



SUPPLIER QUALITY ASSURANCE RAW MATERIALS

SEPTEMBER 2020

PURCHASING OPERATIONAL DIRECTION

CONTENT

I – INTRODUCTION	3
II – PRINCIPLES	3
III – SUPPLIER SELECTION	4
IV – TECHNICAL APPROVAL PROCESS FOR RAW MATERIALS	4
4.1 – Raw material approval requirements	5
4.2 – Raw material approval process	6
V – CURRENT PRODUCTION	7
5.1 – Packaging – Transportation	7
5.2 – Delivery	7
5.3 – Quality guarantee – Conformity	7
5.4 – Complaints resolution	8
5.5 – Continuous improvement	9
5.6 – Periodic performance assessment	9
5.7 – Supplier management	10

I – Introduction

The Quality of the delivered raw materials to Michelin's Customers, which is a key priority for the Group, largely depends on the quality of the raw materials purchased and transformed by Michelin.

The Supplier Quality Assurance system clarifies how Michelin intends to apply the orientations of its quality policy, in its relationship with suppliers and the management of quality of purchased raw materials.

This system is essential for ensuring the Michelin Group's long-term performance and enabling Michelin to meet its strategic challenges.

Through this system, Michelin intends to:

- implement, along with its suppliers, the necessary conditions to approve and ensure the total quality of all purchased raw materials, throughout their lifecycle,
- establish strong and long-lasting relationships with its suppliers, based on reciprocal trust,
- challenge its suppliers regarding the management of their quality processes and their continuous improvement approach,
- encourage its suppliers to make suggestions and proposals (in terms of innovation and/or differentiation)
- encourage its suppliers to adopt environmentally and socially responsible practices.

This document is an extension of the Michelin Purchasing Principles.

II – Principles

The supplier is completely responsible for the quality of all the delivered raw materials.

The supplier must pursue an active policy of:

- guaranteed total and long-lasting quality at the best price
- continuous improvement, regarding in particular :
 - zero defect manufacturing
 - 100 % compliance with quantities and deadlines
 - cost reduction
- proposing innovative raw materials and services giving value creations
- Observe the legal and regulatory conditions in place in the beneficiary country with regard to the contents and use of the delivered raw material.

The supplier's commitment to all its activities must be in compliance with Michelin Purchasing Principles.

Michelin objectively assesses and challenges its suppliers on:

- their total performance including social responsibility,
- achieving their commitments,
- their commercial offers and their competitiveness in the marketplace,
- their progress, their innovation and value creation, in order to develop efficient relationship, with the best suppliers.

III – Supplier selection

This phase only concerns new suppliers or new supplier sites.. Its aim is to validate the supplier's potential and ability to meet Michelin's expectations (commercial, technical, quality and sustainable development).

This phase involves:

➤ **A preliminary evaluation**

This evaluation can be carried out initially based on of the following elements as examples:

- analyse the financial and economic situation of the company
- evaluate its approach to quality
- assess its ability to respond to Michelin's technical specifications
- assess its ability to meet our quantitative needs in the timeframes required
- evaluate its commitment and approach to sustainable development.

This preliminary evaluation may be supplemented by:

➤ **An on-site visit**

The aim of this visit is to verify and complete (if necessary) the preliminary evaluation. It may include:

- a visit or an supplier audit to one or several of the supplier's sites
- a trial on a Michelin Group's site.

To be selected, the supplier must agree to:

- respond to and satisfactorily answer the evaluation questionnaire
- respect the principles and requirements of the Michelin Purchasing Principles
- receive a Michelin team on site for an audit or a technical visit
- implement a Social and Environmental Responsibility approach and carry out the CSR (Corporate Social Responsibility) assessment requested
- ensure that these principles and requirements are followed by any sub-contractors
- undertake to inform Michelin prior to any modification::
 - the company's manufacturing process, quality system and outsourcing
 - the structure of the company (manufacturing sites, mergers, acquisitions, affiliations, etc.).

The supplier must also be certified ISO 9001, IATF 16949 and ISO9001 certifications are an advantage.

IV – Technical approval process for raw materials

Depending on the level of quality risk, Michelin approves raw materials for one or several sites.

To obtain approval, a supplier must demonstrate that it is able to deliver, at the best price, a raw material that complies fully with Michelin specifications in terms of quality, quantity, deadlines, related services and repeatability.

Approval concerns a raw material:

- described by Michelin specifications;
- produced using a defined process, production line or machine;
- produced at a specific site.

The trio "raw material/process / supplier site" will be implied whenever the term raw material is used in this approach.

