

# WARRANTY COST RECOVERY AND FIELD SERVICE ACTION COST RECOVERY INSTRUCTION TO VOLVO CARS PRODUCTION MATERIAL GLOBAL TERMS AND CONDITIONS

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**1 GENERAL**

- 1.1 This instruction contains the Buyer's specific requirements related to Warranty Cost Recovery and Field Service Action Cost Recovery.
- 1.2 This instruction complements Volvo Cars Production Material Global Terms and Conditions ("**PMGTC**"), and is an integral part of the Purchase Agreement.

## A) WARRANTY COST RECOVERY

### 2 DEFINITIONS

2.1 Words or phrases defined in PMGTC and used in this instruction shall have the same meaning when used here.

2.2 In addition to the definitions in section 2.1, word or phrases defined in this section shall have the following meaning when used in this instruction:

**Authorized Repairer** means a company that is authorized by the Buyer for the servicing and repair (directly or indirectly) of the Buyer's vehicles and products (including, without limitation, authorized retailers of the Buyer).

**Handling Costs** is defined in section 4.

**Labour Cost** is defined in section 4.

**Material Cost** is defined in section 4.

**Miscellaneous Cost** is defined in section 4.

**Notification Date** means the date on which the Buyer notifies the Supplier in writing that Warranty Material is available for Technical Investigation in accordance with sub sections 9.2 – 9.3.

**Technical Investigation** means the analysis of a sample of Warranty Repairs including related Warranty Material and/or relevant data.

**Warranty Claim** means the claim submitted by an Authorized Repairer to the Buyer for costs incurred for a Warranty Repair.

**Warranty Costs** means the total costs incurred by the Buyer relating to a Warranty Repair, as defined in section 4.

**Warranty Material** means Goods subject to a Warranty Repair.

**Warranty Parts Returns Centres** means the locations at which Warranty Material is held by the Buyer.

**Warranty Recovery Rate** means the Supplier's responsibility share (in percentage) of the Warranty Repairs subjected to a Technical Investigation.

**Warranty Recovery Variables** is defined in section 5.

**Warranty Repair** means work performed by an Authorized Repairer to repair or rectify a Non-conformity of the Goods, including, without limitation, any work to repair, rectify, or replace the specific Goods, as well as any other parts or components of the vehicle or product in which the Goods were installed, as deemed necessary by the Buyer in order to properly repair or rectify the Non-

conformity of the Goods and any direct consequences to the vehicle or product caused by the Non-conformity of the Goods.

### **3 GENERAL PROCEDURE**

3.1 The Buyer is, in addition to any other right to indemnification, entitled to compensation for Warranty Costs.

This Instruction is part of, and supplements section 14 in, the PMGTC and describes the process by which the Supplier's responsibility for Warranty Costs incurred by the Buyer will be determined and charged to the Supplier.

The process generally operates by applying a percentage rate representing the Supplier's responsibility, based on a technical analysis, to Warranty Repairs during a specific period of time.

For the avoidance of doubt, it is noted that nothing in this Warranty Cost Recovery Instruction releases the Supplier from its obligations pursuant to the PMGTC and the Supplier is specifically reminded that this Warranty Cost Recovery Instruction will not affect the Suppliers liability under the provisions of Section 15 of the PMGTC.

## 4 WARRANTY COSTS

4.1 Warranty Costs include each of the following costs incurred by the Buyer relating to Warranty Repairs:

- (a) **Material Costs**, which means, at the Buyer's option, either:
  - (i) the actual price paid by the Buyer for all Service Parts (without limitations) used in the Warranty Repairs; or,
  - (ii) if the actual price paid for Service Parts is not available, the average prices paid by the Buyer for the same in the relevant markets.
  
- (b) **Handling Costs**, which means, at the Buyer's option, either:
  - (i) 50% of the Material Costs; or,
  - (ii) the actual costs incurred by the Buyer in handling the Service Parts described in sub-section (a) above.
  
- (c) **Labour Costs**, which means, at the Buyer's option, either:
  - (i) actual Labour Cost incurred for each Warranty Repair; or
  - (ii) the Buyer's standard time and hourly warranty labour rate for the applicable markets and operations; or
  - (iii) representative averages of such time and hourly warranty labour rates.
  
