

# **SUPPLIER HANDBOOK**

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# Change log

**Current version** 1.2

New version	Date submitted	Date the change takes effect	Affected sections	Description of change
1.1	2022-10-28	2022-11-28	Quality and handling of non-conformity	Clarification regarding routine for returning non-conforming products
1.2	2023-03-17	2023-04-17	Quality and handling of non-conformity	Changes in requirement regarding how quickly engcon expects the supplier to finish RCA and implement preventive actions

## Introduction

engcon strives to create as much value as possible for our customers, suppliers, our coworkers and owners while contributing to a sustainable development. We believe in good business ethics and a strong social commitment in the societies in which we and our products are present. We consider how to minimize the environmental impacts in all aspects of our business and safety is our top priority in our ambition to change the world of digging.

We believe that sharing common goals and building long-term and transparent relationships based on trust with all our suppliers and business partners is the only way forward towards reaching our goals.

This *Supplier Handbook* is our initiative to clarify engcon's values, our Code of Conduct and to provide an overview of our general supplier requirements, such as providing quality products, on time and with optimal cost. It is intended to be a guideline for both our existing suppliers as well as for companies desiring to be future engcon suppliers on how to build supplier operations to meet our company's requirements and expectations. This document is complemented by the *engcon General Technical Requirements*, covering technical aspects of products delivered to engcon, and *How To Deliver To engcon* with packaging, marking and transportation instructions. These documents in the latest versions are available on [www.engcon.com](http://www.engcon.com).

## **engcon's commitment to sustainability**

engcon Group is expanding its business worldwide in our effort to *change the world of digging*. Our journey has just begun, but on our way to achieve our goals we have already set the standards for a sustainable growth both within our company and within the industry as whole.

Our overriding focus is on ensuring profitability, providing environmentally and technically sound products and services while ensuring a responsible business conduct. To achieve this and create a high customer value, our supply chain is one of our main enablers. Our supplier's commitment to our objectives are therefore crucial for us to keep driving a sustainable development and continuously improving our business.

To ensure that we are heading in the right direction in terms of environmental sustainability, the majority of the companies within engcon Group are certified according to **ISO 14001**.

For more information about engcon's view on sustainability, see engcon's Code of Conduct.

## engcon supplier requirements

The purpose of engcon supplier requirements is to explain the legal, ethical, environmental as well as engcon's own expectations on its suppliers. For more detailed description see engcon Group Code of Conduct and for technical requirements, see engcon General Technical Requirements.

If not otherwise stated in project specific drawings or purchase agreements, the requirements stated in this document applies to all products and services purchased by engcon.

The supplier is accountable for the products or components produced and delivered by any engaged sub-suppliers.

## Compliance

### Compliance with relevant legislation

The supplier shall operate in full compliance with all laws and regulations applicable to its business, in all countries where they and their products are present. The supplier shall conform with the requirements of good citizenship in each jurisdiction where the supplier performs its activities.

The Supplier shall comply with all applicable export control laws and regulations. The Supplier shall notify engcon if any use, sale, import or export is restricted by any export control laws.

With respect to environmental requirements and regulations, including to but not limited to noise and emissions, the supplier shall conform to all applicable laws and regulations and to the latest standard for similar products.

### Restricted substances and hazardous materials

The supplier shall verify and ensure that the supplied components and goods does not contain asbestos or any other hazardous material or substance in any form.

The Supplier shall verify and ensure that no "conflict minerals" are produced or contained in the supplied products and components.

The Supplier shall confirm to engcon their compliance with *CLP (Classification, Labelling and Packaging)*, *REACH (Registration, Evaluation, Authorization and Restriction of Chemicals)* and *RoHS (Restriction of the use of certain Hazardous Substances in electrical and electronic equipment)*. Suppliers that supply products to engcon containing substances classified as *Substances of Very High Concern (SVHF)* under *REACH* shall report this to *European Chemicals Agency (ECHA)* through the SCIP-database and notify engcon via a *Declaration of Conformity*. The supplier is also expected to notify engcon of any changes in the product structures in relation to aforementioned legislation.

### Labor standards

engcon takes full social responsibility for all our operations meaning that basic human rights and fair working conditions are respected and applied equally for all our employees. engcon expects the same from our suppliers.