4.1 – Raw material approval requirements

To initiate an approval process, the supplier must:

- meet the requirements and legal and regulatory constraints of the country of destination as concerns the content and use of the delivered raw material (for example, the REACH⁽¹⁾ Directive on chemical substances in products sold in the European Union, etc...)
- answer to requests for information on their supply of raw materials that may contain conflict minerals (Tantalum, Tin, Tungsten, Gold, Cobalt), using the forms and lists of the Responsible Minerals Initiative (RMI)
- agree to and sign Michelin's specifications (technical specifications and, if necessary, any stated needs concerning identification, traceability, protection, packaging, shipping, delivery, handling, etc.). Michelin and the supplier must agree on the measurement methods to be used
- provide, in the stipulated languages, the health and safety information required by the laws and regulations of the country of destination. This information must be validated by Michelin before the raw material can be used;
- describe and provide information on raw material characteristics not defined by Michelin if the supplier feels these characteristics are necessary for specific or foreseeable use
- have answered to the CSR assessment carried out by an external rating company, which measures the level of commitment and maturity in the areas of labor and human rights, environment, fair business practices and sustainable purchasing.

If necessary, Michelin may also ask the supplier to:

- provide additional information (included in the supplier audit questionnaire) concerning:
 - design and development
 - supplier management
 - manufacturing processes and their robustness
 - production, preservation, storage, packaging and shipping resources
 - identification and traceability systems
 - communication resources (including EDI⁽²⁾ order processing and services)
 - materials recycling, handling and disposal.
- demonstrate effective control over:
 - its production processes (FMECA⁽³⁾ results, manufacturing process, process capability: Cp, Cpk)
 - the quality of manufactured, stored and delivered raw materials (raw materials conformity management: monitoring plan, capability, measurement quality, etc.)

- inputs and outsourced raw materials
- production and supply chain management.
- demonstrate its ability to manage:
 - business continuity risks (ability to supply expressed needs, exceptional needs and emergency needs)
 - special characteristics
 - non-conformity and complaints
 - modifications
- provide an action plan based on the CSR assessment.
- Michelin reserves the right to carry out technical inspections or audits of any or all of the expressed requirements, depending on the raw material's criticality and Michelin's knowledge of the supplier. The results of the above will determine whether or not the raw materials approval process continues.

- (1) Registration, Evaluation, Authorisation and Restriction of Chemical substances (EC 1907/2006).
 (2) Electronic Data Interchange
 (3) Failure Mode, Effects and Criticality Analysis

4.2 – Raw material approval process

Depending on the information presented by the supplier and the raw material's criticality, Michelin establishes an approval protocol that defines:

- the number and type of steps to be deployed;
- the amount of raw material to be delivered in stages and the Michelin sites involved;
- the list of administrative, supply chain and technical data to be provided by the supplier;
- the level of performance required for approval, as concerns the raw material:
 - intrinsic properties (in relation to specifications)
 - behaviour in the Michelin manufacturing process
 - ability to meet Michelin's needs

In addition, Michelin and its supplier must agree on:

- batch definition, identification and traceability;
- quality records and compliance test results for delivered raw materials.

Michelin is responsible for deploying the necessary resources to execute and finalize the raw materials approval process in a timely manner.

Once Michelin has determined that all technical, supply chain, commercial and communication

requirements are fulfilled, it will grant raw material approval.

This approval may be revised if Michelin decides to expand its scope of use or if the supplier makes a modification.

In this case, a risk analysis will be conducted, notably to determine compliance with legal and regulatory constraints in the host country and any specific characteristics of local production.

V – Current production

For approved raw materials, Michelin expects from the supplier: “100% of raw materials deliveries to be made within the delivery commitment, with zero defect and at the best price”.

At this stage, the supplier and Michelin will have exchanged:

- the contact details of their purchasing supply chain and technical contacts, substitutes and Product Safety Representative (ProduktSicherheit Beauftragter),
- their bank details,
- communication rules such as: language used, IT tool interfaces (EDI, order processing, supply chain, etc.),
- operating procedure in the event of a crisis.

All delivered raw materials must be approved and comply fully with the terms of the contract and the purchase order, the requirements defined in the specifications. Delivery of non-compliant raw materials is prohibited.

5.1 – Packaging – Transportation

The delivered raw materials are:

- accompanied by the administrative documents (delivery vouchers) with all the necessary information defined in the specifications, or on the orders and/or the call for delivery.
- packaged in such a way as to preserve their integrity and compliance during handling, storage and transportation operations.

Individual and bulk packaging must meet the legal requirements of the countries of destination.

According to the situation and raw materials, the supplier and Michelin work together to optimize the packaging process, thus reducing costs and protecting the environment.

5.2 – Delivery

The supplier must inform Michelin as soon as possible of any delivery discrepancies with regard to the order concerning quantity or delivery time.

Michelin's purchasing and supply chain contacts will then communicate the procedure to be followed and derogations if necessary.

The supplier agrees to inform Michelin of any freight additional charges, whether borne by Michelin or by itself.