- (d) **Miscellaneous Costs**, which means any other actual and substantiated costs incurred by the Buyer (other than the costs detailed above in sub-section (a) through (c)) relating to the Warranty Repairs, including, without limitation, any such costs detailed on a Warranty Claim for the Warranty Repairs (such as, for example and without limitation, Powertrain exchange handling allowance, freight costs, refunds, towing costs or loan vehicle costs).

## 5 WARRANTY RECOVERY VARIABLES

5.1 The following are the Warranty Recovery Variables, and must be agreed upon by the Buyer and the Supplier:

- The Warranty Recovery Rate
- Warranty Material sample collection period of time: The specific period of time when Warranty Material for Technical Investigation are collected
- Warranty Material sample size: The volume of Warranty Material to be made available for the Technical Investigation
- Technical Investigation period of time: the period of time within which the Supplier must conduct the Technical Investigation and provide the Buyer with the results of the Technical Investigation
- Warranty Cost period of time: The specific period of time where the Warranty Recovery Rate is applied for the Warranty Cost incurred by the Buyer for Warranty Repairs
- The timing for adjustment of the Warranty Recovery Rate

## **6 DETERMINATION OF THE SUPPLIER'S RESPONSIBILITY FOR WARRANTY COSTS**

6.1 The Supplier's responsibility for Warranty Costs for Warranty Repairs for Nonconforming Goods will be determined by applying the Warranty Recovery Rate to Warranty Costs incurred by the Buyer for all Warranty Repairs performed during a specific period of time.

The nonconformity of the Goods subject to the Warranty Repairs need not be the same for all Warranty Repairs relevant to the specific period(s) of time.

In this manner, the Supplier's responsibility for Warranty Costs will be determined by applying the Warranty Recovery Rate to all Warranty Costs during the specific period of time.

The Warranty Material sample collection period of time and the Warranty Cost period of time need not to be the same.

At the Buyer's option the Suppliers Goods may be split into groups, so called categories.

## 7 APPLICATION OF INTERIM WARRANTY RECOVERY RATE

7.1 Until agreement of the Warranty Recovery Variables has been obtained, or any Warranty Recovery Variables cease to apply each of the following will apply:

- (a) At the Buyer's option, an interim Warranty Recovery Rate of either up to 50% or equal to previous Warranty Recovery Rate may be used.
- (b) In the event that the Supplier refuses to conduct the Technical Investigation in accordance with the requirements for the same described in clause 9 below or fails to conduct the Technical Investigation and provide the Buyer with the results within the time period agreed upon (other than as a result of Force Majeure as stated in PMGTC), an interim Warranty Recovery Rate of 100% will be used. The interim Warranty Recovery Rate of 100% will continue to apply until the Supplier and Buyer reach an agreement of the Warranty Recovery Variables or the Buyer and the Supplier agree otherwise.

In such events described above, the Buyer will, in advance, inform the Supplier in a Written Notice, and specify, in good faith, the other Warranty Recovery Variables that will apply.



## 8 SETTLEMENT OF WARRANTY COSTS

- 8.1 The Buyer will charge the Supplier the amount of the Supplier's responsibility of the Warranty Costs by raising a debit note/debiting the Supplier's accounts or by invoicing the Supplier.
- 8.2 In the event that an interim Warranty Recovery Rate is used pursuant to section 7, and once the Warranty Recovery Rate and other Warranty Recovery Variables have been agreed upon, any invoices charges/debits to the Supplier for Warranty Costs prior to the date of agreement will be recalculated accordingly based on the Warranty Recovery Rate and other Warranty Recovery Variables agreed upon.
- In regard to any recalculation, any overcharges will be rectified by a credit note/credit to the Supplier's accounts for the amount overcharged, and any undercharges will be rectified by a debit note/debit to the Supplier's accounts (or invoice from the Buyer) for the amount undercharged.
- 8.3 A detailed specification of each Warranty Repair that form the basis for the debit note/invoice is sent to the Supplier.
- 8.4 Nothing in this Instruction will in any way limit or affect the Buyer's set-off or recoupment rights under the PMGTCs or applicable law relating to any amounts owed by the Supplier under this Instruction or under a Purchase Order.

