

**CUMMINS INC.<sup>\*</sup>**  
**FILTRATION BUSINESS UNIT**  
**SUPPLIER QUALITY HANDBOOK<sup>†</sup>**



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<sup>\*</sup> Footnotes in this manual indicate internal procedure numbers

<sup>†</sup> FGD 02-00-00-00

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## CORPORATE OVERVIEW

Cummins Filtration is a world leader in filtration and exhaust manufacturing for the truck, agricultural, small engine, shipping, and construction equipment industries. We use a variety of purchased materials and components in our manufacturing processes, including: filter media, coil steel, tubing, expanded metal and screen, plastisol, coatings, clamps, nuts and bolts, fittings, mounting flanges, o-rings, gaskets and packaging.

Cummins Filtration is a strategic Business Unit of Cummins Inc. Established in 1958 as The Seymore Filter Co., Fleetguard was a single filter production line dedicated to meeting the high performance filtration needs of Cummins' engines. In 1963, the Fleetguard brand was initiated and in 1967 manufacturing moved to Cookeville, TN.

In 1986, Fleetguard began its US expansion with the acquisition of Kuss Corporation of Findlay, OH. Kuss specializes in in-tank and in-line fuel filters for the automotive and light truck industries. In 1997, Fleetguard continued its growth strategy with the acquisition of Nelson Industries headquartered in Stoughton, WI. Nelson specializes in exhaust and filtration systems. In 2006, Cummins Inc. changed the name of Fleetguard to Cummins Filtration.

In addition to its US-based entities, Cummins Filtration has production or distribution facilities in Canada, Mexico, South America, Africa, Asia, Australia, and Europe. The Corporate headquarters for Cummins Filtration is located in Nashville, TN.

## SUPPLIER QUALITY HANDBOOK

The purpose of this "Supplier Quality Handbook" is to communicate the Quality requirements and expectations of Cummins Filtration to our direct material suppliers. These requirements and expectations focus not only on the physical characteristics of a part, but also on the level of service, delivery, and cost containment provided by each supplier.

The Handbook was developed with three basic principles in mind:

- Incorporate quality expectations as one of the considerations in new supplier selection
- Assure that quality tools are utilized by suppliers in the development of and revisions to their products, processes, and services
- Provide a framework for sustaining and improving the quality of supplier products, processes, and services

It is the policy of Cummins Filtration to meet and exceed customer requirements. Suppliers play a vital role in our quest. Therefore, it is imperative that all suppliers share in our commitment to quality.

## SUPPLIER MANAGEMENT OVERVIEW

Cummins Filtration operates under the premise that the supplier is fully responsible for their products, and services as well as any damages resulting from said products/services. Further, we purchase parts with the understanding that they are defect free and processable in Cummins Filtration processes. Finally, each supplier is required to develop an effective total quality system that encompasses business aspects based on defect prevention rather than defect detection.

### A. Supplier Selection Process

#### **Supplier Evaluation Process<sup>†</sup>**

The Cummins Filtration Purchasing Management (SCM) group is responsible for identifying potential suppliers. Basic investigation into the supplier's ability to meet contract requirements includes a review by Cummins Filtration SCM group of the supplier's profile/capabilities. New suppliers are also provided with a copy of the Cummins Filtration Supplier Quality Manual and are asked to complete a Confidentiality Agreement.

Once identified, an appropriate cross-functional Supplier Selection Team will initiate a supplier selection and material approval process. The approval process shall consist of the following steps:

- a) Verification of third party registration. All direct material suppliers to Cummins Filtration are required to be, or provide a plan to attain, third party registration to the latest revision of ISO 9001 and/ or TS16949. The supplier will be asked to provide a copy of the certificate that covers the plant location and product proposed for delivery to Cummins Filtration. If the supplier is not yet third party registered, the supplier will be asked to submit a plan with timelines for becoming registered within eighteen (18) months. SCM Supplier Quality Improvement Engineer (SQIE) must approve this plan before work can continue.
- b) Supplier's completion of the Request for Information<sup>§</sup> and signed Confidentiality Agreement. Cummins Filtration will also take into consideration such items as financial reports such as Dun & Bradstreet as an indication of financial stability.
- c) Site Visit and "Cummins Filtration Quality System Pre-assessment"<sup>\*\*</sup>. This assessment centers on selected elements of the system (vs. the entire Quality System) and looks for evidence of routine execution and the capability of the

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<sup>†</sup> FGD 02-01-05-00, FGD 02-01-05-01

<sup>§</sup> FGD 02-01-05-00-F

<sup>\*\*</sup> FGD 02-01-05-00-FF

manufacturing process to produce quality product appropriate for Cummins Filtration. See Supplier Quality System Requirements section for more details on requirements.

- d) Process audits of similar product being run on the process proposed for Cummins Filtration (may be included as part of the Pre-assessment).
- e) Decision made as to whether to continue with this supplier or move to another candidate.