5.3 – Quality guarantee – Conformity

The supplier is fully responsible for the quality of the delivered raw materials, and must implement the necessary monitoring, inspection, measurement and analysis processes to ensure that all delivered raw materials meet the requirements specified by Michelin.

Michelin may make the following requests of the supplier:

- to communicate information concerning the process and the documentation related to the management of quality
- to participate in the validation or calibration of their laboratory,
- to report and identify all batches delivered to Michelin that have been sorted or reworked as a result of an internal non-compliance,
- to send to Michelin a sample of each delivered batch, independently of the delivery
- to keep a representative sample of each batch for a defined period of time,
- to keep the product/process results for a defined period of time,
- to visit the supplier site to verify the entire or part of its quality management system.

Michelin shall specify the appropriate parameters for these requests.

For each raw material, Michelin shall define with the supplier, the nature, the contents and the transmission of the documents which must accompany each delivery, for example:

delivery slips, a certificate of conformity, a marking attesting to the raw material conformity.

The level of quality is evaluated using performance measurement indicators. These indicators are:

- drawn up by Michelin and the supplier
- monitored and communicated periodically by the supplier

The information sent by the supplier may be checked at any moment during on-site inspections undertaken by Michelin. Supplying false indicators may result in the relationship with the supplier being terminated.

5.4 – Complaints resolutions

The supplier is required to eliminate issues and deal with complaints rapidly and efficiently.

The origin of a complaint may be a fault detected upon receipt or when in use. Each complaint is backed up by supporting evidence and/or the cost of the nonconformity. Michelin commits to provide, as soon as possible to the supplier, all information necessary to describe and handle the non-conformity (*photos, sample, etc.*).

For each complaint, the supplier must complete the complaint file issued by Michelin, i.e.:

- acknowledge and process complaint,
- deal with the rejected raw material according to the decision made,
- provide Michelin with proof of the implementation of an **8D methodology** (Michelin format or equivalent) :
 - Composition of the multidisciplinary team,
 - Description of the nonconformities,
 - Identification of immediate curative actions for customer protection,
 - Identification of root cause(s) ("5 Why", "cause tree" or appropriate tool in causes identification),
 - Identification of corrective actions to correct the nonconformities,
 - Verification of corrective actions,
 - Identification of preventive actions to avoid any form of recurrence of the nonconformities,

- Communication and team recognition.

Regardless of the seriousness of the complaint, Michelin reserves the right to:

- initiate a meeting with the supplier in order to discuss its improvement plan,
- charge the supplier for any additional expenses, e.g. extra inspections, transports, repair, sorting and waste disposal costs and productivity losses,
- impose additional requirements at the supplier's expense to ensure the compliance of delivered raw materials (monitoring plan validation, proof of results, assessment of raw materials performance, process or corrective actions audit),
- conduct an audit of corrective actions plan.

5.5 – Continuous improvement

Once the production is on a regular basis, the supplier can communicate its continuous improvement and progress master plan, if needed by Michelin.

In that case, the supplier can provide evidence that it is actively committed to the following approaches based on:

- total quality, for targeted and appropriate quality improvement,
- cost reduction,
- technological monitoring and anticipation of changes in requirements.

If the supplier is not ISO 14001 certified, this certification can be an integral part of progress areas.

These processes may lead the supplier to make modifications that may have an impact on the performance of raw materials delivered to Michelin.

The supplier must inform Michelin as soon as possible on any intention to:

- change its manufacturing site or its structure,
- modify its process, production line or machine, incoming raw materials or quality system.

This information must be provided before any modifications are made that affect raw materials delivered to Michelin.

Following a risk analysis, Michelin shall define, with the supplier, the procedure to validate the change.

Upon agreement for the change, the supplier and Michelin must agree on the delivery conditions and schedule for raw materials manufactured after the change.

Delivery of these raw materials is prohibited prior to receiving authorization from Michelin.

Raw materials outsourced by the supplier are subject to the same requirements.

5.6 – Periodic performance assessment

Michelin organizes periodically Performance Assessment Meetings with its main suppliers.

The frequency and content of these meetings are defined in collaboration with the supplier.

The objective of these meetings is to review and agree on:

- a report of the supplier's performance,
- the continuous improvement plan with the definition and the planning of the improvement objectives,
- the evaluation, by the supplier, of the quality of the relationship with Michelin.

5.7 Supplier management

Michelin regularly carries out monitoring, inspections, audits of its suppliers, according to the level of relationship.

Michelin reserves the right to penalize the supplier in the event of:

- a quality discrepancy, quality issues ailing or inadequate results,
- inadequacy or inefficiency in the handling of complaints and/or corrective actions,
- major discrepancy with regard to the expected requirements, noted during an inspection, audit,
- modification of the process without informing Michelin beforehand
- non-fulfilment of commitments.

Michelin reserves the right to sanction the supplier by a reduction in purchases or even by removing their name from the portfolio of Michelin suppliers.