Quality Capability Suppliers Assessment Guidelines

Self Audit
Potential Analysis
Process Audit, Product Audit
Mandatory Documentation (D/TLD-Parts)
Supplier Technical Review
Sub-Supplier Management
Problem Analysis

The Formel Q-Capability Contains Contractual Requirements for the Companies of the VOLKSWAGEN GROUP to Assure the Quality of Processes and also the Components in the Procurement and Supply Chain.

January 2012
7. revised edition

This Document will only be available to Suppliers in the current version electronically through the Volkswagen Group B2B-Platform under www.vwgroupsupply.com.

Up to date valid and mandatory Documents are located at the aforementioned B2B Platform.

The German-language edition of the Formel Q Capability is binding.

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Issued: VOLKSWAGEN AG
Group Supplier Quality Assurance
Group Quality Supplier Audit
Letterbox 1467/0, 38436 Wolfsburg
Germany
Foreword

Increasing Customer Requirements, Global Competition and Cost Pressures are demanding fully Matured Products for Series Production launches, and robust Production Processes for failure prevention along the Supply Chain. In order meet this challenge we have to work together in order to succeed with our Products in the market and to secure our future success.

Our Suppliers and their Supply Chain are of high importance.

Each Process is to be designed in a preventive way to be robust and stable to ensure, prior to Series Production launch, that every Component and also the whole vehicle will meet the VOLKSWAGEN Group Quality requirements. Only working in this way will we ensure that the Zero-Defect-Target will be met.

Customer Satisfaction is especially the focus of attention.

To eliminate any launch issues on new Models, it is of the utmost importance to control the maturation grade within the Supply Chain.

This present edition 7 demonstrates a completely revised content, updated and further developed referencing to VDA 6 Part 3.

This Formel Q Capability is the guideline for the Evaluation of the Supplier Quality Capability for VOLKSWAGEN Group (1st Tier Suppliers) including their Supply Chain (n tier suppliers). Previous results according to earlier requirements will remain valid and will not be re-calculated/adjusted to new requirements/standards, as long as no new assessments take place during a re-visit at the location.

As a Direct Supplier you have the obligation to ensure that the VOLKSWAGEN Group requirements will be understood and implemented along the whole Supply Chain.

The Formel Q Capability for Direct Suppliers and their Sub-Suppliers is obligatory for all Components and Materials which will remain on the vehicle. It is valid for all brands of the VOLKSWAGEN Group as well as for all Worldwide Associated Companies. To improve the communication you will find the multilingual information and the VOLKSWAGEN Group Documents on the VOLKSWAGEN B2B Platform under www.vwgroupsupply.com.

As a Supplier you are responsible to abide by the VOLKSWAGEN Group requirements and must also ensure the implementation within the overall Supply Chain.

This revised addition will take effect from the day of official publishing.

Wolfsburg, January 2012

Dr. F.J. García Sanz
Vorstand Konzern-Beschaffung
VOLKSWAGEN AG

F. Tuch
Leitung Konzern-Qualitätssicherung
VOLKSWAGEN AG
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Quality Management Agreements for Purchased Parts

The Customer specific Quality Requirements for the VOLKSWAGEN Group are specified in the Formel-Q Documents as shown below.

Module:

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Formel Q

Formel Q-konkret
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Formel Q Capability
- Quality Capability Assessment Criteria
  - Self Audit
  - Potential Analysis
  - Process Audit
  - Documentation
  - Tech. Review
  - Sub-Supplier Management...

Formel Q Capability Software
- Quality Capability Suppliers
  - Assessment Guidelines Software
  - Potential Analysis
  - Self Assessment
  - Assessment
  - Code Analysis
  - Problem Analysis

Formel Q New Parts Maturation-Grade
- Qualification Programme New parts (QPN)
  - 2 Day Production Run

Supplier Assessment for Continuous Improvement
- Quality, Service, Price, Logistics, Environment and Innovation

"Philosophy"

- Primary Agreement as Part of the Contract

Assessment System and supporting Processes

The present Brochure describes this Module

Diagram: Quality Management Agreements Purchased Parts
Quality Management Agreements for Purchased Parts

Supporting Documents

**Group Quality Documents on** [www.vwgroupsupply.com](http://www.vwgroupsupply.com):

- Actual information about the requirement of Field Rejects for the brand VOLKSWAGEN PKW
- Formel Q-Konkret
- Formel Q-Capability Software
- Formel Q-New Parts Integral
- VOLKSWAGEN Group Form: Supplier Self Information
- Formel Q-Capability Process Audit (Appendix)
- Formel Q-Capability TRL Questionnaire (Form)
- Formel Q-Capability D/TLD Questionnaire (Form)
- Formel Q-Capability Sub-Supplier Management (ULM) Questionnaire (Form)

These Documents and Forms are available in electronic format on the B2B-Platform [www.vwgroupsupply.com](http://www.vwgroupsupply.com).

**Group Standards Index on** [www.vwgroupsupply.com](http://www.vwgroupsupply.com) *(FE Online Normentexte)*:

- VW 60250 High Tensile Fasteners and similar Bolting Components; Technical Supply terms
- VW 10130 Machine Capability Studies for Measurable Characteristics
- VW 10131 Process Capability Studies for Measurable Characteristics
- VW 10119 Inspection Process Capability – consideration of Measuring Inaccuracy on Inspection Processes
- VW 99000 Interdisciplinary Requirements for Services provided for the Parts Development
- VW 10540 Identification Marks/ Manufacturer Code on Vehicle Components
- VW 01064 Sub-Component Identification – Codes on Vehicle Components
- VW 01155 Bought-In Components, approval of Initial Deliveries and Changes

- **VDA-Volumes and Automotive Standards on** [www.vda-qmc.de](http://www.vda-qmc.de):

  - VDA-Volumes „Quality Management within the Automobile Industry“ as well as „The mutual Quality Management within the Supply Chain“ (Volumes of the Association of the Automobile Industry)
  - ISO/TS 16949, alternative VDA 6.1

Supplementary Guidelines:

- ISO 19011 Guideline for the auditing of Quality Assurance Systems – conducting audits

Additionally, the Technical Standards and VOLKSWAGEN Standards applicable for Products are valid as well e.g. min. Life Time of Products, Legal, Regulations, Guidelines etc. are applicable.
1 Introduction

1.1 Purpose

The Evaluation System for the Quality Capability of VOLKSWAGEN Group Suppliers is based on a Quality Standard for the Automotive Industry that was developed by the VDA expert group.