## 9 TECHNICAL INVESTIGATION

- 9.1 A sample of Warranty Repairs including related data and Warranty Material from a limited number of markets will be made available to the Supplier for a Technical Investigation if and when commercially practicable. The Technical Investigation is conducted to establish the cause and the responsibility of each Warranty Repair in the sample in order to determine the Warranty Recovery Rate.
- 9.2 Warranty Material subject to Technical Investigations will be stored at the Buyer's Warranty Parts Returns Centres. The Buyer will notify the Supplier when the Warranty Material is available for Technical Investigation.
- 9.3 The Supplier will arrange and pay the transportation costs of Warranty Material subject to Technical Investigation between the Buyer's Warranty Parts Return Centres and the Supplier's location. It is possible to perform the Technical Investigation at the Buyer's Warranty Parts Return Centre provided that this is agreed with the Buyer.
- 9.4 The supplier will conduct the Technical Investigation at its expense. The Supplier will establish adequate investigation and test procedures to identify the Non-conformity of the Goods in order to determine the responsibility of each Warranty Repair in the sample. The Buyer reserves the right to be present during and participate in the Technical Investigation.
- 9.5 If the Buyer does not agree with any aspects of the Technical Investigation conducted by the Supplier, the Buyer may: conduct the Technical Investigation itself, or arrange for it to be conducted by an independent third party to identify the Non-conformity of the Goods in order to determine the responsibility of each Warranty Repair in the sample.
- 9.6 The Supplier will comply with any guidelines and requirements issued by the Buyer from time to time regarding conduct of, and documentation relating to, the Technical Investigation. The Supplier will notify the Buyer of the results of the Technical Investigation in the format requested by the Buyer and within the agreed period of time.
- 9.7 The Supplier is not allowed to scrap any Warranty Material without written approval from the Buyer. If requested by the Buyer, the Supplier will without delay return to the Buyer any Warranty Material for which the Supplier does not accept responsibility.
- 9.8 The Supplier is considered responsible for any Warranty Repair where the related Warranty Material for the Technical Investigation has been lost or scrapped by the Supplier without approval from the Buyer.
- 9.9 If the Supplier's Goods is included in Buyer's sub-assembly and as such is replaced as a part of a complete unit, the Buyer at its option may conduct a pre analysis to determine the reason for repair. If the buyer determines Supplier's

Goods as reason for repair, subjected Goods will be shipped to the Supplier for Supplier Technical Investigation as described above in section 9.1- 9.8.

## 10 DURATION

- 10.1 For the avoidance of doubt, in the event of the expiration or termination of a Purchase Order, under no circumstances will the Supplier be released from liability for Goods already supplied.

## B) FIELD SERVICE ACTION (FSA) COST RECOVERY

### 11 DEFINITIONS

- 11.1 Words or phrases defined in PMGTC and used in this instruction shall have the same meaning when used here.
- 11.2 In addition to the definitions in section 2.1, word or phrases defined in this section shall have the following meaning when used in this instruction:

**Authorized Repairer** means a company that is authorized by the Buyer for the servicing and repair (directly or indirectly) of the Buyer's vehicles or products (including, without limitation, authorized retailers of the Buyer).

**FSA Claim** means the claim submitted by an Authorized Repairer to the Buyer for costs incurred for an FSA.

**FSA Costs** means costs incurred by the Buyer relating to an FSA, as defined in section 13.

**FSA Cost Recovery Variables** is defined in section 14.

**FSA Repair** means work performed by the Buyer, its Affiliates, retailers, Authorized Repairer or other agency to repair or rectify a Non-conformity of the Goods, including, without limitation, any work to repair, rectify, or replace the specific Goods, as well as any other parts or components of the vehicle or product in which the Goods were installed, as deemed necessary by the Buyer in order to properly repair or rectify the Non-conformity of the Goods and any direct consequences to the vehicle or product caused by the Non-conformity of the Goods.

**FSA Handling Costs** is defined in section 13.

**FSA Labour Cost** is defined in section 13.

**FSA Material Cost** is defined in section 13.

**FSA Miscellaneous Cost** is defined in section 13.

## **12 GENERAL PROCEDURE**

- 12.1 The Buyer is, in addition to any other right to indemnification, entitled to compensation for FSA Costs.

This Instruction is a part of, and supplements section 15 in the PMGTC and describes the process by which the Supplier's responsibility for FSA Costs incurred by the Buyer will be determined and charged to the Supplier.

