/update/revise this Manual at any time.

SQM-2.0 SCOPE

This Manual applies to suppliers who directly provide material (raw materials, production services, component parts and assemblies) to KMD, unless otherwise exempted by Contract, Purchase Order, or noted in this Manual. Facility (building) MRO items and general services are excluded from this process, except for the purchase order terms and conditions. This requirement does not apply to Standard Catalog Hardware; often referred to as Commercial-Off-The-Shelf (COTS). Standard Catalog hardware is defined as a part or material that conforms to an established industry or national authority published specification, having all characteristics identified by text description, National/Military Standard drawing, or catalog item.

If the Purchase Order or Contract conflicts with the requirements of this document, the Purchase Order or Contract requirements will supersede.

SQM-3.0 SUPPLY CHAIN

The supply chain is an entire network of entities, directly or indirectly interlinked and interdependent in serving the same customer. It comprises of suppliers that supply raw material and/or services, organizations who convert the material into products, and customers who ultimately consume and/or deliver the product and/or services to end users.



SQM-4.0 SUPPLIER CONTACT INFORMATION

All suppliers must provide KMD with the contact information for their Sales, Customer Service, Material Control and Quality Departments. Updates to the contact information must be submitted every year and/or when any changes occur.

SQM-5.0 QUALITY SYSTEMS

Requirements shall be in effect for all suppliers who directly supply materials, items, services, and/or special processes to KMD. This includes those suppliers identified as distributors [SQM-11.0], special process suppliers (heat treating, plating, welding, etc.) [SQM-9.0], calibration laboratories [SQM-5.1], and raw material suppliers [SQM-8.0].

SQM-5.1

Supplier must have established, documented, implemented, and maintained a quality management system in accordance with the requirements of ISO9001:2015. Calibration suppliers shall have a quality system that is compliant to ISO/IEC 17025 or ANSI/NCSS Z540.

SQM-5.2

A supplier must have an environmental, health and safety (EHS) program that meets all statutory and regulatory requirements appropriate to their business.

SQM-5.3

A supplier not meeting the above quality system requirements may be assessed at any time for reasons not limited to performance and may be liable for actual costs of such assessments.

SQM-6.0 RIGHT OF ACCESS

The Supplier shall provide KMD, its customer(s), and/or a specified third party (statutory/regulatory agency) right of access to the facility and all records *related to* product ordered by KMD or its customers. KMD, its customer(s) representative(s), and/or a specified third party reserves the right to perform an audit or inspection at the supplier's facility to verify that supplied product conforms to specified requirements. This verification does not absolve the supplier of the responsibility to provide acceptable product and does not preclude subsequent rejection by KMD or its customer.

SQM-7.0 CONFIDENTIALITY AGREEMENT

By accepting the terms of a KMD Contract and/or Purchase Order, supplier agrees to adhere to the confidentiality agreements stated herein. "Confidential Information" considered confidential may include, but is not limited to:

- Customer-supplied documentation/records.
- Customer-supplied product/property.
- Customer furnished data used for design, production, and/or inspection.
- Intellectual property.

SQM-7.1

NO USE – Supplier agrees not to use Confidential Information in any way, or to manufacture, test, and/or distribute any product embodying Confidential Information, except for the purpose set forth in the Purchase Order.

SQM-7.2

NO DISCLOSURE – Supplier agrees to use its best efforts to prevent and protect the Confidential Information, or any part thereof, from disclosure to any person other than supplier's employees having a need for disclosure in connection with supplier's authorized use of the Confidential Information and production/process activities.

SQM-7.3

CYBER SECURITY – Supplier is required to follow policies and procedures for cyber Security based on industry standards (e.g., ISO 27000, NIST 800-171r2) when sensitive information is shared.

SQM-7.4

PROTECTION OF SECRECY – Supplier agrees to take all steps reasonably necessary to protect the secrecy of the Confidential Information, and to prevent the Confidential Information from falling into the public domain or into the possession of unauthorized persons.

SQM-7.5

TERM AND TERMINATION – The obligations of this Agreement shall be continuing until the Confidential Information disclosed to suppliers is no longer confidential.