In addition to the quality of the supplier's products and processes, as part of the selection process the supplier will also be evaluated on administration, attitude, company information and statistics, cost, delivery, materials planning, and technology.

### **Quotation Criteria**

When submitting a quotation, the following criteria should be addressed:

- Clear understanding and agreement on product specifications, requirements and applications.
- Internal capabilities sufficient to manufacture products at consistent, acceptable quality and performance levels.
- Recommendation of any changes that will prove advantageous to product quality, performance, price and delivery.
- Notice of any exceptions to be included with quotation bid.
- PPAP plan including timing to submit, run size planned

### **B. Production Part Approval Process**

All new or changed product supplied to Cummins Filtration must meet AIAG PPAP. It is the responsibility of the supplier to notify Cummins Filtration, SCM SQIE or facility SQIE, of the need to submit PPAP per AIAG PPAP Manual. Unless otherwise approved or specified the required submission will be a Level 3 PPAP. All PPAPs must be submitted electronically. Electronic signatures will be accepted. See Production Part Approval Process (PPAP) later in this manual for more detail.

### **C. Supplier Maintenance & Development**

Supplier maintenance and development is an evolving process through which Cummins Filtration ensures that:

- Standards for suppliers are clearly defined

- Supplier's quality systems meet requirements<sup>††</sup>
- Supplier's processes are in control, capable and product defect free
- Supplier's commitment to provide a total quality product
- Supplier practices continuous cost improvement
- Encouragement of open communication and partner-like relationships between the supplier and Cummins Filtration.
- Advanced Product Quality Planning process and continuous quality system improvement.
- Explaining the function of the part(s) or process (es) to be provided as it relates to the performance of the final product. Includes descriptions of the product into which the part is assembled subsequent processing performed on the part, handling methods etc., where such information is not considered confidential or proprietary.

## SUPPLIER QUALITY SYSTEM REQUIREMENTS

Third party registration to the latest revision of ISO 9001 and/or TS16949 is a Cummins Filtration requirement for suppliers of direct materials. These third party registrations are accepted as evidence that suppliers will comply with numerous customers' quality system requirements through one registration and will utilize universally recognized terminology and quality tools. The supplier is expected to operate to the requirements of their registration; however, the following references to a quality system are either in addition to the registration requirements or redundant reference to specific items of concern to Cummins Filtration.

### A. Organization

The organizational structure of the company shall include a Quality Control function, which promotes a commitment to continually improve processes and systems. The quality management position should report to a management level that provides authority to implement effective quality assurance and continuous system improvement.

### B. Advanced Product Quality Planning<sup>††</sup>

Defect prevention rather than defect detection is accomplished by front-end quality planning. As such, suppliers are required to comply with AIAG's Advanced Product Quality Planning and Control Plan requirements. Cummins Filtration will assist with the analysis and provide all information it considers critical to the form, fit, function and reliability of the product.

Process Flow Chart, Process FMEA, Control plans and other documented instructions shall be developed and followed to provide consistent control of product quality. Statistical process control (SPC) techniques should be utilized to provide a clear understanding of process capabilities within the supplier's facility.

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<sup>††</sup> FGD 02-04-02-00

<sup>††</sup> FGD 01-01-01-00 and FGD 01-01-04-00

## C. Written Procedures

Written procedures defining all aspects of the manufacturing and quality functions should be available to Cummins Filtration on request. Examples include, but are not limited to: Quality Control Manual, inspection documents, validation processes, gage calibration, machine operation, product rework, and disposition of scrapped material. All procedures shall be controlled and revised on a scheduled basis.

## D. Drawing and Specification Control

Suppliers are required to maintain a documented system to control drawings, specifications, and changes to those documents. Suppliers will be notified of changes to drawings or specifications, at which time the supplier is responsible for the control and distribution of those changes. All obsolete drawings and specifications shall then be removed from use. Suppliers must not make revisions or changes without prior written approval from Cummins Filtration.

## E. Inspection and Test

- Receiving - Suppliers shall have a system to ensure the quality of incoming materials, which assures that all specifications are met.
- In-process – The supplier shall have a system to verify product quality compliance through-out the manufacturing operation. A method for first piece compliance to specifications and approval prior to parts being allowed into production shall be in place.
- Final – When Receiving and/or In-process quality systems have proven ineffective, suppliers will provide 100% inspection and/or dock audits to assure product quality.

## F. Material Control

Cummins Filtration requires that the supplier have a lot traceability method that ties the materials and processes to the date of production. It is also expected that the supplier will cascade appropriate requirements to sub-suppliers to Cummins Filtration product including requirements for registration to ISO 9001:2000 or compliance to that standard at a minimum.

## G. Records

Suppliers shall maintain records for all quality functions. These functions include but are not limited to calibration, instruction sheets, inspection and test results, statistical data (if applicable), and corrective action reports. Records documenting inspection, test, and final audit data should indicate the nature and type of any deficiencies, disposition of material, inspector's name, and date of inspection. Records shall be maintained for a minimum of three (3) years unless otherwise indicated by Cummins Filtration.