This implies that the supplier must not engage in or support the use of forced labor. The supplier must not engage in or tolerate the use of corporal punishment, mental or physical coercion or abuse. Furthermore, the supplier must not engage in, or benefit from, the use of child labor, in accordance with the ILO convention 138.

engcon expects the supplier to make decisions on hiring, promotion, development and compensation based on the employees' abilities and skills related to the job. These decisions must never be based on irrelevant factors such as gender, age, ethnic or national origin, religion, disability, sexual orientation, union membership or political affiliation.

engcon also expects the supplier to respect the right of employees to freely associate and bargain collectively. All employees should be compensated fairly and, as a minimum, in compliance with legal minimum standards. The supplier shall ensure that its employees are offered a safe and healthy working environment. Adequate health and safety policies and procedures shall be established and followed.

## **Business ethics**

Corruption distorts the market, disrupts free competition and violates legislation. It damages the brand and destroys the reputation of companies and individuals. The supplier must refrain from all forms of corruption, extortion and bribery, and specifically ensure that all payments or other benefits offered or made to public officials, private sector employees or any other party comply with applicable anti-corruption laws and regulations. engcon do not accept any suppliers or partners who offer bribes and will take appropriate measures if such action is discovered.

engcon expects the supplier to compete on the merits of its products and services. The exchange of business courtesies may not be used to gain an unfair competitive advantage.

engcon expects the supplier to report to engcon any situations of actual or potential conflicts of interest between the personal interests of those involved in the dealings and the interests of engcon.

## **Counterfeit parts**

The supplier shall not deliver counterfeit parts or suspect Counterfeit Parts to engcon. The supplier shall only purchase products to be delivered to the engcon directly from the Original Component Manufacturer (OCM). Parts shall not be acquired from independent distributors or brokers unless approved in advance in writing by engcon.

By "Counterfeit Parts" means materiel whose origin, age, composition, configuration, certification status or other characteristics has been falsely represented by: (a) misleading marking of the materiel, labelling or packaging; (b) misleading documentation; or (c) any other means, including failing to disclose information.

## **Protection of proprietary and confidential information**

The Supplier shall support and encourage innovation in its activities while respect the intellectual property of engcon and others. engcon's intellectual property is one of our most valuable assets, which shall be protected. engcon expects the supplier to properly handle sensitive information, including

confidential, proprietary and personal information. Examples of confidential information is information that we do not publish about our processes, our products, our innovations and our economic or strategic plans or position. Proprietary, confidential information or otherwise sensitive information should not be used for any other purpose than for which it was provided. engcon might request the Supplier to sign a Non-disclosure agreement (NDA).

## **Environmental sustainability**

engcon expects the supplier to contribute to sustainable development and to reduce the negative environmental impact of its activities, products and services through a proactive approach and responsible management. engcon expects the supplier to continuously work to reduce waste or have a sustainable resource management and to have a responsible chemical management with a substitute principle.

engcon promotes application by the supplier of the third-party certified environmental management system. As a minimum, the supplier shall have an environmental management policy that complies with the International standard ISO 14001 or equivalent. The environmental management policy or system shall ensure the effective planning, operation, continual improvement, and control of all environmental aspects and risks. Based on its operations and capability, the supplier shall have the readiness and procedures to handle environmental emergency situations.

The supplier shall be aware of, and follow, local environmental legislation and all applicable laws and regulations regarding its products and services and be able to provide evidence of compliance.

Improving sustainability is a joint effort where the entire supply chain must contribute and collaborate in order to succeed. engcon therefore promote the supplier to put similar requirements for all their engaged sub-suppliers.

## **Product development & validation**

engcon relies heavily on the expertise of our suppliers in developing new products and refining products already in production. engcon believes that a collaborative effort in product development benefits the entire supply chain and invites all suppliers to take an active role in continuously improving the products being delivered to the end-users. Below is a description of what engcon expects from our suppliers regarding product development.

### **New products**

New products refer to completely new products or products that are new to the supplier in question. During the quoting process, engcon expects the supplier to share their insights regarding producibility and cost efficiency of the products in question. When the quotation is submitted, the supplier confirms they are able to produce the part according to the drawings and specifications stated on the drawings at the quoted price.

engcon will always order a trial batch to validate before serial orders. The validation will be performed against the specifications on the drawings and what's stated in the document *General Technical Requirements*. The validation report will be sent to the supplier along with the order of a new trial batch if the first is not approved. engcon are under no obligation to purchase serial deliveries until an



approved validation result is achieved. Potential payment for tools and fixtures will take place when an approved validation result is achieved.