Then the QM-System according to ISO/TS 16949, alternatively VDA 6.1, is the basis for Suppliers of Production Material, and the fulfillment of the Requirements must be proven to the VOLKSWAGEN Group by an IATF recognised certificate (third party).

In addition to the Quality Management System certificate, a Process / Product Audit that is comparable to VDA 6.3 / 6.5 are used for Special Product Groups to assess the Quality Capability of Suppliers. Apart from the basic requirements of a QM System, it also considers the Special Product-related requirements of VOLKSWAGEN Group Purchased parts, the Production Process, and Special Technical Inspection Requirements.

Process Audits relevant for the Evaluation of Quality Capability will be exclusively conducted by Auditors of the VOLKSWAGEN Group or by Auditors from Associated Enterprises.

The Evaluation conducted by VW Group Auditors provides the Assessment and Selection of Applicants / Suppliers prior to sourcing decisions. Further evaluation will be conducted during the phases of Product and Process Development as well as during the Series Production Process.

For further information for Supplier Evaluation see Formel Q Konkret.

1.2 Requirements for Quality Capability Assessments

The Quality Capability of selected Suppliers and their Sub-Suppliers, must always be proven before a Purchase Order for a New Part (Forward Sourcing) or a Series Part (Global Sourcing) is placed.

The proof can be submitted by Self-certification and Audit of the Suppliers plus Supplementary Audits carried out by the responsible departments in the VOLKSWAGEN Group, using the Process Audit / Potential Analysis.

New proof of the Quality Capability is also required if a New Product according to the Product Group Catalogue should be delivered, if previously no audit of the Quality Capability has been performed by the VOLKSWAGEN Group.

VOLKSWAGEN Group Purchasing must ensure that the intended supplier has already been informed of all VOLKSWAGEN Group criteria and requirements and has access to the B2B-Supplier Platform (www.vwgroupsupply.com), they are to be referred to by the supplier for calculation of the quotes. With the release of the access to the B2B-Supplier Platform, the Supplier must complete and maintain the Supplier database for each DUNS-number.

Prior to sourcing, a positive rating (“A” or “B”) from the VOLKSWAGEN Group related to the Quality Capability of the Suppliers Location and the Products Groups must be available. A Supplier with “C”-Rating (not Quality Capable) will not be considered for nomination. The Supplier is obliged to reach “A” Quality Capability Rating before SOP.

According to Formel-Q Konkret the supplier is responsible to inform any changes within the process chain.
1 Introduction

1.3 Responsibilities for QM-System and Audit Results

The Supplier is responsible for providing all results from Certification/Auditing, as well as Self Audits, to VOLKSWAGEN when requested. Also to be presented are documents from Improvement Programmes already implemented.

If ISO/TS 16949 or alternatively VDA 6.1 certification is not awarded to the Supplier, a confirmed planned Certification date is to be advised. Further progress is to be coordinated in detail with the VOLKSWAGEN Group Quality Assurance Audit Management.

The coordination and communication for required follow-up actions, e.g. pursuing Improvement Programmes, takes place via VOLKSWAGEN Group Supplier Quality or the individual Brands/affiliated Companies Audit Departments.

1.4 Assessment of Quality Capability

The Total Assessment of the Quality Capability comes from individual results of each Product Group for:
- Self Audit
- Process Audit with Product Audit
- Evaluation of the Supply Chain, e.g. for outsourced Process Steps and
- Project related determination of Q Capability through Product Specific and Project Specific risk estimations.

The procedure for the Determination and Assessment of the Quality Capability is represented in the following chapters of this document.

1.5 Rating Results and Follow-up Activities

Based on Audit results the Supplier is responsible for Analysing discrepancies, to define suitable Corrective Actions and to schedule the Implementation with stated responsibilities. It is expected that the Supplier will initiate the required activities rapidly, effectively and sustainably, and as well implementing the Improvement Programme rapidly and verifies the Effectiveness and Sustainability of such Actions.

After implementation of the Improvement Programme, a Self Audit of the Supplier is required to verify the sustainable efficiency of the Programme.

A new Evaluation and rating can be conducted when the Quality Performance is not acceptable or as a preventive measure.
1.6 Scope of the Formel Q Capability in the Product Life Cycle

Diagram: Formel Q Capability Product Life Cycle

PA                  Problem Analysis
POT                Potential Analysis
SL                 Self Audit
D/TLD             Quality Verification Audit for D/TLD Parts
ULM               Sub-Supplier Management
VA                Process Audit (including Product Audit)
2 Customer Expectations / Escalation / Cost Reclaiming Process

2.1 Customer Expectations

The VOLKSWAGEN Group requires its suppliers to achieve an “A” Rating according to the Formel-Q Capability as their target. The implementation of a Continuous Improvement Process (KVP) and the follow-up of the Zero-Defect Strategy are the basic elements for such a Process. The evaluation of the VOLKSWAGEN Group Customer Satisfaction and the active introduction and follow-up of Improvement Measures are required as an elementary part of regular management reviews.

Should these Measures and Improvement Programmes, required by the VOLKSWAGEN Group, not be adequately implemented in time and repeated defects occur, the existing VOLKSWAGEN Group Escalation Principle (Programme “Critical Project and Series Suppliers”) in accordance with Formel Q Konkret will apply.

2.2 Cost Reclaiming Process

A Cost Reclaiming Process will be initiated if a Supplier causes additional expenses in the form of travel costs and daily expenses for the VOLKSWAGEN Group Auditors, where the results of the Audit do not confirm the results of the Supplier (target not met). The “Cost Reclaiming Process” will be applied depending on the daily expenses incurred (number of man days of the VOLKSWAGEN Group Auditors at the supplier) and will include the travel costs as a fixed amount for domestic travelling and for travelling abroad.