SQM-7.6

SEPARATE AGREEMENT – Supplier agrees to execute a separate Supplier Confidentiality Agreement immediately upon request. Supplier further agrees to obtain Confidentiality Agreement, in form and content acceptable to KMD, from any sub-tier supplier or third party whom supplier deems disclosure of Confidential Information necessary, it being understood that no disclosure of Confidential Information shall be made without prior written consent of KMD.

SQM-8.0 RAW MATERIALS SUPPLIERS

Unless otherwise specified, all raw material suppliers shall provide material certifications/test reports with all shipments. KMD will periodically validate supplier's reports for raw material to verify that data in those reports are acceptable per applicable specifications.

SQM 9.0 SPECIAL PROCESSES SUPPLIERS

All special process suppliers shall have a quality system that is compliant to ISO9001:2015 or accredited to AC7004 (PRI-Nadcap). All suppliers shall use only end user approved suppliers unless otherwise specified by the Purchase Order. KMD participates in the Nadcap special process accreditation program administered by the Performance Review Institute (PRI). All special process (*Non-Destructive Testing, Heat Treating, Chemical Processing, Coatings and Material Testing Labs*) suppliers must comply with end user NADCAP accreditation requirements.

SQM-10.0 SUB-TIER SELECTION/CONTROL

KMD reserves the right to specify and/or approve sub-tier suppliers chosen by its suppliers. Direct suppliers shall flow down to all sub-tier suppliers; all relevant quality requirements imposed by this manual, purchasing documents, and applicable contract requirements, including government and Department of Defense (DoD) requirements.

SQM 11.0 DISTRIBUTORS

A distributor is defined as a supplier that procures parts, materials, or assemblies and sells such products to a customer without affecting product characteristics or conformity. Distributors must ensure that only approved,

conforming parts make their way into the supply chain. The constant concern of "black market" or "bogus" parts has reached heightened levels and this SQM includes requirements that when effectively implemented, shall assist KMD to minimize the risk of such activity. Definitions of counterfeit parts may include but not limited to; unauthorized copies or substitutes of an OEM or OCM, parts that are not traceable to an OEM sufficient to ensure authenticity in OEM design and manufacture, parts that do not contain proper external or internal materials or components required by the OEM and are not constructed in accordance with OEM design, parts that have been re-worked, re-marked, re-labeled, repaired, refurbished but are represented as OEM authentic or as new or parts that have not successfully passed all OEM required testing, verification, screening, and quality control processes.

A Manufacturer Certificate of Conformance is required for each item delivered to ensure that the product provided is as specified in the KMD procurement document.

SQM-12.0 FIRST ARTICLE PRODUCTION APPROVAL

When required by contract, First Articles shall be performed by suppliers as per ISO/AS9102 requirements or other similar/proven methods. The designated quantity of components, randomly selected from a significant production run, must be produced utilizing production tooling, processing, and cycle times. This approval must include dimensional and performance requirements and, in some cases, may also include specific visual and functional approvals.

SQM-13.0 PURCHASED PART CONTROL

Suppliers must certify, as part of sample submission, compliance with current constraints on restricted substances as specified by purchase order or contract, especially toxic and hazardous substances.

SQM-14.0 PROCESS CONTROL FOR KEY CHARACTERISTICS

When required by the purchase order or contract, suppliers must implement a process compliant with Iso/AS9103.

SQM-15.0 MATERIAL IDENTIFICATION

Supplier is required to establish a documented system for the control of all materials. The inspection and test status of all materials must be easily identifiable by the system, and documentation must include a description of any applicable containment areas and/or devices. Parts or products removed from the normal process flow must be segregated and clearly marked.

SQM-16.0 SAMPLING

Supplier may use sampling plans when historical records indicate that a reduction in inspection can be achieved without jeopardizing the level of quality. Supplier may employ sampling inspection in accordance with nationally accepted or customer required standards. Sampling may not be used to justify the existence of known defectives or discrepancies in a lot. Supplier shall maintain quality records in sufficient detail to establish evidence that any sampling was representative, the required tests and verifications were properly performed, and only material meeting specified requirements has been accepted for production and delivery to KMD. These records shall be available for review by KMD or a KMD authorized representative, as required and copies of individual records shall be furnished to KMD upon request.