## Product revisions

Changes in the drawings of a product will generate an *engcon Change Order (ECO)* that will be sent out to the affected suppliers through a automatically generated email from the system *Vault Supplier*. The email contains a link to a site where the supplier is expected to confirm and / or give feedback on the changes in the ECO. With the ECO, information regarding if the finished goods stock and *WIP (Work In Progress)* can be consumed or if it needs to be reworked or scrapped will be sent out. The supplier shall give their response within **48h** of the ECO being sent out. In their response either confirm that they are able to produce the part according to the new specifications going forward at the agreed upon price or, if there is need for further analysis, give information regarding when they will be able to have a confirmation in place.

The first batch of a new product revision shall be measured according to the specifications in the drawings and the measurement protocol shall be attached to the goods.

The supplier shall notify engcon in writing of any planned changes to the manufacturing process (e.g. change in production method or changes in the inbound operations), detail design, materials and sub-suppliers related to engcon's products prior to the execution of such changes. Thus, giving engcon the possibility to, if deemed necessary, test and validate the changed component and asses the total business impact of the change.

Notifications are sent to [quality@engcon.se](mailto:quality@engcon.se).

The suppliers are encouraged to give feedback on drawings and specifications and collaborate with engcon throughout the product life cycle to continuously improve functionality, quality and cost efficiency of the products supplied to engcon and the end-users.

## Quality and handling of non-conformity

engcon is certified according to **ISO 9001** and we expect our suppliers, if not also certified, to have a quality management policy in place that lives up to the requirements in latest valid edition with the international standard **ISO 9001**.

The supplier's quality management system or policy shall control the design, design validation, materials used, and the production process of the supply, as well as the finishing, final inspection and testing and the packing for delivery. The quality management system shall ensure that the product and/or service is in accordance with the agreement, and as a minimum in compliance with all requirements of the specifications, the purchaser's quality instructions, the purchase order, and mandatory legal requirements.

## Handling of non-conforming products and services

The Supplier shall handle engcon's claims and non-conformities without any delays. Furthermore, engcon expects the supplier to notify engcon promptly if the supplier suspects faulty components has been delivered to engcon, together with a plan for containment and corrective measures.

Non-conformity (NC) may involve a deviation from the drawing or purchase order requirements, such as quality, appearance, packaging material, metallurgy, labeling, quantity, handling and shipping, delivery, cleanliness, and/or dimensional or performance issues.

engcon will perform arrival controls with sampling according to **ISO 2859-1** of purchased components at an interval dependent on the purchased component's characteristics, the maturity of the supplier relationship and the supplier's prior performance. If a non-conformity is found in arrival control or in assembly, an NC-report describing the issue will be filed in *QAS* (engcon's quality assurance system) to which the supplier has access. engcon expects the supplier to confirm in *QAS*, using the tick-box, that the NC is received and potential faulty deliveries are stopped within **one working day** from the filing of the report.

The severity of the problem in the terms of effect on engcon operations will be graded on a scale of 0-4, 4 being the most severe, and given in the NC report in *QAS*. The scale is described below.

- 0. Minor defect
- 1. Visual defect, does not affect functionality
- 2. Defect that affects functionality, easily fixed
- 3. Defect with major impact on functionality, hard to find
- 4. Defect with major impact on functionality, hard to find and fix, potential safety risk

The severity level will determine what response and actions engcon require from the supplier. A NC graded 0 will not require any action. As a first and immediate measure for all other NC:s, engcon expects the supplier to stop production of the component and scan through the finished stock in order to make sure that no more faulty products are delivered to engcon. The need for a root-cause analysis and preventive actions will vary depending on the severity. Required actions is presented in the table below.

Severity level	Corrective action	Root cause	Preventive action	7-step analysis
0	-	-	-	-
1	X	-	-	-
2	X	X	X	-
3	X	X	X	-
4	X	X	X	X

The most severe NCs, graded 4, will require a full *7-step analysis* which is the framework engcon applies for problem solving. The framework is described below.

