

SUPPLIER ESCALATION PROCESS

Contents

- 1. Introduction 2
- 2. Escalation Pyramid..... 3
- 3. Escalation Criteria 5
- 4. Announcements of Escalation Levels 8

1. Introduction

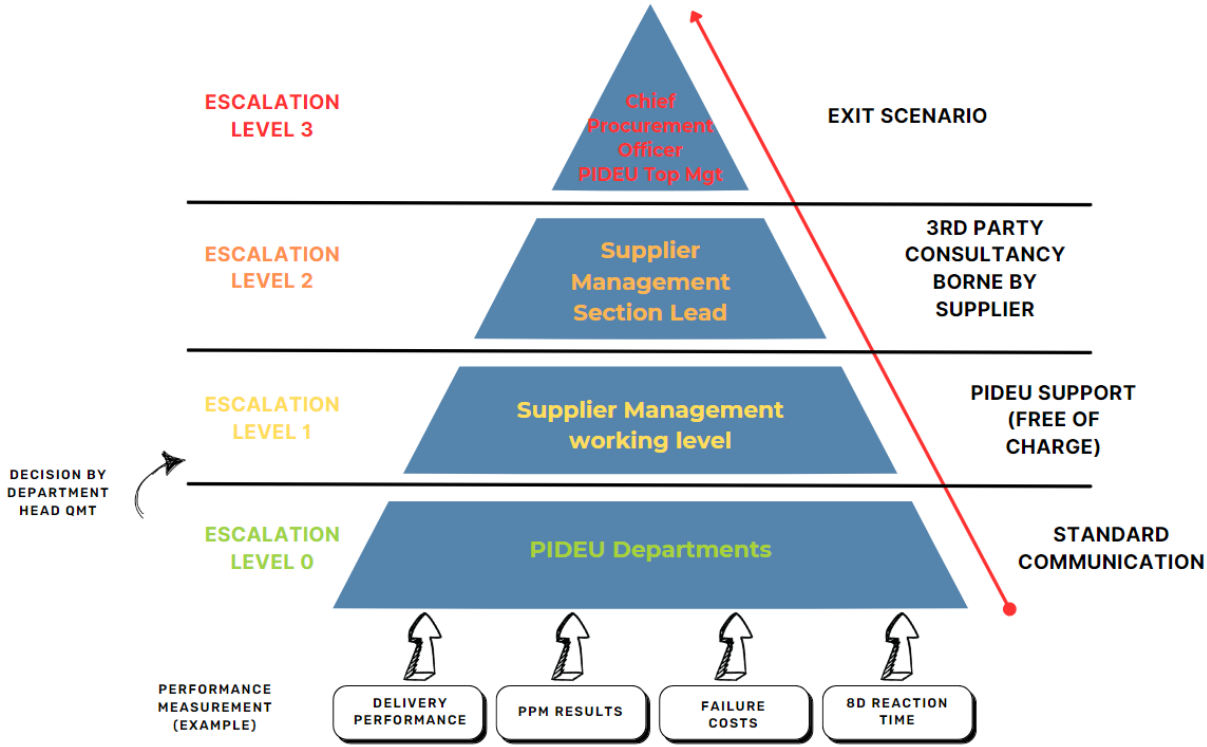
Enclosed is a detailed explanation of the “Supplier Escalation Fyler”, highlighting the escalation criteria per department that determine the corresponding escalation levels.

Additionally, the document elaborates on the official escalation announcements, with the purpose to formally communicate the current escalation level and its associated consequences to the supplier.

The primary objective is to facilitate the supplier according to PIDEU performance requirements, potentially with the assistance of PIDEU. In the event of insufficient improvement, PIDEU reserves the right to escalate to the next level and may charge the supplier for the supporting activities.

2. Escalation Pyramid

The diagram illustrates the escalation pyramid, providing a visual representation of the escalation process.



Basis for escalation are a set of performance criteria defined in section 3. These criteria are regularly monitored. In case of any criteria exceeds the predefined limits, a joint decision is made by the relevant department and the Supplier Management team to determine the necessity of initiating the escalation process. Subsequently, the affected departments provide a detailed listing of affected criteria and substantial evidence.