In the following situations a Cost Reclaiming Process for additional incurred expenses has been put in place by the VOLKSWAGEN Group:

- If due to the unacceptable reaction time of a Supplier to the VOLKSWAGEN Group Process Audit or a Problem Analysis is required.
- If Delivery or Quality Issues caused by the Supplier lead to unscheduled, extra VOLKSWAGEN Group Audits at our receiving factories or Problem Analysis.
- If a Self Evaluation of the Supplier by Self Audit (SL with “A” classification) cannot be confirmed in the VOLKSWAGEN Group Process Audit.
- If the “A” Rating will not be achieved within the agreed time frame, and therefore an additional VOLKSWAGEN Group Process Audit is required.
- If a Supplier relocates already sourced or existing supply contents to another Manufacturing site, different from the one declared on the “Nomination Letter” (Order), and therefore a new Assessment of the new Manufacturing site will be required.
- If significant / important Process changes and also change of the Supply Chain or outsourced Process Steps occur, which require a new Sampling Process and/or assessment of the Quality Capability.
- If during any activity according to Formel-Q Capability, e.g. during a TRL, the need for immediate Corrective Actions is identified or the TRL is rated with status “Red”, then the travel costs and other resulting costs can be charged to the Supplier.

VOLKSWAGEN reserves the right, to conduct Process and Product Audits at any time at a Supplier for Critical Projects and an unacceptable reaction time of the Supplier.

Further cost reclaiming reasons and regulations are specified in a contract (e.g. Formel Q Konkret, “Target Agreements for Quality Capability”, or “A”-rating not reached as agreed, etc.)
3 Supplier Self Audit (SL)

3.1 General

The Formel Q Capability Self Audit based on VDA 6.3 is required at the Supplier as proof of compliance with all requirements. These requirements include Legal, Regulatory, Customer, Product Specific, Internal Specifications, Guidelines and Standards of the Certification Requirements. Also included are the requirements from ISO/TS 16949 or VDA 6.1. These must be proved for each Manufacturing site and specific Product Group.

The Supplier Self Audit is part of the Continuous Improvement Process and has the purpose to achieve the “A” Rating. After achieving a Self Assessment with an “A”-rating, the VOLKSWAGEN Group reserves the right to conduct a Process and Product Audit at the supplier to verify the “A”-level status of the supplier. The valid rating is the VOLKSWAGEN Group Audit rating.

The target is that the Supplier’s Manufacturing site will, after the 2nd Self Audit, achieve the “A” Rating. Should an “A” Rating not be achieved by the Self Audit in a timely way, the VOLKSWAGEN Group reserves the right to conduct an Audit at the Supplier. If the requirement of the “A” Rating is not met by the Self Audit of the Supplier for reasons which are the responsibility of the Supplier, the costs for the VOLKSWAGEN Group Audit will be charged to the Supplier. For further cost reclaiming details – see section Customer Expectations / Escalation / Cost Reclaiming Process.

The conducting and sending of a Self Audit including Improvement Programme can be demanded by the VOLKSWAGEN Group at any time.

3.2 Conducting

The Internal Audit must be conducted by qualified VDA 6.3 auditors (See VDA 6.3: Internal Auditor Requirements).

As part of the Self Audit the Supplier is responsible to internally verify the adequacy of the Improvement Programme. The VOLKSWAGEN Group expects the Supplier Self Audit to cover more than just identified areas of concern from the Improvement Programme; otherwise it will not be valid. The Self Audit is to be conducted in the same way as a Process Audit and with a Product Audit. The outsourced processes must be also considered as well. For the overall assessment of the Quality Capability the guidelines according to the document Process Audit apply.

The VOLKSWAGEN Group requires Suppliers to conduct at least once a year (the valid time period is a maximum 12 months) a Self Audit for all Process Steps for the Product Groups relevant to VOLKSWAGEN Group products.

3.3 Escalation

The Escalation Process according to Formel Q Konkret for failing to meet customer requirements, is defined in the Programme for “Critical Project and Series Suppliers”. VOLKSWAGEN reserves the right for Critical Projects and/or not meeting agreed deadlines to conduct Process and Product Audits at the Supplier at any time.
4  Product Audit

4 Product Audit

4.1 General

Process variations and low Process Capabilities tend to have a negative effect on the Product Quality and consequently compliance with the customer requirements. In a Product Audit, it is possible to determine deviations from the Customer Requirements and to directly draw conclusions with regard to the influencing process. Taking the detected deviations into account, it is possible to investigate and analyse the influencing processes in a prioritised manner and to implement Corrective Action.

4.2 Conducting and Actions

The Product Audit is conducted according to VDA 6.5. The Product Audit shall take place at least once a year for each Product manufactured as a Series Production part. The detailed procedure is bound to guidelines from the Engineering Specifications and supporting Standards requirements (e.g. “Group Guideline for Product Audit Wire Harness”) that are included in the contract. The Product Audit must be defined on the Product Control plan. VOLKSWAGEN conducts problem orientated Product Audits in parallel to the Process Audits at a Supplier with the focus to assess relevant Product Characteristics from a Customer point of view and to identify Critical Processes.

The task of the Product Audit is to verify awaiting shipment Products for compliance with the requirements of Customer relevant characteristics, to draw conclusions to part / delivery Quality, to identify relationships for Process weaknesses and, if required, to initiate Corrective Actions – (see also VDA 6 Volume 5; Formel Q Konkret).

During Self Audits and Process Audits conducted by the Audit department of the VOLKSWAGEN Group and their Brands, the Product Audit will take place in parallel to the Series Production. The results of the Product Audit will be considered when evaluating Quality Capability.
4.3 Fault Classification, Decisions, Actions

The Supplier is responsible for implementing suitable measures and verify their effectiveness and sustainability for any discrepancies identified during the Product Audit, within a reasonable time period, e.g. by re-audits.