Retention of PPAP records and master samples should be for the life of the production of that product plus one-year or in accordance with the *AIAG PPAP manual*.

## H. Measurement and Test Equipment

Cummins Filtration requires that the supplier have the ability to perform all the requested measures specified on drawings and specifications.

- All gages used for variable data on safety, critical, major, 6 sigma, and key control characteristics, final layout or SPC collection points shall be included in a Gage Repeatability & Reproducibility (GR&R) program. Refer to the AIAG MSA Manual for full detail.
- Any Cummins Filtration owned or specialty gages for Cummins Filtration products only shall be indicated as such and may be subject to correlation with like gages at Cummins Filtration locations.

## I. Statistical Process Control (SPC)

Cummins Filtration requires the use of SPC for dimensions or characteristics that are identified as safety, critical, major, six sigma, or as a key control characteristic of a product. This data and/or capability indices shall be maintained for review on request or be required for ongoing evidence with each shipment of product. Unless otherwise specified, SPC data record retention duration is the same as other record keeping covered in section "G".

## J. Deviation Request<sup>SS</sup>

The supplier must maintain records of product failing to meet specification. Under no circumstances shall non-conforming product be shipped to Cummins Filtration without the written agreement of Cummins Filtration. Under special circumstances a deviation to ship the product can be obtained with approval from Engineering and plant Quality. The issuance of a Deviation does not absolve the supplier of responsibility for the performance of material included in the deviation nor does it preclude the possibility of subsequent rejection of the material after review of the received material. A Cummins Filtration Deviation Request form will be issued as an approval to ship. If the deviation is due to a permanent change in the supplier's process, then the supplier must notify SCM SQIE and follow the process for PPAP approval.

## K. Product Verification

Cummins Filtration shall be afforded the right to verify at the suppliers facility that product conforms to specification. Such verification does not absolve the supplier of responsibility to provide acceptable product, nor does it preclude subsequent rejection. In addition the supplier may be required to visit a Cummins Filtration facility.

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<sup>SS</sup> FGD 01-01-08-00

## L. EDI Invoicing Requirements:

For details on EDI invoicing requirements refer to [www.cummins.com/suppliers](http://www.cummins.com/suppliers). The documents within the site are [INVOIC 97B Implementation Guides - Domestic \(US\)](#) , [INVOIC 97A Implementation Guides - International \(US\)](#) and [INVOIC SELF-AUDIT](#)

## M. Supplier Code of Conduct<sup>\*\*\*</sup>

To assist suppliers in understanding Cummins expectations, the Company has a Supplier Code of Conduct, which applies to all businesses that produce goods or provide services for Cummins and any of its subsidiaries, joint ventures, divisions or affiliates.

While Cummins recognizes that legal and cultural requirements vary in a global business environment, the Code sets forth certain universal requirements that suppliers are expected to follow.

The Code provides the foundation for Cummins ongoing evaluation or audit of a Supplier and constitutes additional terms of the Sourcing Agreement. It also deals with a Supplier's workers, including any individual who provides direct service to the Supplier, whether full-time, part-time, temporary or occasional employment.

## PRODUCTION PART APPROVAL PROCESS (PPAP)

### Production Part Approval Process (PPAP)

Cummins Filtration requires that suppliers comply with the AIAG APQP process. The PPAP requirement is a basic element of the SQIP Cycle. PPAP applies to both new and existing product and is intended to assure that the new or revised products and/or processes are production ready. PPAP can be the end result of APQP or a process in its own right to manage smaller changes. Regardless of whether Cummins Filtration initiates a new or revised component design, or whether the supplier initiates a change to an existing component or process, PPAP is required for approval by Cummins Filtration and authorization to supply production quantities. Key outputs of APQP are the Process Failure Mode and Effects Analysis (FMEA), Process Flow Diagram, and the Control Plan. Suppliers must be knowledgeable of and follow the AIAG PPAP process.

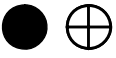


Cummins Filtration requires suppliers to follow the AIAG PPAP manual; including the section that identifies when PPAP notification and submission is required. Cummins Filtration must be notified of **pending** changes. Informed decisions can be made on the impact of the changes and whether a full or partial PPAP submission is required. It is the supplier's responsibility to obtain the PPAP level required from the Cummins Filtration SQIE. **A Level 3 is the default submission level the supplier should PPAP to.**

Cummins Filtration specific PPAP information is detailed here:

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\*\*\* FGD 02-00-00-01

- Where the PPAP manual states "...contact the customer" or "...contact the customer product approval activity" that person is the SCM SQIE.
- All manufactured products or materials used in products shall satisfy any and all applicable government regulatory requirements for any countries where the product will be processed, assembled, or used.
- PPAP Interim Approvals may be utilized throughout the prototype and pre-launch phases of VPI, however, only the Cummins Filtration SQIE can make the decision to approve a PPAP as interim. Suppliers should always strive for full approval as early as possible. Interim PPAP should be the exception.
- The standard submission level required by Cummins Filtration is Level 3. During the APQP process the supplier can request the SCM SQIE to approve an alternate submission level or be instructed by the SCM SQIE to submit to any submission level including Level 5 with approval intended to take place on-site.
- Three sample parts are the default requirement for dimensional verification. The Cummins Filtration SCM SQIE will notify the supplier if other than three sample parts are required.
- Cummins Filtration subscribes to the Truck OEM Specific Instructions defined in the PPAP manual.
- Some Cummins Filtration components or materials require testing prior to approval. The functional, material, processability, or performance testing done for these require Cummins Filtration Engineering approval. Cummins Filtration, the supplier, or a combination of both may do these tests. The results will be included in the PPAP.
- Cummins Filtration requires Source Release for any part or material that is new or changed at any Trial, Sample, or Prototype. Source Release requires a PSW referencing the Drawing Rev. for that submission, a numbered drawing to that revision, and measurement data. It requires that three parts have 100% of the dimensions laid out, and statistically valid data on any Key, Critical, or Major Characteristics must be documented. For some parts, especially High Risk parts, the pre-production Flow, PFMEA, Control Plans would have to be supplied. A PPAP as defined by the SQIE would then be due for Production Parts.
- PPAP refers to customer's "Special Characteristics". Special characteristics at Cummins Filtration are indicated on Engineering drawings with the following symbols:

Characteristic	Symbol	Interpretation
Critical		Initial capability study per PPAP request demonstrating short term Ppk of 1.67 minimum. On-going SPC analyses demonstrating Ppk of 1.33 minimum over time. Control plan documentation to ensure SPC results are monitored and maintained.
Major		Initial capability study per PPAP request demonstrating short term Ppk of 1.67 minimum. Option at the discretion of the responsible Quality function for on-going SPC analyses demonstrating Ppk of 1.33 minimum over time. Control plan item to demonstrate conformance to specification over time.
Significant Minor		Initial study per PPAP request (minimum of 30 pieces recommended) demonstrating conformance to specification and Ppk of 1.0 minimum. For attribute data, the entire PPAP capability run (typically 300 pieces) must conform to specification. Control plan item to demonstrate conformance to specification over time.

In addition to these Critical and Major drawing characteristics, the Cummins Filtration SCM SQIE may specify other Key characteristics for process control purposes. These Key characteristics are to be documented in element 9 “Initial Process Study” of PPAP. In the event the appropriate CpK is not met, the supplier must submit an action plan to the appropriate party (Plant Quality or SQIE) which details how the supplier will correct the process to meet at least 1.67 CpK.

Note: When estimated annual usage is less than 500 pieces, refer to the Truck OEM-Specific Instructions of the latest PPAP Manual. These instructions define alternate approaches for sample sizes, control plans, and statistical studies. When annual usage is over 500 pieces a 300-piece run should be conducted and 100 pieces of the 300 used for statistical analysis. When the supplier has questions they should contact the SCM SQIE. A 30-piece machine study is not appropriate for PPAP approval.

Statistical studies are specified on Critical, Major, 6 sigma, and Key characteristics. This does not mean that the other characteristics on Cummins Filtration drawings may be ignored. All characteristics must meet specifications and it is in the supplier’s best interest to understand their capability on ALL features.

The Dimensional Results section of PPAP is where these characteristics are reported for the number of Sample Product required.

Only the SCM SQIE can modify the requirements for PPAP or approve PPAP submission. The supplier should assure they review and understand these requirements when they submit their quotations. PPAP requirements are part of the APQP process and when APQP is properly performed the submission of PPAP should be a logical conclusion and should not be interpreted as an added expense.

Cummins Filtration does not reimburse the Supplier for any PPAP or Source Release. This is considered part of the basic quality requirements of being a supplier to Cummins Filtration.

## SUPPLIER MAINTENANCE & DEVELOPMENT

Supplier Maintenance provides on-going updates of a Suppliers Quality System. The supplier shall:

- Notify the appropriate SQIE of any change in their registration status such as a new certificate number, suspension, revocation or switching to another registrar.
- Notify the appropriate SQIE of any proposed process and product changes as described in the PPAP manual.
- Maintain routine quality data updates of quality indices, reliability test results, and closure per agreed criteria of agreed to corrective action plans.

### A. Ship To Use (STU) Process

Our ultimate goal is to eliminate receiving inspections at all Cummins Filtration facilities. In order to accomplish this goal, Cummins Filtration has developed a Ship To Use Process. Supplier parts will move through STU by demonstrated quality performance. Inconsistent or poor performance will cause the product to ultimately become disqualified. The supplier should contact plant quality and actively pursue STU status for components and materials they supply. The progress path is as follows:

#### **First Piece Status:**

Released part awaiting initial PPAP approval

#### **Approved Status:**

PPAP has been approved for receipt and will begin quality and delivery history development. During this time product will go through receiving inspection based on a skip lot process. As more products are received with no quality issues, inspection is reduced.

