
SUPPLIER QUALITY MANUAL of the Škoda Group

(hereinafter as the “Manual”)

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1. INTRODUCTION

1.1. Scope and validity

This Manual sets out the basic quality, safety and reliability requirements of delivered Product, process and service (hereinafter referred to as Product Quality) to the Škoda Group production companies (hereinafter referred to as ŠG). This term ŠG covers, for the purposes of this Manual, the following companies.

- ŠKODA TRANSPORTATION a.s.
- ŠKODA ELECTRIC a.s.
- ŠKODA VAGONKA a.s.
- ŠKODA TVC s.r.o.
- ŠKODA PARS a.s.
- ŠKODA DIGITAL s.r.o.
- POLL s.r.o.
- ŠKODA TRANSTECH Oy
- ŠKODA EKOVA a.s.

The aim of the Manual is to define, and transfer to all ŠG suppliers, the specific requirements of the ŠG coming from the requirements for the quality management system ISO 9001 and ISO 22163. Suppliers are required to ensure proper compliance with the requirements of the Manual in all its sub suppliers in full scale. The ŠG has the right to check compliance with the rules and requirements arising from Manual under negotiated conditions (see [Article 3](#) and [9](#)).

1.2. Partnership with suppliers

One of the main goals of the ŠG is to ensure quality, safety and reliability of its products for its customers and to ensure continuous improvement. This goal can only be achieved through a coordinated approach in all processes in the supply chain.

ŠG believes that applying the requirements below is the only way to meet its objectives, and therefore the procedures outlined in this Manual are mandatory for all ŠG suppliers. ŠG expects cooperation from its suppliers in all areas that are crucial to ensuring quality of the supplied Products. Failure to meet the requirements of this Manual may, among other things, lead to the loss of existing and/or future collaboration with ŠG companies.

1.3. Supplier's responsibility for Product Quality

ŠG suppliers guarantee that the Products delivered to the ŠG are free of defects and comply with the agreed requirements, technical specifications, technical documentation and meet the requirements for Product quality. The Supplier is fully responsible for:

- The quality of his Products.
- Suitability of Products for purposes pursued by ŠG.
- Quality of Products and processes of their sub-contractors.
- Product compliance assurance with defined technical specifications.
- Provision of documentation required by ŠG.

2. QUALITY ASSURANCE SYSTEM

ŠG companies require a valid system certification from its suppliers according to ISO 9001 or ISO 22163 by an accredited company. If the supplier is not certified, he is obliged to

- submit a plan to the relevant ŠG company on how to acquire certification within one year from the beginning of cooperation with ŠG;
- conclusively demonstrate compliance with the requirements set out in this Manual;
- provide a plan on implementation of the basic requirements of the ŠG in the area of the Quality Management System – see requirements listed in this Manual.

2.1 Document control

The Supplier is obliged to proceed in compliance with the valid internal document control system. All documented information used to demonstrate compliance with the requirements of ŠG must be managed according to requirements of ISO 9001 or ISO 22163. The documented information must be:

- readable;
- easily identifiable;
- available and suitable for use;
- protected (e.g. against loss of confidentiality, improper use, from unwanted modifications, personal data protection etc.);
- easily traceable;
- internally controlled, reviewed, approved and up to date;
- archived and disposed of (in accordance with legal, contractual requirements, etc.).

The Supplier is obliged to have a system in place for managing changes to the documentation, i.e. a system of activities in the design, negotiation and approval or rejection of proposals for amendments to the applicable technical documentation.

2.2 Identification and traceability

The Supplier is obligated to keep a system allowing identification of the product at every stage of development, including the identification of raw materials, used tools and workers involved in the implementation of the product.

The Supplier is obliged to properly ensure that during the production, no materials, raw materials, semi-finished products or Products are confused. In the event of doubt as to such labeling, the materials, raw materials, semi-finished products or Products shall not be used.

2.3 Control of monitoring and measuring devices

The Supplier must ensure that the checking, measuring, monitoring and test equipment is suitable and able to consistently provide specified measurements according to the requirements so that there is always taken the right decision for the management and acceptance of Product quality, at least:

- Measuring instrument identification.
- Measuring instrument records.
- Measuring instrument calibration plan.
- Measuring instrument inspection procedure.
- Protection against damage, change of settings, devaluation of measuring instruments.
- Archiving documented information about calibration / checking of measuring instruments.

2.4 Control of non-conforming Product

The Supplier undertakes to keep and follow a procedure for the detection, identification, labeling, storing and keeping documented information about products that do not meet the ŠG requirements. This procedure must:

- prevent unintended or unsuitable use of the Product;
- ensure discarding of nonconforming Product from production process;
- prevent delivery of non-conforming Product;
- ensure analysis of Product defect or deviation from ŠG 's requirements;
- initiate steps toward preventing the occurrence of the defect.