<table>
<thead>
<tr>
<th>Fault Category</th>
<th>Fault description/ effect</th>
<th>Immediate action</th>
<th>Follow-up action</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Fault will certainly result in customer complaints. - Safety risk, violation of legal regulations, breakdown, - Product cannot be sold / function not fulfilled - Extreme surface appearance complaints</td>
<td>- Quarantining / Sorting of available stocked parts - Information to receiving plants and risk assessment - Corrective actions on the manufacturing / inspection process &amp; if necessary 100% inspection; - Intensified inspection on processes and on finished products; if necessary 100% inspection before shipment; - Permit requested from Engineering - Further measures to be agreed with VOLKSWAGEN Group receiving plant (see Formel Q Konkret)</td>
<td>- Continued analysis of process / inspection activities - Development &amp; implementation of corrective measures - Proving of Process Capability and Zero defects - Effectiveness verification of implemented measures - If necessary, change of Specification.</td>
</tr>
<tr>
<td>B</td>
<td>Customer annoyance or complaints can be expected - Foreseeable failure - Reduced usability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>Complaints from demanding customers can be expected - Defect does not influence the usage or operation of the product - Usability / function not restricted</td>
<td>- Information to receiving plants for coordination of actions</td>
<td></td>
</tr>
</tbody>
</table>

Diagram: Fault classification, decisions, actions

4.4 Reporting Obligations, Self Notifications

For any A and B-faults as well as systematic C-faults caused by the supplier, the supplier shall immediately inform the Supplier Quality department of the VOLKSWAGEN Group by reporting the issue. The implementation of further necessary actions is to be coordinated.
5 Potential Analysis (POT)

5.1 Goal and Purpose

The Potential Analysis will be conducted according to VDA 6.3 procedures. It is used for the evaluation of new, unknown Suppliers (applicants), locations and technologies and in some cases also Development and Process potentials of the applicant. It provides information for the Sourcing decision based on comparable manufacturing Processes and Products. The Potential Analysis refers to specially listed Parts and/or Product Groups as well as their relevant Processes. A nomination does not necessary take place following a positively evaluated Potential Analysis, however, a negatively evaluated Potential Analysis excludes the chance for nomination.

5.2 Preparation

In order to gain information about a Supplier, a Self Assessment (LSA), Self Audit (P2-P7) and if required, QTR will be requested from the applicant by the Procurement function of VOLKSWAGEN Group. The Supplier Self Assessment will be part of the Potential Analysis (Attachment to the report). The applicant ensures that at the time of the Potential Analysis, all relevant Processes and Documents are accessible to the audit team.

5.3 Process

5.3.1 Catalogue of Requirements

For the systematic and reproducible Analysis the catalogue of requirements for the Potential Analysis P1 will be used. Primarily the catalogue of requirements consists of selected questions from Process Elements P2 – P7 of VDA 6.3. Further Process related requirements based on the requirements of the VOLKSWAGEN Group from the sourcing files can be called upon. Additionally there are further requirements listed in the section “Additional Requirements of Formel Q Capability exceeding VDA 6.3 Requirements” in the Formel Q Capability Process Audit supplementary document.

5.3.2 Evaluation

The evaluation will be conducted using the traffic light system on the report and the guidelines for the evaluation according to VDA 6.3.

5.3.3 Report and Improvement Programme

The report for the Potential Analysis as well as the Improvement Programme, will be handed to the evaluated company on the day of the visit. The Supplier is obliged to submit to the responsible Quality Assurance Department the Improvement Programme with timing plan and follow up activities. In the case of sourcing being placed, the Improvement Programme of the nominated Supplier must be implemented within the agreed deadlines (e.g. Nomination Letter). The effectiveness of the measures shall be demonstrated by the Supplier, without being requested, through a Self Audit to the agreed deadlines before SOP, and the results shall be submitted to the responsible audit department within Volkswagen Group without prompting.

5.3.4 Approval of Manufacturing Location

A validation of Quality Capability in reference to a location approval can only be done based on Customer related requirements and Processes using Customer Products in Series Production.
6 Process Audit (VA)

6.1 General

The Process Audit is used to evaluate the Quality Capability of Suppliers. The Process Audit is conducted according to VDA 6.3 and uses the questions of the Process Elements P2 to P7:

Additionally there are further requirements listed in the section “Additional Formel Q Capability Requirements that exceed VDA 6.3 Requirements” to be found in the Formel Q Capability Process Audit supplementary document (see B2B Platform).

The Process Audit focuses on the requirements of the VOLKSWAGEN Group for Products or Product Groups and related manufacturing Processes. This also applies for Bought-In Parts and Outsourced Processes.

Insufficient compliance could put an existing certification of the QM-System into question and could lead to a VOLKSWAGEN Group Rating “Business on hold” status. (See Formel Q Konkret).

6.2 Process Audit during Series Production

The Process Audit in Series Production presumes a completed Product Creation Process (Product / Process Development) and includes increased focus on Customer Satisfaction and Supporting Processes.

The completion / implementation of defined actions once the Product Creation Process is finished is a mandatory requirement and will be verified during the Audit.

The Audit in Series Production without Process Development can be conducted with the launch of Series Production (SOP) or during the overall Manufacturing Period.

The Process Audit is conducted according to VDA 6.3 and uses the questions of the Process Elements:

- P5: Supplier Management
- P6: Process Analysis / Production
- P7: Customer Care, Customer Satisfaction, Service

Additionally there are further requirements listed in the section “Additional Formel Q Capability Requirements that exceed VDA 6.3 Requirements” to be found in the Formel Q Capability Process Audit supplementary document (see B2B Platform).

6.3 Evaluation

The process of evaluation is described in the attachment ‘Formel Q Capability Process Audit’. Additional results from the Product Audit conducted at the same time will be considered. For determining the overall result for Formel Q Capability, the Grading guidelines must be applied.

6.4 Up-Grading Criteria

Generally an upgrading can only be achieved through a VOLKSWAGEN Group Audit at the manufacturing site of the Supplier when the required grade of fulfilment is reached.