#### **STU Status:**

Product has demonstrated consistently good delivery and quality with no rejections. Demonstration of on-going statistical capability, for specified characteristics, may be required by plant quality for STU status.

A product is expected to advance and remain at STU Status. However, a rejection against a part number at STU Status will cause the part number to be moved back to

Approved Status. Continued rejections or chronic occurrence of rejections will result in the part number and consequently the supplier to be disqualified as an approved component and supplier.

## B. Rejected Material<sup>†††</sup>

Any purchased material received by Cummins Filtration and subsequently rejected will generate a Non Conforming Material Report (NCOMR), which must be communicated to the supplier within 24 hours of finding the nonconforming materials. This report allows for the treatment of the nonconforming material as follows:

- Use of the material as is
- Sort/Rework of the material at the supplier's expense
- Return or scrap of the material and or finished product at the supplier's expense (this may also include scrap of finished goods products at the supplier's expense if the non-conformance is not discovered until the material is used in the parts)

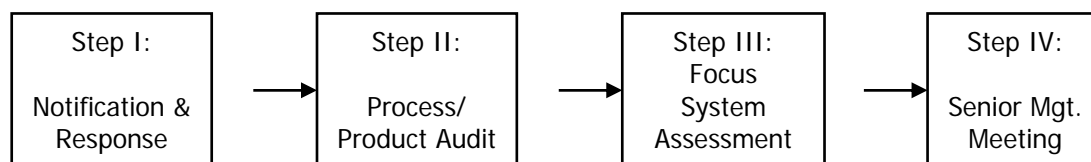
The first two options will be exercised very cautiously so as not to compromise Cummins Filtration zero defect policy. The supplier is expected to assist immediately in the disposition process and, where appropriate, to provide resources to conduct any sort or rework activities in a timely manner that does not expose production or delivery goals committed to by Cummins Filtration. This could include but is not limited to:

- Air freighting verified replacement material
- Accepting charges for third party sorting
- Providing labor into the Cummins Filtration facilities to sort or rework materials

The supplier will then respond as appropriate with corrective action documentation as defined in section "N".

## C. Corrective Action<sup>†††</sup>

Cummins Filtration will monitor the performance of its suppliers through Quality and Delivery measures. Failure to meet these expectations will result in corrective action activity as described below:



### Step I:

When a non-conformance has occurred, the supplier will receive notification. At the time of notification, the supplier will be advised as to the required corrective action response. The supplier is expected to use a formal Seven-Step Problem Solving format. The supplier should respond within 24 hours with a short-term (immediate action) to prevent

<sup>†††</sup> FGD 03-10-00-00

<sup>†††</sup> FGD 07-06-00-00

exposure to production or delivery commitments. The supplier then has 15 days to submit a written Seven-Step analysis\* outlining all actions taken to correct the problem.

**Step II:**

Non-conformances of high-risk characteristics, repetitive non-conformances, consistent poor Quality or Delivery, or other considerations may escalate the corrective action process to include a Process/Product Audit of the supplier's facility. The intent of the audit is to review the offending process (es), follow the supplier's Control Plan, identify weaknesses which are potentially causing the problem(s), and measure the output of the process to determine if the failures are being replicated.

The supplier will be required to respond with a corrective action plan for any findings. Cummins Filtration Plant Quality and/or the facility SQIE will verify that the plan is adhered to and that the findings have been properly addressed and closed.

**Step III:**

Should non-conformances persist and it appears that the issues are more systemic in nature; an assessment of the Supplier's Quality system will be completed. This assessment would evaluate in detail those elements of the supplier's quality system where, given the nature of the non-conformances, a weak or non-existent system is suspected.

As in Step II, the supplier will be required to respond with a corrective action plan for any findings. Again, Quality Assurance and/or the facility SQIE will verify that the plan is adhered to and that the findings have been eliminated.

**Step IV:**

The final step of the corrective action process, if required, is a meeting between the supplier's highest management and the appropriate persons from Cummins Filtration Plant Staff, Materials, and Purchasing Management. At this meeting, the supplier must be prepared to commit resources to resolve the issues. Failure to follow through with these commitments may initiate re-sourcing of the product(s).

Controlled Shipping 1 (CS1)

In addition to corrective action, a supplier may be placed on controlled shipping for a period of time following a quality issue. This supplier will be required to maintain 100% inspection at the supplier's facility for that particular part that was found defective. This will continue until the supplier has had 3 shipments with zero defects found both at Cummins Filtration as well as during the inspection process.

Controlled Shipping 2 (CS2)

If a supplier has repeat quality issues or ships defective parts while on CS1, the supplier will be bumped up to CS2. At that time the supplier is expected to have an external inspection facility 100% inspect product at the suppliers cost. This process will continue until Cummins Filtration has received 5 shipments with zero defects found at both Cummins Filtration and the external inspection facility.

