

When we talk about quality in the automotive industry and for the subsuppliers, measurables like ppm-rate, number of incidences and Cost of Poor Quality come to everyone's mind.

WABCO has established over the last couple of years a well defined measurement system and reporting structure for ppm-figures, which is used internally and in discussions with our supplier base to drive improvements in the quality performance of our suppliers. Recently the measurement of incidences was added as well and has now become an indicator in the discussions with our suppliers.

For the Cost of Poor Quality, WABCO has applied some basic rules in the past in order to address such costs to their place of origin. This process, however, was not complete and did not cover the complete issues in some areas. Therefore WABCO has defined a new Reimbursement Policy, which you will find attached to this letter (language versions English, French and German included). A copy will also be put on our web-page www.wabco-auto.com in a few days and as such will become available to our supplier base as well at all times.

Some of the points mentioned in the Reimbursement Policy are common practice so far already, e.g. returning of defective material or charging for screening & sorting activities on our premises. Some others may appear to be new, but we feel it is fair to have these added and become part of the discussions with our suppliers in case of late deliveries or parts being sent to us with defects. The rates mentioned in the policy will be reviewed on an annual basis and updated as deemed appropriate on our web-page.

Please note, WABCO's intention is not to put an additional burden on their suppliers by consolidating and implementing this policy for all WABCO-sites, but rather to ensure that the costs generated by poor logistics and quality will be assumed and covered by the responsible party.

Therefore we expressively reserve the right, to have the cost-categories mentioned in this policy charged to our supplier on an individual basis, starting July 01, 2004. Of course, an advance notification will be given to the supplier prior to issuing any debit-note.

In case of any questions, please feel free to contact the responsible buyer who is your contact person for your company within our Global Sourcing and Purchasing Team.