An upgrading from C to B will only be established once a “robust B” rating during a VOLKSWAGEN Group Audit is reached. (i.e. > or = 85%).
7 Quality Verification Audit for D/TLD Parts (D/TLD)

7.1 General

Vehicle Manufacturers are subject to certain conditions resulting from legislation which must be fulfilled as a minimum requirement for all Series vehicles. This means that all Suppliers have to maintain verification documentation, which despite the Product Liability (liability irrespective of responsibility), should protect the Suppliers and the Vehicle Manufacturers against any subsequent damage, for instance a prohibition to sell their Products and penalties for non-performance. (See Product Liability laws of the countries where the VOLKSWAGEN Group vehicles are distributed).

In order to adequately counteract the Manufacturer’s liability, the VOLKSWAGEN Group has gone beyond the normal legislation, and has implemented a procedure where parts, which are important for the safety of human beings, also require special verification.

In addition to the general requirements of the Quality Management System, Suppliers must maintain verification for individual D/TLD parts. This data must be kept for a minimum of 15 years. This also includes the following documents that are identified with “D” or “TLD”, these can be Drawings, Tables, Production Release Documentation, Technical Delivery Specifications, Test Specifications, Sample Reports, and other Quality Records, which can be demanded as proof and which can relieve the party of liability.

Verification Documentation also includes information regarding Planning Type activities, the selection and qualification of Personnel, suitability of Test Equipment, as well as Process Capability investigations and correspondence.

If there is a claim and/or if VOLKSWAGEN so requests, the Supplier must be prove that he has done everything in his responsibility, as the supplying company, to eliminate any faults and defects in their particular product.

The VOLKSWAGEN Group expects Suppliers to apply a systematic verification process for all D/TLD parts.

As proof of effective implementation of the specific requirements the Supplier is required, using the Questionnaire for D/TLD (see supporting documents on B2B Platform), to conduct at least once a year a Self Audit which has a valid period of max. 12 months. This shall be conducted self reliantly for each manufacturing location by a Self Audit and must be documented. The Supplier is responsible to apply the process in the same way within his Supply Chain, for Bought-in Parts and Outsourced Process Steps. The date of the latest successfully passed D/TLD Self Audit (all questions answered with ‘Yes’) must be documented on the BeOn system at the time of the Initial Sampling Process.

If shortcomings are identified during the Audit, it is expected that the Supplier will implement required improvements immediately of his own accord.

The implementation of Improvement Measures and their effectiveness are to be verified by the Supplier by conducting a new D/TLD Audit, this is within their own responsibility. Required documentation is to be traceable.

Results of the Self Audit are to be kept for at least 15 years and to be made accessible for any verification by the VOLKSWAGEN Group at any time. The evidence of activities by the Supplier to secure and comply with Quality Requirements is to be guaranteed at all times.

For the verification process all defined Standards according to VDA Volume 1 and Volume 6 Part 1, ISO/TS 16949 as well as Customer Specific requirements (amongst others the Formel Q Konkret) are to be considered.

The VOLKSWAGEN Group reserves the right, to verify the compliance with the requirements at the Supplier by Process Audits, Technical Reviews, D/TLD audits or other supplier visits.

Upon request the results for the D/TLD Self Audit are to be accessible to the VOLKSWAGEN Group.
7 Quality Verification Audit for D/TLD Parts (D/TLD)

7.2 Definition of Product Group / Parts Selection

The Supplier must ensure, that all D/TLD parts and all specified characteristics which must be verified, are being taken into consideration.

During the Audit for each individual D/TLD characteristic, the respective Products must be selected accordingly to verify the requirements during a Process and Product Audit. The selection of such reference parts will be taken from a supply list for “D/TLD Parts for the VOLKSWAGEN Group” at the Supplier, which must be kept up to date. The appropriate sample size for the Product Audit must be defined according to the Part and the features, i.e. the products will be picked from a supply list on which all the D/TLD characteristics are listed.

Additionally the Supplier as the nominated specialist for the Product and the Manufacturing Process is required to identify any relevant characteristics additional to the VOLKSWAGEN Group’s specified ones, as they may be relevant for function and safety of the product.

7.3 Evaluation of Individual Questions / Audit Results

Every applicable Question is evaluated in terms of consistent compliance, even when the process is secured.

<table>
<thead>
<tr>
<th>Situation</th>
<th>Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requirements completely fulfilled</td>
<td>yes</td>
</tr>
<tr>
<td>Requirements are not or not adequately fulfilled.</td>
<td>no</td>
</tr>
</tbody>
</table>

All of the applicable Questions must be complied with; the Supplier must resolve all of the deviations by implementing an Improvement Programme. If the Supplier identifies deviations, which could directly influence the Product Quality (e.g. missing test device), direct Containment Actions must be defined by the Supplier, which immediately secures the Product Quality.

If the Supplier is still not in a position to fulfil the requirements, he must immediately inform contacts at the receiving factory / plant of the VOLKSWAGEN Group and the affiliated companies.

7.4 Audit Report / Improvement Programme

The report includes the following Documents and Verification:

- Cover sheet “Quality Audit, Verification for D/TLD parts”, specifies the part selection, the D/TLD characteristics, results from the Product Audit (within a valid period of max. 12 months) and the fulfilment of characteristics for which verification is compulsory. Defining Immediate Actions is required in the event that Customer Requirements are not complied with. The deadlines for an Improvement Programme that might be required are set (completion date of the entire action to be implemented).
- Catalogue of requirements, Verification Audit for D/TLD parts with evaluation.(see B2B Platform)
- An Improvement Programme must be defined if deviations to the questions in the list of requirements (the weak points / measures must be specified, together with the date that they will be resolved and the responsible personnel).
- For components during the Pre-Series phase, the Supplier must ensure, that all questions by 0-series (deadline for Note 1 with Sampling) will be answered with “Yes”.
- For components in Series Production the Supplier, must for assessed deviations, immediately and directly protect / take urgent actions and inform Quality Assurance of the Receiving Plant.
7 Quality Verification Audit for D/TLD Parts (D/TLD)

- Upon non-compliance to requirements detailed above, according to Quality Capability, downgrading to a “C”-rating will be initiated (Business on Hold), if required the Supplier can also be entered onto the programme for “Critical Project and Series Suppliers”.
- The identified Weak Points must be corrected by the agreed date.
- Overview(s) of the results of the Product Audit with the test results, including all D/TLD characteristics which need to be identified.