Nothing in this Instruction will in any way limit or affect the Buyer's set-off or recoupment rights under the PMGTCs or applicable law relating to any amounts owed by the Supplier under this Instruction or under a Purchase Order.

## 13 FSA COSTS

13.1 FSA Costs include each of the following costs incurred by the Buyer relating to an FSA:

- (a) **Material Costs**, which means, at the Buyer's option, either:
  - (i) the actual price paid by the Buyer for all Service Parts (without limitations) used in the FSA; or,
  - (ii) if the actual price paid for Service Parts is not available, the average prices paid by the Buyer for the same in the relevant markets.
- (a) **Handling Costs**, which means, at the Buyer's option:

Costs incurred, or calculated, by the Buyer for preparation, shipping, handling, logistics and packaging, custom and taxes, and mark ups paid to the retailers or designated repair facilities (such as those required under, but not limited to, state franchise laws), for the relevant Service Parts and Components.
- (b) **Labour Costs**, which means, at the Buyer's option, either:
  - (i) actual labour cost incurred for the FSA Repairs; or
  - (ii) calculated labour cost based on the Buyer's standard time and hourly warranty labour rate for the applicable markets and operations; or
  - (iii) representative averages of such time and hourly warranty labour rates.
- (c) **Miscellaneous Costs**, which means any other actual and substantiated costs incurred by the Buyer relating to the FSA Repairs, including, without limitation, any such costs detailed on an FSA Claim for the FSA Repairs (such as, for example and without limitation, freight costs, refunds, towing costs or loan vehicle costs). Costs related to customer incentives to increase the Field Service Action completion rate, to reimburse customers for historical repairs or other actions are also included in the FSA costs.

Note that any profit that the Buyer receives from the sale of the relevant Service Parts or Components for the FSA will not be included.

## **14 FSA VARIABLES**

14.1 The following are the FSA Variables, determined the Buyer and shared with the supplier:

- FSA reference id
- Involved vehicles in the FSA
- FSA remedy action
- FSA estimated numbers of repairs
- Estimated FSA cost (the actual incurred FSA cost may be higher or lower than the estimated FSA cost)
- FSA period of time: The specific period of time when the FSA will be open (start and close date)

The following FSA Variables must be agreed by the Buyer and the Supplier:

- Supplier responsibility for FSA
- The timing and procedure for invoicing (lump sum invoicing or invoicing on running basis)
- Invoicing address and Supplier contact person

**15 DETERMINATION OF SUPPLIER'S RESPONSIBILITY FOR FSA**

15.1 The Buyer will investigate and determine the Supplier's responsibility for the cause of the FSA.

The Buyer and the Supplier will negotiate diligently and in good faith the extent of the Supplier's responsibility for the FSA

**16 APPLICATION OF INTERIM FSA COST RECOVERY**

16.1 Until agreement of the FSA Recovery Variables has been obtained, the Buyer may at its option debit the supplier in accordance with section 15.3.3. in PMGTC.

In such event described above, the Buyer will, in advance, inform the Supplier in a Written Notice and specify, in good faith, the FSA Variables that will apply.

The first interim debit will cover the accumulated incurred FSA Cost. Thereafter, debiting will continue on monthly basis until the first to occur of the following:

- a) the Buyer and the Supplier agree in writing on the final allocation of the total FSA costs
- b) the Buyer is reimbursed by the Supplier for the total FSA costs for which the Buyer determines the Supplier to be responsible for



## 17 SETTLEMENT OF FSA COSTS

17.1 Once the Supplier's share of the FSA cost has been determined, the Buyer will charge the Supplier the amount of the Supplier's responsibility of the FSA Costs by raising a debit note/debit the Supplier's account or by invoicing the Supplier.

17.2 If an interim FSA Cost Recovery is used pursuant to section 16 and once the FSA Recovery Cost and other FSA Cost Recovery Variables have been agreed upon, any invoices charges/debits to the Supplier for FSA Costs prior to the date of agreement will be recalculated accordingly based on the FSA Cost Recovery Variables agreed upon.

In regard to any recalculation, any overcharges will be rectified by a credit note/credit to the Supplier's accounts for the amount overcharged, and any undercharges will be rectified by a debit note/debit to the Supplier's account (or invoice from the Buyer) for the amount undercharged.

17.3 A specification of the FSA costs that form the basis for the debit note/invoice is sent to the Supplier.