Escalation level 0:

Escalation level 0 applies in situations when working level of relevant involved departments recognizes deficiencies of supplier’s performance. Problem follow-up and problem resolution are not successful on working level but criteria for announcing formal escalation to level 1 are not met.

At this stage support from team leader level of relevant involved department is requested. In case of continuous not successful problem resolution on department’s team leader level the formal request for escalation is triggered and issue will be transferred to Supplier Management department for judging on escalation to level 1.

In case of decision not to escalate to level 1 due to missing escalation criteria it is on Supplier Management to additionally support in problem resolution process without escalation.

Additionally, escalation level 0 applies to situations where de-escalation has been successfully completed. Escalation level 0 will be kept for further 12 months for monitoring purpose to validate sustainable effectiveness of supplier improvement activities resulting from escalation.

Escalation level 1:

PIDEU provides complimentary assistance to the supplier in identifying root cause and solution to the problem. Irrespective of the escalation dimension (quality, cost, delivery, service), Supplier Management is taking the lead in escalation level 1. Subsequently, Supplier Management assumes responsibility, while the escalating department collaborates with the supplier to resolve the issue. Announcing escalation level 1 not only addresses the issue to the supplier, but also serves as a “New Business Warning” (NBW). This means that PIDEU sourcing department decides if supplier will be considered for new business until escalation is ongoing.

Escalation level 2:

Escalation Level 2 signifies a "New Business on Hold" (NBH), resulting in a suspension of new inquiries from PIDEU. At this stage, PIDEU actively designates external support or requests the supplier to appoint it independently, with the mandatory condition that the supplier covers all associated costs.

Escalation level 3:

Escalation Level 3 represents an exit strategy. This means PIDEU reserves the right to completely de-source supplier and replace by alternative supplier or partly transfer active business to alternative suppliers for risk mitigation purpose. Under this level, the supplier location is excluded from receiving new inquires for new business from PIDEU and is internally listed as blocked supplier for new business.

To escalation level 1 to 3 applies that supplier is requested to set-up in internal task for identifying root cause of deficiencies and corresponding corrective actions. Together with Supplier Management a roadmap for de-escalation defining countermeasures and milestones for de-escalation will be defined and agreed among Supplier Management department and supplier. Status and Progress to be regularly monitored among both parties.

Additionally, Supplier Management will implement tailored consequences for each escalation level, which may include measures such as weekly meetings, specific reporting requirements, additional audits, extra training sessions, and other relevant actions to address and rectify the identified issues.

These individual consequences are designed to ensure a focused and effective resolution process at each escalation level, facilitating continuous improvement and sustained performance excellence.

Depending on severeness of irregularities it is possible to escalate more than one escalation level at the same time.

3. Escalation Criteria

The enclosed table serves as a detailed guide for key escalation and de-escalation criteria at different levels. The table clearly defines conditions for both escalation and de-escalation. For example, consistently exceeding the parts per million (ppm) target for three consecutive months triggers escalation, while falling below the target for a similar duration initiates the de-escalation process.

If a supplier fails to meet de-escalation milestones and corresponding progress in agreed improvement activities, it is up to PIDEU to decide on further escalation. This decision is based on individual evaluations and thoughtful considerations, ensuring a comprehensive and strategic response to deviations from established performance standards.