A systematic and consistent approach is applied during Verification which is examined randomly and evaluated through the D/TLD Self-Assessment by the Supplier and by VOLKSWAGEN through Process Audits.

7.5 Identification Codes for Technical Documents

The VOLKSWAGEN Group has two identification codes that have the same degree of importance (the old “D” and the new “TLD”).

7.5.1 TLD-Identification Code

A D is not entered in the basic text field (drawing header) in the “Safety Doc.” Field; instead, TLD is entered. The number of the TLD sheet is then entered in the “documentation” field. This includes the features that have to be documented and information regarding any legislation. There is no bar located above the features or regulations.

Only the main delivery specifications (TL) are listed in the TLD sheets. If a reference is made in this TL on another TL, compulsory verification is also applicable to this TL document.

For older drawings the previous identification requirements apply.

7.5.2 System of Identification at the Supplier

If the Supplier uses a different identification on his Documents and Records, he must present a correlation for them which shows a cross-reference for the identification requirement as described above, e.g. a matrix with the identification symbols of each Customer and the internal symbols. The matrix must be managed as a Controlled Document.
8 Supplier Technical Review (TRL)

8.1 General

The Supplier Technical Review is not a replacement for Process and Product Audits, but is an additional Quality instrument of the VOLKSWAGEN Group Quality Strategy.

With the technical review the VOLKSWAGEN Group is aiming at the following goals:
- Assuring the conformity of Products and Components to specified requirements.
- Verification of the Production Manufacture for the location and all securing activities on site,
- Effectiveness check of Corrective Actions and Verification of agreed Quality Management Standards.

The TRL is a review to assure that Parts and Components comply with legal and the VOLKSWAGEN Group requirements at all times. Additionally the Quality organisation of the supplier is checked. VOLKSWAGEN Group can at anytime and at all Suppliers conduct a review at short notice.

8.2 Reasons for Conducting a TRL

1. Preventive actions without direct trigger or reason.
2. Event orientated occasions e.g. :
   - Obligation to inform VW in case a detected specification deviation (reliability / long term testing) is not done.
   - Manufacturing location change is not reported, Engineering BMG / First Sample Approval has not been granted.
   - Product Characteristics during Series Testing are not verified sufficiently.
   - Poor Quality Compliance through an unstable Internal / External Process.
   - Unsafe Process in the related Sub-Supplier Process Chain.

8.3 Notification

The Technical Review will be notified in writing to the Management of the affected Supplier by Fax, or via alternative communication method as specified, on the day before the audit will take place.

8.4 Conducting

The TRL focuses on a Product Group and/or a Part Number. It will be performed by qualified Associates of QS-Purchasing or VOLKSWAGEN Group Auditors.
8 Supplier Technical Review (TRL)

8.5 Evaluating

The Questionnaire for the Supplier Technical Review (see supporting documents on B2B Platform) at the Supplier are detailed in the TRL Catalogue of Requirements. The evaluation at the site is focusing on the actual supply contents for a Product Number or Product Family. The individual criteria for compliance to the requirements will be assessed and if required, the necessary actions to be stated. The individual assessment is valued with “Yes” if the requirements are met and with “No” if requirements are not met and Actions are required.

The number of Individual Evaluations with a “No” and their implication for the Assurance of Process and Product Quality, leads to a Traffic Light logic result.

A red Traffic Light initiates an Escalation. The Escalation Principle and further explanations are described in Formel Q. Konkret. The Escalation can consequently lead to the rating of the location to a “C” (Quality List), after which all new awards would be blocked (business on hold).

8.6 Report

After the TRL has been completed, a Report will be issued at the site. To resolve the identified discrepancies, an Improvement Programme will be agreed with the Management. Implementation dates must be reported to the responsible contacts for the TRL at the VOLKSWAGEN Group in writing according to due dates.
9 Sub-Supplier Management (ULM)

9.1 Goal and Purpose

The Sub-Supplier Management, during the Sourcing Process and during Series Production must ensure the proper identification and assurance of Potential Risks within the Supplier Chain. The Sub-Supplier Management is integrated into the nomination process, into the Product / Process development phase and also into the Series Production phase. During the vehicle launch, post the nomination process, potential risks within the Sub-Supplier structure will be identified through in depth analysis by specialised departments who work as an inter-disciplinary team. This team will also initiate required actions for such risks. The contract partner of Volkswagen will remain 100% responsible for the overall management of the sub-suppliers (incl. parts suppliers set by customers). The general Quality Agreement between 1st Tier and their sub-suppliers is formalised within the Formel Q Konkret.

9.2 General

The Supplier is responsible within their Supply Chain for Purchased Products and Outsourced Processes. The Supplier must ensure that all risks within his Supply and Process Chain are clearly identified and also evaluated, and systematic measures will be implemented to reduce any risks. For the Evaluation of the Supply Chain, all requirements and evaluations according to Formel-Q Capability must be fulfilled. The Supplier is responsible for the compliance of all requirements within the Supply and Process Chain. For the Quoting Process or if requested, as well as during the Self Audit, the Supply Chain must be displayed. This basically includes the requirement of Project specific evaluations according to ISO/TS 16949, Risk Analysis (critical paths similar to VDA for the maturation grade assurance) and Evaluation of Quality Capability of the overall Supply Chain. VOLKSWAGEN Group reserves the right, to review such documentation and to verify the Evaluation of the Supplier, e.g. by mutual on-site Assessments with the direct supplier (1st tier supplier) within the Supply Chain or for Outsourced Process Steps. Basically the evaluations of the Supplier Chain can be taken into consideration for the overall Quality Capability. The evaluation will be conducted according to the actual Sub-Supplier Management questionnaire or with the Process Audit Process as explained above (see B2B-platform). With a negative evaluation the VOLKSWAGEN Group reserves the right to take this into account for rating the Direct Supplier. The VOLKSWAGEN-Group Suppliers are requested, to detail and to prove the value adding Supply Chain during the nomination process. For all Manufacturing Steps (Internal Production / External Services) and Component Suppliers an Evaluation of the Quality Capability is required. The Direct Supplier is responsible for conducting the Assessments of his Suppliers self responsibly. An essential condition is that the Direct Supplier will inform his Sub-Suppliers throughout the Supply Chain about the VOLKSWAGEN Group requirements and ensures that these Requirements will be known, understood and implemented accordingly.