SQM 17.0 DRAWING AND CHANGE CONTROL

Supplier's quality management system must ensure that the latest engineering drawings and specifications are available at the manufacturing, test, and/or inspection locations. Written procedures should indicate the method(s) utilized for receipt, review, or distribution of all changes and the method(s) of recalling and disposing of an obsolete item. A review process, conducted at least once each calendar year, must be established in the system for confirming that specifications are at the latest revision level with the issuing source.

Supplier must coordinate document all changes with KMD's Engineering Department. This may involve customers and/or regulatory authorities in accordance with contract or regulatory requirements.

SQM 18.0 RECORDS

Supplier must retain adequate quality system records, including all production planning documents, process guidelines, laboratory test instructions, gauge/test equipment verification and calibration, and performance test methods. In addition, supplier must retain quality performance records, including control charts, and inspection and test results, where appropriate. At a minimum, supplier must retain the records for the periods indicated and make such records available for review as required:

- Quality system records 35 calendar years
- Quality performance records 35 calendar years

If a supplier discontinues business operations, supplier shall agree to transmit to KMD those records maintained in support of KMD's contract agreements.

SQM-19.0 CHANGE IN MANUFACTURING PROCESS CONTROL

Our continuous improvement philosophy encourages process improvements both internally and at our supplier's facilities. However, prior to any such "modification", to a process being implemented, supplier must complete all required/necessary verifications and tests to ensure that any new process continues to yield product/services that meet KMD specifications. First Article requirements per ISO/ AS9102 apply.

SQM-20.0 FOREIGN OBJECT DEBRIS/DAMAGE (FOD) PREVENTION PROGRAM

Supplier shall assure cleanliness of products/services provided. When designated on Purchase Order, delivered product must be clean and free from any debris, such as machined chips, burrs, grinding dust, forming materials, corrosion, oil, and other foreign material on surface to prevent F.O.D. entrapment.

SQM-21.0 NONCONFORMING MATERIAL

All products or processes found to be nonconforming by the supplier to the engineering drawings, specifications, or Purchase Order, shall be identified, segregated, and reworked or replaced with conforming products or processes prior to delivery to KMD. In the event the supplier needs to submit a request for deviation approval, supplier shall submit the deviation to the Purchasing Department. Supplier is responsible to segregate nonconforming product to prevent delivery to KMD, until the deviation is processed, and disposition has been given. A copy of the Supplier Deviation Request will be returned to supplier showing final Material Review disposition. A "Use as is" or "Repair" disposition by the Material Review process does not relieve supplier of the legal responsibility and liability for such products/processes.

Nonconforming products identified:(1) at a supplier's facility;(2) returned from KMD's facility; or (3) through performance testing, and/or field failures must be systematically analyzed to determine the root cause(s) of the nonconformance. Failure to respond to a Corrective Action Request may result in punitive action up to and including removal and/or suspension from the KMD's Approved Supplier List/Register.

SQM-22.0 NOTIFICATION OF ESCAPES

It is the responsibility of supplier to notify KMD immediately of any items that were provided and later discovered by supplier to be defective. This Notification of Escape shall include, at a minimum, purchase order number, part number, suspected quantity and discrepancy noted. Immediately following the receipt of Notification of Escape, a complete Root Cause Analysis, including containment action, corrective action, and preventive action with completion dates shall be provided to KMD.

SQM-23.0 CERTIFICATION OF CONFORMANCE

Each shipment shall include a Certification of Conformance unless otherwise specified by Purchase Order. The Certificate of Conformance must contain a statement that all inspections, processing, and tests have been performed as required by the drawing requirements and/or Purchase Order. Products controlled by heat numbers, certification numbers, batch numbers, or cure dates must be linked to the Certificate of Conformance by the controlling number and show physical and chemical values when applicable.

SQM-24.0 DEFENSE FEDERAL ACQUISITION REGULATION SUPPLEMENT (DFARS)

When required by Purchase Order, materials shall comply with all U.S. Government, Defense Federal Acquisition Regulation Supplement (DFARS) 252.225-7008 and 252.225-7009 requirements, including Country of Origin.

SQM-25.0 INTERNATIONAL TRAFFIC IN ARMS REGULATIONS (ITARS)

When required by Purchase Order, supplier is responsible for ensuring that all related transactions conform to the requirements of the International Traffic in Arms Regulations.

