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RE: Supplier Cost Reclamation Process

Navistar is proud to provide exceptional quality to our customers, and we could not accomplish this without the efforts of the many outstanding suppliers who are ongoing champions in delivering quality to Navistar. However, significant wasted time and added cost is incurred when suppliers do not meet Navistar's expected level of quality excellence.

To reduce these issues while continuing to drive exceptional quality, Navistar is introducing a Supplier Cost Reclamation Process, effective January 1, 2020. The Supplier Cost Reclamation Process will affect only suppliers who exhibit poor performance and will not affect suppliers who are ongoing champions of quality.

The process will address supplier performance through 1) the Global 8D system and 2) QTF events, as follows:

1. Global 8D

The Global 8D (G8D) reporting process is the standard process for issue resolution at Navistar. Each issue that causes a G8D is a waste generator in terms of both added cost and lost productivity, for both Navistar and the supplier. Significant resources are assigned, and much time is spent, working to resolve these issues.

We expect suppliers to take ownership of the process, lead root-cause investigations, and report progress on a timely basis. In addition, effective January 1, 2020:

- **A \$500 assessment fee will be issued to the supplier for each instance when the supplier receives a G8D notice.**

2. QTF Suppliers

A supplier may be required to enter Quality Top Focus (QTF) status due to unsatisfactory performance. The Navistar NISQR lists QTF entry and exit criteria. The supplier is required to provide a 30/60/90-day action plan to improve performance and/or exit QTF status. In addition, effective January 1, 2020:

- **A \$3,000 assessment fee will be issued when a supplier is placed on QTF status.**
- **A \$100 per day assessment fee will be issued for every day beyond 120 days a supplier is in QTF status, until QTF exit criteria are achieved.**

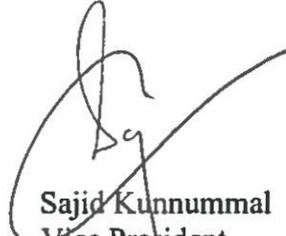
- **For any on-site QTF audit activities which are required per the Navistar NISQR, reimbursement will be required from the supplier for Navistar travel expenses, as well as a \$500 per day assessment fee.**

Navistar greatly appreciates suppliers' efforts to reduce issues that impact quality and generate waste, not only to Navistar, but to the suppliers themselves. These actions will ensure both parties are operating at their highest level of efficiency in delivering quality product to our end customers.

Please continue to be champions of quality!



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FAQs:

1. When will the Supplier Cost Reclamation Initiative begin?

Answer: Effective January 1st, 2020.

2. What is the fee for a Global 8D?

Answer: Fee of \$500 will be charged for opening of a Supplier caused Global 8D.

3. What happens to 8Ds that were opened before January 1st, 2020?

Answer: Suppliers will have until March 1st, 2020 to close the 8D before they are charged \$500 for the open Supplier caused Global 8D.

4. What is the fee for being placed on Quality Top Focus (QTF)?

Answer: Fee of \$3,000 will be charge for being placed on QTF beginning January 1st, 2020. Exit criteria from QTF requires successful completion of a 30/60/90-day action plan and validation plan.

5. Are there any extra charges for being placed on QTF?

Answer: Suppliers will be charged \$100/day if they continue to be on QTF after 120 days.

Travel and Administration fees associated with exiting QTF will be charged back to the Supplier.

On-site assessments will charge the Supplier a daily fee of \$500/day while Navistar is on-site.

6. What happens to Suppliers that are on QTF before January 1st, 2020?

Answer: Any supplier currently on QTF as of January 1st, 2020 will have until March 1st, 2020 to exit QTF or the \$100/day fee will begin. The \$3,000 fee for suppliers currently on QTF will **NOT** be charged.

7. Will this affect current charge backs?

Answer: No, the plant financial recovery process remains unchanged.

8. Will there be a process to dispute / challenge the quality complaint?

Answer: To dispute the quality issue prior to financial execution, Supplier must provide evidence of analysis and root cause must be achieved, communicated, reviewed, and dispositioned within 30 calendar days of opening the 8D.

9. Navistar uses 8Ds to document various issues; which will be considered for financial recovery?

Answer: Each 8D defines the functional owner this financial recovery affects (which are): Supplier Quality – Global, Supplier Quality – Powertrain, Supplier Quality – Vehicle, Navistar Defense – Supplier Quality.