Supply Chain, Process Chain: The Supplier Process Chain includes all planned and implemented value adding Processes / Services, which have influence on the Product Quality, as e.g.

- Contracted value adding (e.g. Outsourced Process Steps, remote Manufacturing Location, External Work Benches, Production partners, paid Contract Suppliers, 3rd party service providers at the Production Location),
- Test facility Service Providers, Laboratories, Calibration Laboratories;
- Supporting functions as e.g. Logistics Service providers,
- Other Service Providers, who have direct influence on Product Quality or the Production Process.
9 Sub-Supplier Management (ULM)

9.3 Changes in the Supply Chain

Changes to the Supply Chain or in the Processes must be agreed with Procurement and the affected areas of responsibility (FE, QS) and can lead to a new Assessment of the Supplier and new Sampling of the Supply Content (Products). VOLKSWAGEN reserves the rights to verify a modified Sub-Supplier structure. See also - VW 01155 “Vehicle Bought-in Products, Approval of Initial Deliveries and Changes”.
10 Problem Analysis (PA)

10.1 General

Generally the reason for conducting a Problem Analysis is an accumulation of Customer Concerns at the individual receiving VOLKSWAGEN Group plants.

Raising the orders for the Audit team to conduct any Problem Analysis at the manufacturing site of the supplier, is initiated by the VOLKSWAGEN Group Supplier Quality dept. of the receiving plants which are responsible for processing the concerns.

The Problem Analysis is always Product specific. The root cause(s) of the failures will be eliminated by specially targeted analysis and solutions for the identified weaknesses in the Production Process.

The Problem Analysis is conducted by experts from the Quality department of a VOLKSWAGEN Group receiving plant who are, if needed, accompanied by experts from different departments.

Also the Problem Analysis aids the Improvement of the Purchased Parts Quality Performance as well as the actual Quality and/or Field Problems.

10.2 Conducting / Process

All Processes, which could be responsible for the Quality Defects will be intensively analysed at the Supplier Location or together with the Supplier at the location of Outsourced Process Steps of the Supply Chain that are within the Supplier’s responsibility. During the Process the failure Root Causes will be systematically analysed and Corrective Actions initiated. Responsibilities and dates for the implementation of the Corrective Actions will be defined.

The Supplier has to prove the timely and effective implementation of such Actions. VOLKSWAGEN Group Quality Assurance reserves the right to verify the implementation.

Notice of the Problem Analysis can be communicated to the Business Management or Quality Management of the affected company one day before its planned date by fax.

10.3 Escalation Principle

If there is no effective correction of the Problems guaranteed, an Escalation Process as described in the Formel-Q Konkret, will be an optional measure.
11 Documents and Records of Supplier Visits

11 Documents and Records of Supplier Visits

After completion of the Potential Analysis, the Process / Product Audits, the Quality Audits for D/TLD-parts, the Problem Analysis and/or a Technical Revision at Suppliers, the required Actions will be discussed with the Supplier and Dates for the Improvement Programme and its implementation defined.

The results from the VOLKSWAGEN Group Assessment will be presented comprehensively in a report. Note: VOLKSWAGEN Group forms can be found on the B2B-Platform (www.vwgroupsupply.com) under Quality Documents online. The report must be signed by a responsible Manager of the Supplier and the responsible associate of the VOLKSWAGEN Group.

The information about the Supplier visit, the Assessment Results and the Reports will be communicated within VOLKSWAGEN Group and their Brands.