SQM-26.0 SHIPMENT AND PACKAGING REQUIREMENTS

Supplier shall comply with all requirements for shipping, packaging, and labeling. In the absence of specific requirements, suitable protection from corrosion, contamination, and handling damage during transit is required (see SQM-33.3).

SECTION B – SUPPLIER APPROVAL**SQM-27.0 INTRODUCTION**

The approval process is an ongoing, comprehensive supplier-monitoring and feedback procedure that optimizes total cost and quality and minimizes process variation. It requires performance measurements and reporting and communicating with the supply base and features a method of recognizing high-performance suppliers. Suppliers that are currently on an approved suppliers list of a KMD customer may automatically be added to KMD's Approved Suppliers List/Register.

SQM-28.0 KMD REGISTER OF APPROVED SUPPLIERS: REQUIREMENTS

Supplier must maintain an approved quality management system and acceptable performance levels to retain active status.

SQM-29.0 SUPPLIER PERFORMANCE REQUIREMENTS

While the key metrics below are targeted goals for qualification, it is expected that KMD suppliers will strive for continuous improvement to meet zero defects for quality and 100% on-time delivery.

- Quality = 2% or less rejects
- Delivery = 95% on-time or greater

In addition to these performance metrics, supplier is also responsible to provide timely corrective action response and demonstrate commitment to continual improvement through improving performance trends. A supplier causing product quality escapes to KMD customers may be placed in a probationary or disapproved status regardless of performance trends. A supplier exceeding either of these limits may be placed on probation. Probation status requires the supplier to submit a Corrective Action Plan acceptable to KMD. Once accepted, supplier must show significant improvement toward meeting the required measurable within a reasonable period as defined by KMD. A supplier that fails to show improvement may be removed from KMD's Approved Supplier List/Register.

SQM-29.1 Calculating Performance Levels

Product quality will be calculated using the following formula:

$$\frac{\text{Number of defective parts}}{\text{Number of parts received}}$$

SQM-29.2 Percentage on-time delivery will be calculated as follows:

$$\frac{\text{Purchase Order line-item quantity on time}}{\text{Total Purchase Order line-item quantity due}}$$

Note: Partial deliveries arriving after original due date, will be considered late shipments.

SECTION C – PURCHASE ORDER TERMS AND CONDITIONS

SQM-30.0 FORMATION: OFFER, ACCEPTANCE, EXCLUSIVE TERMS

SQM-30.1

Except as otherwise provided herein, each Purchase Order, together with these terms and conditions, is an offer by KMD to enter into the agreement it describes and shall be the complete and exclusive statement of such offer and agreement.

SQM-30.2

A contract is formed when supplier accepts the Purchase Order and the terms and conditions of KMD by shipment of goods, performance of services, and commencement of work on goods, written acknowledgement, or any other conduct by supplier that recognizes the existence of a contract.

SQM-31.0 QUALITY

SQM-31.1

Supplier shall meet all quality requirements of KMD and its customers, including, but not limited to, the applicable quality management system requirements (ISO 9001, AS9100, etc.) and any other customer specific requirements.

SQM-31.2

Supplier must maintain adequate documentation, implementation, and maintenance of a functioning quality management system while continually improving its effectiveness in accordance with contract requirements to ensure that all goods and services provided to KMD, and its customers conform to all specifications, drawings, quality, and performance requirements under the terms of the Purchase Order.

SQM-31.3

Supplier may be held responsible for all costs associated with nonconforming product or services provided by supplier, including, but not limited to, KMD's raw material cost, added value cost, quality issue investigation, administrative costs, containment, and remedial actions(including third party activities identified by KMD or its customers).

SQM-31.4

KMD or its customers may reject and return, at the supplier's risk and expense, or retain and rework goods received that fail to conform to the requirements of the Purchase Order or any other specifications within that Order. Supplier shall replace any nonconforming goods with conforming goods unless otherwise notified, in writing, by KMD's Purchasing Department.

SQM-32.0 DELIVERY

SQM-32.1

Deliveries shall be made both in quantities and at the times specified on the Purchase Order by KMD. Supplier shall adhere to all shipping directions from the Purchasing Department and/or directions on the Purchase Order.

SQM-32.2

Premium shipping expenses and/or other related expenses necessary to meet the delivery dates set forth in the Purchase Order shall be the sole responsibility of supplier, unless the delay was solely caused by KMD, or its customers and supplier provide notice within 10 days of the occurrence.