Criteria	Description	Escalation level 0	Escalation level 1	Escalation level 2	Escalation level 3
PPM RESULTS	Evaluation of supplier PPM results	PPM results lower than agreed rate	PPM results higher than the agreed rate (3 months in a row) Without effect on output / quality / production (countermeasures exist)	PPM results higher than the agreed rate (3 months in a row) With effect on output / quality / production (countermeasures exist)	Negative PPM trend, PPM results higher than the agreed rate (6 months in a row)
REACTION TIME TO QUALITY CLAIMS	Evaluation of supplier's reactivity time towards PIDEU quality claims	Processing according to claim handling requirements	Max. 10% of delay from agreed milestones (D3, D5, or D8) for the last 3 months	Max. 20% of delay from agreed milestones (D3, D5, or D8) for the last 3 months	More than 30% delay from agreed milestones (D3, D5, or D8) for the last 3 months
EFFECTIVENESS OF COUNTERMEASURES	Evaluation of the effectiveness of supplier's countermeasures	Communicated countermeasures are effective with evidence upon request	No clear evidence of communicated countermeasures	Failure's recurrence after clean point	Escalation to level 3 on case wise
AUDIT RANKING	Supplier audit results and ranking	Audit ranking A or B EXIT CRITERIA:	Audit ranking C or audit ranking B without countermeasures B rank: closed and verified action plan C rank: closed and verified action plan with a follow-up audit ranking B or A	Follow-up audit ranking C Closed and verified action plan with a new audit ranking B (to de-escalate to previous level) or ranking A (to de-escalate to level 0)	Escalation to level 3 on case wise Specific exit criteria are defined for escalation level 3
QCDS SCORE	Supplier quarterly QCDS score evaluation	QCDS score corresponding to level A or B EXIT CRITERIA:	QCDS score corresponding to level C (for the last quarter) A new QCDS evaluation corresponding to A score => de-escalation to level 0	QCDS score corresponding to level C (2 quarters in a row) 2 QCDS evaluations in a row corresponding to B score => de-escalation to level 0	Escalation to level 3 on case wise Improvement of QCDS score from level C to level B => de-escalation to previous level
PPAP STATUS	Evaluation of PPAP status	PPAP process according to agreed time plan	Delayed PPAP without new submission date	Rejected PPAP	Escalation to level 3 on case wise
PCN STATUS	Evaluation of PCN progress	PCN handling according to agreement	Timeline out of specification	Changes without any PCN	Changes without any PCN and penalty from customer
DELIVERY PERFORMANCE	Evaluation of supplier's delivery performance	Delivery performance according to agreement	Recurrent logistic disturbance (delayed and/or partial deliveries, non adherence to delivery schedule)	Line stop at PIDEU and/or high risk of Panasonic customer line stop	Line stop at Panasonic customer
CLAIM COSTS	Evaluation of supplier's cost responsibility	No open claim costs	Open claim costs for more than 3 months without any progress	Open claim costs for more than 6 months without any progress	Escalation to level 3 on case wise
PART PRICE NEGOTIATION	Evaluation of supplier's openness to cost calculation	Open for part price discussions	No transparency of part price calculation	Rejection of part price discussions	Escalation to level 3 on case wise

In addition, there are further criteria that may result in escalations of varying degrees:

Criteria	Description	Escalation level 0	Escalation level 1	Escalation level 2	Escalation level 3
COMMUNICATION (INCLUDING SUB-SUPPLIERS)	Evaluation of supplier's and sub-supplier's communication	Smooth, on time, proactive and effective communication	Late, bad, or missing communication	Escalation to level 2 on case wise	-----
RUN@RATE	Evaluation of RUN@Rate activity	No risks impacting SOP	Failed Run@Rate and/or high risk of capacity at SOP	2nd failed Run@Rate or customer claim during pre-series	-----
REQUALIFICATION	Status of periodic requalification	Requalification done on time, status as initial validation	Failed requalification	Escalation to level 2 on case wise	-----
CSR AGREEMENT	Compliance with CSR rules, ethical conduct, and transparency	Respect of CSR rules Good ethical conduct	-----	Violation of CSR rules and/or no ethical conduct	Escalation to level 3 on case wise

PIDEU reserves the right to trigger the escalation process due to reasons not covered by above defined formal escalation criteria but affecting production operation or PIDEU's legal integrity.

4. Announcements of Escalation Levels

Supplier will be informed in written form of application and announcement of any escalation level or corresponding de-escalation steps. These announcements will be transmitted to the supplier following the decision for escalation within PIDEU and will encompass key data related to the escalation. This information includes the reason for escalation, specific dates, references, consequences, future targets, and possible cost coverages. The aim is to maintain transparency and open communication, ensuring that all relevant details are conveyed to the supplier in a timely manner, fostering a clear understanding of the circumstances and expectations associated with the escalation process.