A Product of an unidentifiable status or Product whose compliance is uncertain, must be handled as a non-compliant product by the Supplier.

3. FIRST ARTICLE INSPECTION

For selected Products delivered, the ŠG demands to perform a Process & Product Quality Check and to release the First Production Lot by acceptance - the so-called FAI (First Article Inspection), which always takes place at the Supplier, unless otherwise agreed.

3.1. First Article Inspection - FAI

The Supplier is informed by a written order, or a different contractual document of the given ŠG company that it is required to perform FAI for the given Product. Consequently, the Supplier must perform internal verification of readiness, e.g. internal acceptance of the first piece, and also notify in writing the relevant ŠG company about the preparedness and send a written invitation for the First Piece Acceptance, at least 10 working days prior the date of the planned acceptance. The basic requirements of the ŠG for the FAI design are given by the order or other contractual document, and usually contain the following:

- submission of general documentation of the Product (technical production documentation etc.);
- submission of documentation for the materials used (certificates) and test reports;
- submission of documentation for special processes (welding, gluing, painting etc.);
- submission of documentation to the Product (dimensional report, type test report, etc.).

The FAI also includes:

- performing Product Control and verifying Product Identification;
- performing Process Control.

3.2. Costs connected with the FAI

The Supplier is obliged to pay all costs connected with the FAI, which was

- delayed from the side of the Supplier;
- or (ii.) which was planned and then postponed by the Supplier;
- or (iii.) any further FAI, which has to be done/ repeated because the Supplier had not pass the previous FAI (result of FAI – not accepted).

It means, that the given ŠG company shall only bear the costs of the first FAI, which was properly planned by the Supplier and which wasn't postponed by the Supplier.

Further the Supplier shall pay all costs on the side of the respective ŠG company for any visits of the respective ŠG company at the Supplier, if such visits are connected with non-performance of the contract, or with delays in delivery of the goods caused by the Supplier (e.g. travel costs, accommodation costs etc.).

4. CONTROL PLAN

The Supplier is obliged to have a Control Plan duly prepared for the produced Products either separately or as part of the Technological Procedure that defines the Product Control and/or Testing Method in individual stages of production and at the invitation of the ŠG must submit the schedule. The Control Plan and / or the Technological Procedure shall include the control and / or testing of all relevant Product characteristics in accordance with the technical specifications, standards and requirements of the ŠG. The Control Plan and/or the Technological Procedure shall in particular include:

- controlled sign;
- specification and tolerance;
- checking method;
- frequency of checks;
- quantity of pieces to check;
- people responsible for checking;
- method of recording the inspection;
- response plan and measures to remedy any failure to comply with the specification.

5. DEVIATION AND CHANGE MANAGEMENT

A ŠG Supplier shall not deliver a Product that does not meet the requirements for the quality of the delivered Product.

5.1. Deviation

Where there is a deviation from the technical requirements, legislation and norms of the ŠG on the delivered Product or if the Supplier is aware in advance that the Product will not meet the required quality, the Supplier shall, well in advance of the scheduled Product delivery date, ask in writing to the relevant ŠG company, for permission to deviation from the applicable documentation. In the application, the Supplier is obliged to justify the scope of the deviation and specify the following:

- the date of validity of the deviation (from - to) and / or the number of pieces of the Product;
- order number;
- batch number or serial number of the Product;
- information on all risks associated with the given deviation;
- measures to remedy, or an additional risk analysis, including the necessary supporting documents.

The decision to approve or reject the application, together with other conditions of deviation, will be sent to the Supplier by the relevant ŠG company in writing.

5.2. Change

The supplier is obligated to adequately inform the relevant ŠG company in writing in advance of any substantial change in the production process, including:

- using a different construction and / or other manufacturing material;
- production on equipment moved to another production plant or other production process;
- production using other technology;
- change in suppliers of components, materials and/or services (e.g. heat treatment)

and anything else that could have any effect to the safety, function and Product Quality. The Supplier is obliged to properly justify the information about the change and to supplement it with a risk analysis including the necessary documents. The relevant ŠG company is entitled to approve or reject the change, within a reasonable period of time after the notification has been given, without any justification. If the Supplier fails to comply with its obligations, the Product thus modified shall be deemed to be nonconforming. By not responding or by rejecting the change, the relevant ŠG company does not assume any responsibility or liability.

6. COMPLAINT MANAGEMENT

If a ŠG company discovers that a delivered Product does not comply with specified requirements, legislation and norms it shall notify the Supplier in writing – i.e. Non Conformity Report (NCR) or Service Claim (SC). The Supplier is obliged to follow the mutual contractual arrangement with the ŠG company after receiving notification of the defect of the Product.

A part of the defect notification is the so-called 8D Corrective and Preventive Action Report (hereinafter referred to as the "Report"). The Supplier is obliged to analyze the defect, determine and properly implement corrective actions leading to prevention of the defect recurrence and elimination of their causes. ŠG recommends that problem solving records should be on the prescribed form from the given ŠG company. ŠG's own 8D Reports are accepted.