The Supplier is responsible for preparing the Improvement Programme, also adding other Improvement Information and to submit the updates to the responsible department of VOLKSWAGEN Group within the agreed Due Dates. The Improvement Programme must be updated with detailed information and with planned Corrective Actions, the individual implementation dates with a status as well as naming the responsible individuals. Should any Due Dates be exceeded, it is at the discretion of the responsible representative at VOLKSWAGEN Group to decide whether the situation is to be Escalated (see also Formel Q Konkret Section ‘Critical Project and Series Suppliers’).
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2TP=2DP</td>
<td>2 Day Production, see Formel Q New Parts (QPN)</td>
</tr>
<tr>
<td>8D Report</td>
<td>Report for Processing and monitoring of Process and Product Problems (comparable with “5 Phase” on ISO/TS 16949, see <a href="http://www.vda-qmc.de">www.vda-qmc.de</a>)</td>
</tr>
<tr>
<td>B2B</td>
<td>Business to Business (e-commerce Platform on Internet for communication between Supplier and VOLKSWAGEN Group [<a href="http://www.vwgroupsupply.com">www.vwgroupsupply.com</a>])</td>
</tr>
<tr>
<td>BeOn</td>
<td>Bemusterung Online = Sampling Online</td>
</tr>
<tr>
<td>BMG</td>
<td>Baumusterfreigabe = Engineering approval</td>
</tr>
<tr>
<td>BTU</td>
<td>Bauteilverantwortlicher = SQM Engineer</td>
</tr>
<tr>
<td>C MK</td>
<td>Machine Capability Index</td>
</tr>
<tr>
<td>COP</td>
<td>Carry Over Part</td>
</tr>
<tr>
<td>COP</td>
<td>Conformity of Production</td>
</tr>
<tr>
<td>CPk</td>
<td>Process Capability Index</td>
</tr>
<tr>
<td>D/TLD</td>
<td>Mandatory Documentation / Technical Guidelines Documentation</td>
</tr>
<tr>
<td>DUNS-Nr</td>
<td>Data Universal Numbering System - Number</td>
</tr>
<tr>
<td>EMPB</td>
<td>Erstmusterprüfbereicht = Initial Sample Report</td>
</tr>
<tr>
<td>EOP</td>
<td>End of Production</td>
</tr>
<tr>
<td>FiFo</td>
<td>First In First Out</td>
</tr>
<tr>
<td>FQF</td>
<td>Formel Q Fahigkeit = Formel Q Capability</td>
</tr>
<tr>
<td>FMEA</td>
<td>Failure Mode and Effects Analysis</td>
</tr>
<tr>
<td>IATF</td>
<td>International Automotive Task Force</td>
</tr>
<tr>
<td>IMDS</td>
<td>International Material Data System</td>
</tr>
<tr>
<td>IO = OK</td>
<td>In Ordnung = OK status</td>
</tr>
<tr>
<td>JIT</td>
<td>Just In Time (logistics concept)</td>
</tr>
<tr>
<td>KSK-Product Audit</td>
<td>Group Guidelines for Wiring Harness Product Audit</td>
</tr>
<tr>
<td>KVP = CIP</td>
<td>Kontinuierlicher Verbesserungsprozess = Continuous Improvement Process</td>
</tr>
<tr>
<td>KVS</td>
<td>Volkswagen AG Datenbank für Technische Zeichnungen = Volkswagen Databank for Technical Drawings</td>
</tr>
<tr>
<td>LDB</td>
<td>Lieferantendatenbank = Supplier Database</td>
</tr>
<tr>
<td>LSA</td>
<td>Lieferantenselbstauskunft = Supplier Self Information</td>
</tr>
<tr>
<td>NIO=NOK</td>
<td>Nicht in Ordnung / Not OK</td>
</tr>
<tr>
<td>NOLIS</td>
<td>Databank for Volkswagen AG Specifications (also under standards texts online on B2B Platform)</td>
</tr>
<tr>
<td>OEM</td>
<td>Original Equipment Manufacturer (Automobile manufacturer)</td>
</tr>
<tr>
<td>PA</td>
<td>Problem Analysis</td>
</tr>
<tr>
<td>POT</td>
<td>Potential Analysis</td>
</tr>
<tr>
<td>PV</td>
<td>Testing Standards of Volkswagen Group</td>
</tr>
<tr>
<td>QTR</td>
<td>Quality Technical Requirement</td>
</tr>
<tr>
<td>QPN</td>
<td>Qualification Programme New Parts</td>
</tr>
<tr>
<td>SL</td>
<td>Self Audit</td>
</tr>
<tr>
<td>SOP</td>
<td>Start of Production</td>
</tr>
<tr>
<td>TL</td>
<td>Technical Delivery Conditions of VOLKSWAGEN Group</td>
</tr>
<tr>
<td>TLD</td>
<td>Technical Guideline Documentation</td>
</tr>
<tr>
<td>TLD SL</td>
<td>TLD Self Audit Suppliers</td>
</tr>
<tr>
<td>TRL</td>
<td>Technical Revision Lieferanten = Supplier Technical Review</td>
</tr>
<tr>
<td>ULM</td>
<td>Unter Lieferanten Management = Sub-Supplier Management</td>
</tr>
<tr>
<td>VA</td>
<td>Process Audit (includes product audit)</td>
</tr>
<tr>
<td>VDA</td>
<td>Association of German Automobile Industry</td>
</tr>
<tr>
<td>VP=IP</td>
<td>Improvement Programme</td>
</tr>
<tr>
<td>VW AG</td>
<td>VOLKSWAGEN AG</td>
</tr>
<tr>
<td>Zsb.</td>
<td>Assembly</td>
</tr>
</tbody>
</table>
Appendix

Explanation / Definitions

Supplier:
The term Supplier is equivalent with the term Direct Supplier (1st Tier Supplier) in the Formel Q. It describes the Organisation, which receives an order from the Volkswagen Group and therefore is a contract partner to the VOLKSWAGEN Group. The ISO/TS 16949 defines it as “Organisation”.

Direct Supplier (1st Tier Supplier)
Direct Supplier is the contract partner of the Volkswagen Group and the one who received the Order for the delivery to the receiving plant (customer plant) of VOLKSWAGEN Group.

Sub-Supplier (2nd – n Tier Supplier)
The Sub-Supplier is a Contract Partner in the “Supply Chain” of the Direct Supplier (1st Tier Supplier). The 2nd – n Tier Supplier therefore is the Sub-Supplier of the Volkswagen Group. In ISO/TS 16949 he is defined as “Supplier”, earlier it was called “Sub-Contractor”.

VOLKSWAGEN Group:
VOLKSWAGEN Group, comprises all Brands and Regions as well as Offshore enterprises.

Auditor VOLKSWAGEN Group:
Accredited QM-Auditor of VOLKSWAGEN-GROUP

Direct Assurance
The Direct Assurance encompasses a Site Evaluation / Visit and all Improvement Actions, which after detection of the Problem have been agreed upon with the Supplier during e.g. the TRL. The implementation must be started immediately, but it does not necessarily need to be completed until finishing the Technical Review. The corresponding implementation dates to the Improvement Programme (IP) will be defined with the supplier.

Remark:
If, during a Site Evaluation / Visit, e.g.a TRL, it is found that the Product is not meeting the Technical Requirements, or the Manufacturing Process is not sufficiently in control and / or Legal requirements are not met, it is essential that direct corrective action with the Supplier must be defined, which has to be implemented immediately or as soon as possible.

Example for Direct Assurance:
- Blocking and Checking Stored Products
- Additional 100% Inspection in Production
- Verification of the Characteristics by External Test Laboratory

Mandatory Documentation Characteristics:
In addition to the Volkswagen Group specified D/TLD characteristics it also includes those characteristics that the Supplier internally identifies as Safety related.

Self Audit:
This is the Process Audit in the scope of Self-Evaluation / Self-Assessment that the Supplier must conduct.