## D. Performance Report<sup>§§§</sup>

Cummins Filtration will categorize all suppliers into two groups: Primary, and Secondary. This categorization is determined using the Cummins Filtration Supplier/Component Risk Profile Categorization Guide<sup>\*\*\*\*</sup>. The degree of supplier management will be based on this categorization.

A major component of supplier management is the Supplier Scorecard. The Supplier Scorecard is a measurement and feedback system to suppliers on Quality and Delivery performance. Quality is measured based on NCMRs mentioned above. Each category is evaluated independently and suppliers are required to perform well in both categories.

Primary and selected Secondary suppliers will periodically receive a "Supplier Scorecard". The Cummins Filtration performance expectations are zero (0) defects and 100% on-time delivery. Suppliers should reference the performance matrix below to determine their performance rating. These ratings are the current requirement as of January, 2007. If changes occur, the supplier will receive written notification from Cummins Filtration.

<b>RATING</b>	<b>QUALITY</b>	<b>DELIVERY</b>
<b>PREFERRED</b>	<b>&lt; 100 PPM</b>	<b>&gt; 99% On-time</b>
<b>APPROVED</b>	<b>500 – 100</b>	<b>97– 99%</b>
<b>CONDITIONAL</b>	<b>&gt; 500 PPM</b>	<b>&lt; 97% On-time</b>

While suppliers are rated in each of the categories, the overall rating is the lowest rating in any category. For example if the Supplier is "Preferred" on quality, but "Conditional" on delivery, then the overall score is "Conditional". Suppliers attaining "Preferred" status may gain access to additional business opportunities provided the supplier also adds value toward cost reduction efforts.

All suppliers are expected to improve both on time delivery and quality. Conditional suppliers are expected to display a 50% improvement in the area they are rated conditional. If a supplier is already better than the "Conditional" cut-off, then the goal is a 25% improvement over the previous full year rating. For example, if the supplier is already at an overall PPM of 500 for 2006, then the 2007 goal for them is 25% less or 375. Likewise, if delivery for 2006 was 97%, then the goal would be a 25% improvement, or 97.75%.

Delivery expectations have changed drastically. If the supplier does not agree with the due date on the original order, then the supplier should NOT accept the order. It is the supplier's responsibility to work with the plant buyer on an agreed due date.

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<sup>§§§</sup> FGD 02-05-00-00

<sup>\*\*\*\*</sup> FGD 02-04-01-00 and FGD 02-04-01-00-F

Suppliers rated “Conditional” may be placed on the Special Emphasis Supplier Process (SESP)<sup>††††</sup> referred to in a previously distributed separate letter. Suppliers listed on the Supplier Scorecard are reviewed quarterly on both quality and delivery measures. Suppliers who are “Conditional” are possible candidates for SESP. Once a supplier is officially placed on SESP, the supplier representative to the Cummins Filtration will receive a letter either by mail or email stating so. A team including representation from both the supplier and the Cummins Filtration will be formed in order to identify and resolve issues causing poor performance. Failure to participate in SESP when asked or failure to make necessary improvements during SESP could result in termination of business with the Cummins Filtration.

## E. Cost Chargebacks

Cummins Filtration will also monitor supplier-caused disruption costs to Cummins Filtration and its Customers. Any cost associated to the disruption to manufacturing, or field failures caused by, or contributed to by the supplier’s component or materials, will be recovered from the supplier.

If the material is non-conforming and disposition has not been made within the 24 hours then the material will be shipped back to the supplier at Cummins Filtration choice of routing. A \$250.00USD administrative fee, labor charges and down time for all written NCMR’S will be charged to the supplier. <sup>††††</sup>

Unless there is a contract between Cummins Filtration and the supplier stating otherwise, Cummins Filtration’s fee to handle sorting or rework of non-conforming parts will be as follows:

- Management Fee, per man hour \$100.00USD
- Support Fee, per man hour \$100.00USD
- Handling Fee, per man hour \$100.00USD
- Sorting and Rework Fee, per man hour \$100.00USD

In the event of chronic late delivery or chronic poor quality situations, Cummins Filtration may impose charges on the supplier. For example, if late delivery on behalf of the supplier causes a negative impact for a Cummins Filtration customer, then charges will most likely occur. Such charges would most likely include any charges that Cummins Filtration’s customer assesses to us and /or the cost of line downtime for Cummins Filtration. Another example is that if a supplier is below 95% OTD and continues to have a trend of 3 months of declining performance, that supplier will receive a monthly fine of \$500 per month for each month not showing improving performance thereafter. This fine starts on the 3<sup>rd</sup> month of declining performance. Please review the “Performance Report” section above for information on how due dates are to be handled by the supplier.

Unless there is a contract between Cummins Filtration and the supplier stating otherwise, Cummins Filtration may impose charges on the supplier in the event of

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<sup>††††</sup> FGD 02-05-01-00

<sup>††††</sup> This fee may be waived upon the approval of SCM for first time offenses or unusual circumstances.

chronic line downtime situations within any Cummins Filtration manufacturing facility. For example, if late delivery or quality issues on behalf of the supplier causes line downtime in any Cummins Filtration plant, then charges will most likely occur. Charges for late delivery and quality issues are not limited to this one example. Please review the "Performance Report" section above for information on how due dates are to be handled by the supplier.