The Supplier is obliged:

- within 14 days of the defect notification receipt, the Supplier is obliged to process and deliver the 8D Report, duly completed, to the relevant ŠG company up to the level 5D, where the cause of the defect and the proposal for remedial measures are determined;
- implement any proposed corrective and preventive measures without any delay from the date of delivery of the Report and then send a duly completed updated Report to level 8D.

The complaint is closed after the implementation of corrective actions leading to removal of defects in the Product and verification of their effectiveness in ŠG.

7. SUPPLIER EVALUATION

The Supplier's evaluation verifies the Supplier's performance against the contractual requirements, in particular in the area of Product quality, logistics, and any associated costs. Supplier evaluation is an essential means to provide feedback from the ŠG to the suppliers and also it is the basis for the selection of suppliers for new projects.

The evaluation is carried out according to the specified classification of individual companies of the ŠG and is regularly sent to all suppliers of strategic components and suppliers "C" for the evaluated

period. Suppliers with "C" rating are prompted by the ŠG company to prepare system measures leading to improvement of the Supplier performance.

8. SUPPLIER ESCALATION PROCESS

In case of severe deviations or because of long-term lack of improvements in the overall Supplier evaluation, the Supplier is included in the so-called escalation process. The form of escalation is selected by the relevant ŠG company depending on the seriousness of the situation. The escalation can have the following forms

- Regular presentation of corrective actions by the Supplier to the relevant ŠG company.
- Special process audit at the Supplier conducted by a representative of the ŠG company.
- Special process audit at the Supplier conducted by a third party for the ŠG.
- Process-product supervision at the Supplier organized by a third party and carried out for the ŠG.

All costs incurred at the Supplier in connection with escalation are borne by the Supplier. The Supplier is also obliged to pay to the ŠG, or directly to a third party authorized by ŠG, for all costs incurred in connection with the escalation without delay after written notice delivered to the Supplier by ŠG.

9. SUPPLIER AUDIT

A ŠG company and / or the third parties authorized by this company are entitled, at any time on workdays and in regular working hours, to check directly the compliance with the obligations of the Supplier and its individual subcontractors, in particular by performing a product, process or system audit.

The Supplier is obliged to provide the ŠG company and/or the third party authorized ŠG, with the opportunity to perform an inspection at the Supplier and/or his subcontractors, at the request of ŠG, any time during the manufacturing process (implementation) of the said Product, and the production and measuring facilities or evaluation components, processes or systems, directly at the company, or in a plant where the production of the Product in question takes place. The Supplier shall maintain quality management system during the performance of its contractual obligations in the production (implementation) of the Product, at least to the extent and quality as was at the time of commencement of cooperation.

To verify the process fitness of the Supplier and the fulfillment of the requirements of ŠG, the ŠG company and/or third party authorized by ŠG, perform extraordinary audits and audits based on the annual program of supplier's audits.

Supplier's audits are realized on the basis of the following criteria:

- New supplier of strategic items.
- Ongoing supervision of the strategic supplier (supplier development).
- Change of production site, technology or process at the supplier.
- Based on the results of supplier's evaluations (product and supply quality).

If the new supplier has a valid certification according to ISO 22163, it does not have to be included in the supplier's audits program for the given period. The verification of the process at the supplier can also be realized as part of the acceptance of the first article inspection FAI / EMP at the supplier.

The way in which the audits are carried out is in accordance with ISO 19011.

The ŠG uses the "Process Supplier Audit" form to record the audit at the Supplier. Within 14 days from the receipt of the Process Audit Report, the Supplier is obliged send the Chief Auditor a response to the report. The statement shall indicate whether the Supplier has eliminated the cause

of the non-compliance and/or has taken action to prevent further occurrence and whether it accepts the recommendations, the manner and timing of the introduction of the remedy, or otherwise he needs to provide justification for rejecting the recommendation.

10. LIST OF ABBREVIATIONS USED

5D report	- complaint handling tool up to level 5
8D report	- complaint handling tool up to level 8
EMP (Erstmusterprüfung)	- acceptance / release of the first product article
ISO 9001	- international norm for quality systems management
ISO 19011	- norm how to conduct audits of processes and systems
FAI (First Article Inspection)	- acceptance / release of the first product article
ISO 22163	- international norm for quality systems management in railway industry
Control Plan	- list of performed inspections of selected attributes of the Product / Process to verify its compliance with the customer requirements. It is also known as Inspection plan.
Process	- a set of inter-related or mutually affecting activities that transform inputs into outputs
Product	- process, product, service
Technological Procedure	- sequence of operations related to the transformation of semi-product into the final product at the workplace
Customer	- final consumer of products of the ŠG