The *7-step analysis* is used to find the root cause of the problem, to correct the cause and to identify preventive measures so that the issue won't reoccur.

**Step 1: Define the problem** (Clearly describe the problem. What need to be measured to identify faulty components? What is done to prevent spreading?)

**Step 2: Measure the problem** (Start measurement, what is the current performance?)

**Step 3: Root cause analysis** (Do a data-driven root cause analysis. What is the root cause of the problem?)

**Step 4: Plan corrective / preventive action** (What actions will be taken to prevent reoccurrence?)

**Step 5: Verify** (Do a data-driven verification. Did the taken actions solve the problem?)

**Step 6: Check & Plan** (How will the situation be monitored to prevent reoccurrence?)

**Step 7: Realize & reflect** (What lessons can be learned? Can the learnings be applied on other parts of the operations?)

The outcome of each step shall promptly be provided as answer to the NC in QAS.

engcon will return all faulty components to the supplier, unless otherwise agreed **within five (5) working days** from the filing of the report, and expects to be credited for these. Furthermore, engcon reserves the right to invoice the supplier for extra costs caused by the faulty components.

The same procedure applies for claims from engcon's customers that are caused by faulty components from the supplier.

## Supplier selection and evaluation

engcon reserves the right to perform supplier audits as well as a financial and operational analysis of all new suppliers before entering a business relation with said supplier.

engcon performs Supplier audits according to ISO standards at regular intervals throughout the business relationship to review if stated expectations are met and offer assistance and collaboration when they are not. Long term deviations and an unwillingness to improve might however affect the supplier's relationship with engcon.

## Continuous performance evaluation

In order to achieve quality-, delivery- and cost excellence, and to strengthen partnering throughout the supply chain, engcon believes in a tight and mutual collaboration with its suppliers. engcon expects suppliers to deliver at the right time and with the right quality every time and will work together with the suppliers to ensure a continuous improvement in these aspects. engcon expects the supplier to continuously strive to improve their operations to increase efficiency and to eliminate/reduce unnecessary costs in all products or services supplied to engcon.

To ensure progress, engcon conducts a continuous supplier performance evaluation based on key performance indicators (KPI) mentioned below. The KPIs are monitored through a performance evaluation tool called *Vinna Matchen* ([www.vinnamatchen.se](http://www.vinnamatchen.se)). All KPIs are measured on a weekly basis as well as on a 6 week rolling average.

The supplier has access to their performance measurements and is expected to check *Vinna Matchen* at least weekly, to review and direct their actions in a corrective and preventive way to improve performance. Performance below the red action level requires immediate action. The actions shall be documented and followed up under *Actions* in *Vinna Matchen*.

Additionally, there will be periodic evaluations carried out. The frequency of such evaluations is based on the criticality of the product that is supplied.

Targets for measured KPI's are set in consultation with the supplier and will be updated and tightened as the collaboration matures and the performance improves.

## Quality level

engcon expects its suppliers to deliver the Supply in full accordance with its specifications.

The aim is to concentrate on preventive and proactive quality assurance activities close to the source of responsibility. engcon assess supplier quality and performance by closely monitoring the PPM (Parts per Million)-measurement of the delivered products. The PPM-measurement is defined as the number of non-conforming parts found divided by parts delivered.

## **Delivery reliability**

Measuring delivery reliability is aimed at preventing and reducing the inventory throughout the supply chain. On time delivery is measured at all engcon production sites by the receipt of the correct material having the right quality, at the agreed upon delivery date, with the correct documentation and certificates (if applicable). In general, late deliveries are not permitted at all, and liquidated damages may be applicable to delayed deliveries. The supplier shall notify engcon immediately if they identify a potential delay in upcoming deliveries.

## **Lead time**

engcon expects its suppliers to deliver the supply as per the agreed upon lead time. This is aimed at optimizing lead times throughout the entire supply chain. The KPI measures the percentage of orders with a confirmed delivery date within the agreed upon lead time. Orders for the spare parts warehouse are allowed to be delivered earlier than the agreed upon lead time.

## **Cost**

engcon expects its suppliers to deliver the supplied products or services at the optimal cost. The target is to eliminate/reduce unnecessary costs and engcon expects the supplier to continuously work to reduce cost of all supplied products or services, including packaging material and transportation.