SQM-32.3

Supplier agrees to properly pack, mark, and ship goods in accordance with the Purchase Order requirements and/or the requirements of KMD or its customers. The marks on each package and identification of the goods on the packing slips, bill of lading, and invoices shall be sufficient to easily identify the goods purchased.

SQM-33.0 CHANGES

SQM-33.1

Without prior approval from KMD, supplier shall not make any changes to any KMD Purchase Order, including goods and/or services covered by Contract and/or Purchase Order, such as, but not limited to:

- Any third-party supplier to the supplier of services, raw materials, or goods used by supplier.
- The facility from which supplier operates.
- The price of any of the goods or services.
- The nature, type, or quality of any goods or services, raw materials, or goods used by the supplier or its sub-tier suppliers.
- The fit, form, function, appearance, or performance; and
- Changes in product and/or any process in the manufacture of any goods.

SQM-34.0 APPLICABLE LAWS

Supplier shall comply with all local, state, federal, and international laws, rules, and regulations affecting the price, production, sale, or delivery of the materials or services under KMD's Purchase Order and supplier shall indemnify and hold KMD harmless from and against any liability, expense, or loss, including attorney fees, resulting from supplier's failure to do so.

SQM-35.0 LIABILITY

Supplier shall indemnify and hold KMD and its officers, agents, servants and employees, or any of them, harmless from any loss, damage, liability or expense, including attorney's fees, for: (1) any breach of any representation, warranty, covenant, or agreement herein, in the Order, or in any related agreement, and (2) on account of damage to or loss of property or injuries, including death, to all persons, including employees of supplier and its subcontractors and all other persons performing any part of the work which may arise in the performance of any of its obligations or otherwise under the Order. Supplier shall defend, at its own expense, any suits or other proceedings brought against KMD and its officers, agents, servants, or employees, or any of them, on account thereof and will pay all expenses and satisfy all judgments which may be incurred by or rendered against any of them in connection therewith. KMD shall have the reasonable right of approval with

respect to any legal counsel selected to defend a claim. Supplier shall be excused from liability for failure to deliver, and KMD from failure to accept deliveries hereunder when such failure is due to the acts of God or the elements, fire, war, the public enemy, strikes, civil commotion, transportation, or other embargoes, acts of civil or military authority, governmental priority, or other similar causes beyond their control.

SQM-36.0 CONFLICT MINERALS

Kalyani Mobility Drivelines Conflict Minerals Policy

Kalyani Mobility Drivelines (KMD) is committed to sourcing components and materials from companies that share our values around human rights, ethics and environmental responsibility. KMD condemns the ongoing violence and humanitarian crisis in the Democratic Republic of the Congo (the "DRC") and adjoining countries, fueled partly by financing trade in minerals referred to "conflict minerals."

These conflict minerals make their way into the supply chains of various products used by consumers and businesses around the world. As a downstream user of product that may contain conflict minerals, KMD recognizes its role to use gold, tantalum, tin and tungsten in our products that do not directly or indirectly finance, or benefit armed groups in the DRC or adjoining countries while continuing to support responsible mineral sourcing in the region.

KMD is using the Organization for Economic Co-operation and Development ("OECD") due diligence guidance as an international framework for meeting the sourcing expectations of our customers, regulators and stakeholders.

Through this framework, KMD will:

- Comply with the requirements of Section 1502 of the Dodd-Frank Act and Section 13(p) of the Securities Exchange Act of 1934, as amended, requiring publicly traded companies to report to the SEC annually on the reasonable country of origin inquiry regarding the presence of conflict minerals in company products; and
- Exercise due diligence with relevant suppliers consistent with the Downstream Implementation of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas and encourage our suppliers to do likewise with their suppliers.
- Provide, and expect our suppliers to cooperate in providing, due diligence information to confirm the gold, tantalum, tin, and tungsten in our supply-chain are "conflict free."
- Collaborate with our suppliers and others in industry-wide solutions to enable components and materials, and thereby products that are "DRC conflict free"³, through the ability to track and trace the source of conflict minerals back to the smelter and mine of origin.

Tim Matuszewski
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Kalyani Mobility Drivelines
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