Actual charges for line downtime may vary from plant to plant and are to be set by the receiving manufacturing plant based on average line costs for the plant and/ or any fees assessed by Cummins Filtration's customers for line downtime.

All chargeback fees are subject to change upon written notification to the supplier by SCM. Adjustments to man-hour rates may be made, depending on the facility of occurrence.

## F. Warranty Chargebacks<sup>§§§§</sup>

The Supplier shall warrant product due to defective material, workmanship and design. Cummins Filtration and the Supplier agree that performance criteria and application guidelines furnished by Cummins Filtration are acceptable as to allow the Supplier to warrant their product in whole. Warranty is honored based on analysis of a sample of defective and non-conforming material that represents the whole population of Cummins Filtration warranty claims.

In the event a warranty claim occurs due to a defect in a supplier's part, Cummins Filtration will charge 100% of the warranty claim amount to the supplier. The charged amount will include cost of the defective part AND cost of any damages incurred due to the defective part.

## G. Continuous Improvement<sup>\*\*\*\*\*</sup>

Suppliers shall monitor the outputs of their quality system and continually make improvements toward Quality, Delivery, Support, and Cost. The supplier will establish formal Continuous Improvement Programs focusing on improvements important to Cummins Filtration. The supplier is expected to use "Six Sigma" methodology internally in developing and implementing these improvements. Improvement activities should encompass all aspects of the supplier's business.

In an effort to engage in a more partner-like relationship with suppliers, Cummins Filtration may request suppliers to participate in joint 6 sigma projects as well as Value Engineering/ Value Analysis (VEVA) activities. These activities are aimed at jointly improving cost, quality, and delivery of our products.

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§§§§ FGD 02-04-07-00  
\*\*\*\*\* FGD 02-04-00-00

## APPENDIX

### A. Packaging and Shipping

Unless otherwise agreed, it is the supplier's responsibility to insure that products are free from damage, contamination, and corrosion. In addition, all products must be packaged to provide adequate protection during shipping and initial storage at our manufacturing location. Contact your SCM if there are any questions on packaging or labeling requirements. There may be additional requirements which are specific to a particular country you are shipping to.

Cummins Filtration will provide information as to the desired freight carrier to be used when shipping product. If this information is not supplied, please contact the Cummins Filtration Logistics Department for instructions on which carrier to use. If the product is shipped via a carrier other than the one designated by Cummins Filtration, the supplier may be liable for any excess freight charges incurred. Should a supplier need to deviate from the Cummins Filtration requested shipping date they are required to contact the Cummins Filtration plant buyer. The supplier shall record all premium freight expenses.

Any deviation from the requested shipping date requires approval and coordination with the Cummins Filtration plant buyer.

Attached are the Cummins Filtration packaging expectations. These specifications are used internally. We require our suppliers to use the same requirements. Any questions or supplier request for change should be submitted to the supplier contact at the Cummins Filtration Entity Purchasing Department for approval.

#### **Packaging Specifications (Special Requirements & Notes):**

If questions or concerns arise and it is not covered in this document, refer to standard AIAG RC-8 or call the appropriate packaging specialist. Reference the Cummins corporate packaging standards found on our website at [www.cummins.com/suppliers](http://www.cummins.com/suppliers). The document is "Production Part Packaging Standards"

Any specific customer requirements for packaging overrule Cummins Filtration requirements and AIAG standards.

Manually handled containers should not exceed 40 pounds.

Cartons should not overhang the pallet.

Shipping containers must be adequately secured to the pallet.

All corrugated containers should have a box maker's certificate on them.

A shipping container should withstand a stacking height of 100" in transit and arrive in a satisfactory condition at the point of use.

A shipping container should have sufficient strength to support normal handling and storage. Strength must be maintained so standard packs can be safely stacked in storage three high or to a height of 13', which ever is greater.

Different parts should never be mixed in the same box or container, but containers of a different part can be shipped on the same pallet.

Parts, which must be kept clean or protected from plant and transportation environments, must be covered or capped.

Packaging in this requirement should be compatible with commonly used forklifts and pallet trucks.

Shrink or stretch wrap material must allow labels to be read via bar code scanners. Labels must also be placed on the carton in case the wrap is removed.

### **Identification Specifications (Special Requirements & Notes):**

For full details on Labeling Specifications reference FCS 10001: Corporate Standards: Raw Material and Component Labeling Standard. If questions or concerns arise and it is not covered in this document, refer to standards AIAG B-10/B-3 and AIAG B-4.

Any specific customer requirements for labeling overrule Cummins Filtration requirements and the AIAG standards.

Date code should be the standard Julian Date Code (DDYY for example February 15, 2006 = 04606). All exceptions to this requirement must be approved by SCM and the supplier must provide a method to interpret the supplier's date code.

### **Other Special Shipping Requirements:**

All Shipments should be accompanied with an appropriate Bill of Lading and Packing List.

< Chrome stacks will be sent to a chrome plater as follows:

Up to 36" lay down in a box with petitions between each row

48" – 60" standing up in a box with dividers

Over 60" laying down on a pallet with NO overhang and strapped down well enough to prevent damage.

< Effective January 1, 2003.

All chrome parts that are packaged individually must be in a carton that meets an Edge Crush Test (ECT) of 40 Lbs.

## B. Acronyms and Definitions

Cummins Filtration and industry standard acronyms are used throughout the Handbook for brevity. The explanations below should be referenced when in doubt. Definitions of key words or phrases are also provided.

### **Advanced Product Quality Planning (APQP)**

APQP is a structured method for producing a quality plan that will support the development of a product that will satisfy the customer. It is a TS16949 requirement and a basic element of SQIP. Reference the AIAG manual for a complete description.

### **Automotive Industry Action Group (AIAG)**

AIAG is an industry organization that, among other responsibilities, provides administrative support to the DaimlerChrysler/Ford/General Motors Supplier Quality Requirements Task Force and distributes related manuals and publications.

### **Critical Characteristic**

A dimension, material property, physical feature, etc. which has certain, highly probable, or possible affect on the product in terms of safety, operation or performance. These characteristics require statistical demonstration of control and on-going capability.

### **Direct Material**

Components and assemblies used in Cummins Filtration production processes that become part of the salable product. They are typically included as a Bill of Material item. Specific questions regarding whether a material is considered direct should be directed to the appropriate Cummins Filtration Purchasing representative.

NOTE: For suppliers with multiple producing locations, each producing location will be considered separately.

### **Key and Special Characteristics**

A dimension, material property, physical feature, etc. which has been selected as a characteristic to be statistically controlled even though it may not be denoted on a drawing as critical, major, 6 Sigma or a safety characteristic. This dimension has either been determined to provide process control data or has previously undefined impact on the customer's processes. These characteristics require statistical demonstration of control and on-going capability.

### **Major Characteristic**

A dimension, material property, physical feature, etc. which has certain, highly probable, or possible affect on the product in terms of operation, performance, service or manufacturing. These characteristics require statistical demonstration of control and on-going capability.

### **Plant Materials (Buyer, Materials Analyst, Materials Planner)**

Individuals within our plants who purchase materials for our manufacturing processes.

### **Production Part Approval Process (PPAP)**

PPAP determines if customer engineering design records and specifications are understood by the supplier, and that the supplier's process has the potential to meet

these requirements. It is a TS16949 requirement and a basic element of SQIP. Reference the AIAG manual for a complete description.

### **Safety Characteristic**

A dimension, material property, physical feature, etc. which has certain, highly probable, or possible affect on the product in terms of personal, environmental, other regulatory safety. These characteristics require statistical demonstration of control and on-going capability. Other regulator record keeping may also be applicable.

### **SCM**

Purchasing Management is a centralized Purchasing group responsible for new supplier selection, awarding of new business opportunities, cost negotiation, and other corporate wide supplier management activities.

### **Seven-Step Problem Solving**

A disciplined method for problem solving which emphasizes analysis for the true root cause and verification that the corrective action is effective in eliminating the root cause. Root cause normally consists of both specific cause(s) and systemic cause(s), all of which should be addressed. The Seven Steps in the process are:

1. Identify the Problem
2. Determine and Rank Potential Causes
3. Take Short Term Action
4. Gather Data and/or Design Test
5. Conduct Tests, Analyze Data, Identify Root Cause(s), Select Solution
6. Plan and Implement Permanent Solution
7. Measure, Evaluate and Recognize the Team

### **Ship To Use (STU)**

STU status is assigned to a part that has demonstrated consistently good delivery and quality. Receiving inspection on STU parts will be performed on a limited basis.

### **Supplier Scorecard**

An Cummins Filtration feedback system to the supplier that provides a rating in any of the following categories: Quality, Delivery, Cost and an overall rating for all categories.

### **Supplier Quality Improvement Engineer (SQIE)**

SQIE is the person(s) at Cummins Filtration responsible for the execution of various elements of the SQIP. Purchasing Management, a centralized organization, and Plant entities have SQIE resources. SCM SQIE supports corporate wide supplier management functions. The Plant SQIE supports the daily supplier issues.

### **Supplier Quality Improvement Program (SQIP)**

SQIP is the Cummins Filtration term for the process to be followed by Cummins Filtration SQIE's with suppliers of direct materials.

### **Third Party Registration**

Registration by an independent, non-customer registrar qualified by a national accreditation body to perform audits to a national standard and to register the audited facility for a given scope.

**Value Package Introduction (VPI)**

VPI is the Cummins Filtration process for new product introduction. This process is the vehicle through which Cummins Filtration satisfies the requirements of APQP.