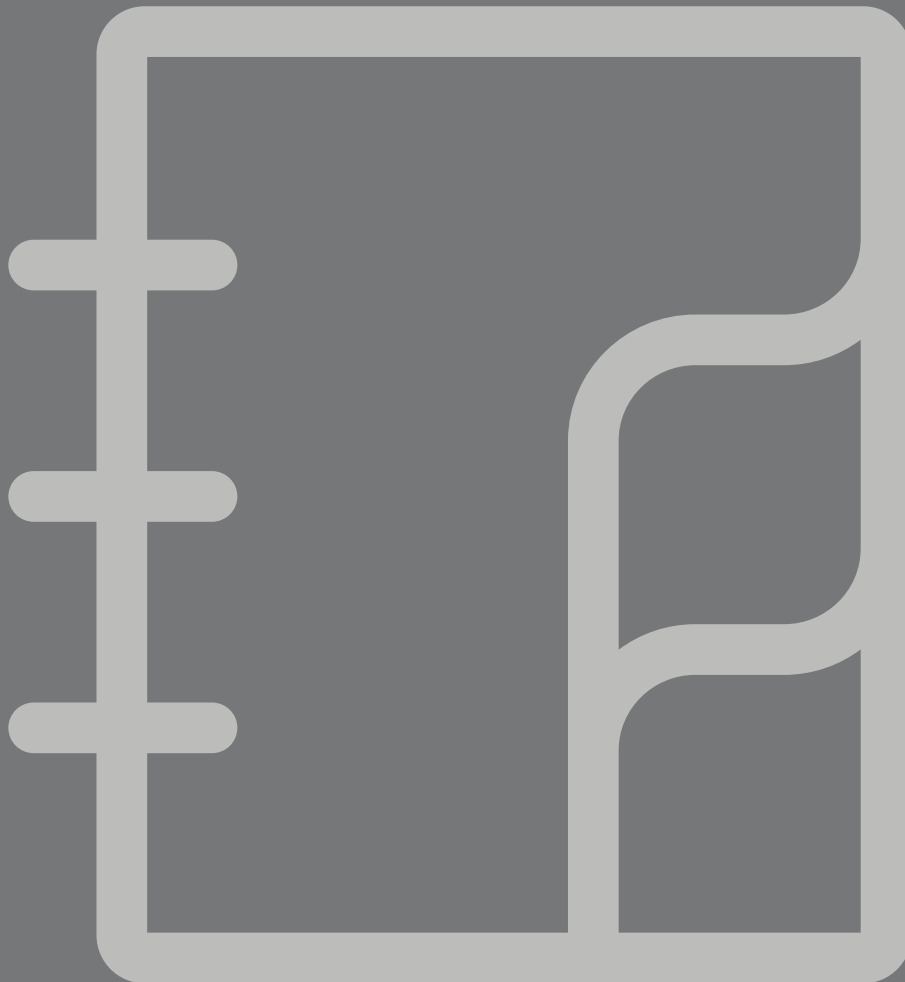


VELUX®

& | Win hearts
and minds

The VELUX Group

Requirements for VELUX Suppliers



Effective from 1st April 2024

The Requirements for VELUX Suppliers outlines the minimum expectations for our organisation with Suppliers.

Introduction



In VELUX we realise that communication and cooperation are key elements in maintaining high performance standards, this manual has been developed as a guide to aid suppliers in understanding VELUX requirements.

The Requirements for VELUX Suppliers applies to all vendors supplying to VELUX facilities, including Distribution Centres.

Scope

The scope for this manual includes all products, raw materials, components, assemblies and services.

Ambition

Our ambition is to have a best in class supply chain which is reliable and dependable to support our business activities in providing our customers and end

users with a superior performing product.

Purpose

The purpose of the Requirements for VELUX Suppliers is to communicate our general requirements to all suppliers in one document.

Expectation

Suppliers are expected to understand and implement the Requirements for VELUX Suppliers requirements in their organisations.

Our suppliers are expected to achieve agreed KPIs and to strive for continuous improvement.

Acceptance of the requirements in the Requirements for VELUX Suppliers is mandatory unless otherwise stated in a mutually signed Sourcing agreement.

Index

| | |
|--|----|
| Introduction | 2 |
| General Terms and conditions | 4 |
| Management System Requirements | 5 |
| Supplier Product Realisation Process | 6 |
| Change Notification | 7 |
| Quality Expectations | 8 |
| Performance Measurement Criteria | 11 |
| VELUX Supplier Decarbonization Policy | 13 |
| On Site Contractor Services | 14 |
| Cost Efficiencies and Continuous Improvement | 15 |
| Cyber Security | 16 |

General Terms and Conditions

In order to become a supplier to VELUX our vendors must review and agree to our General Terms and Conditions and/or a Sourcing Agreement which will be provided by VELUX and must be signed by both parties.



Management System Requirements



” New suppliers to VELUX will require an on-site evaluation to determine each supplier’s ability to provide quality products and services necessary to remain an industry leader

Suppliers to VELUX should have a methodical Quality Management System complying to ISO9001 or equivalent. In addition, an understanding of or compliance to ISO14001, ISO45001 (OSHAS18001) and ISO50001 are desirable.

VELUX may require documented evidence from the supplier showing the effectiveness of the quality management system utilised by its sub-suppliers.

Potential new suppliers are required to register in Ariba, provide a copy of their Management System certificates such as ISO 9001, ISO14001, etc. on request and complete an ESG (Environmental, Social and Governance) Level 1 Risk

Assessment 1. It is a requirement of our business relationship that if your company’s status changes for any element of the ESG Level 1 Risk Assessment, you must inform us within 30 days and include your risk mitigation action plan. In addition, new suppliers to VELUX will require an on-site evaluation to determine each supplier’s ability to provide quality products and services necessary to remain an industry leader.

Evaluation and Re-evaluation

At any time during the commercial relationship, VELUX reserves the right to conduct an on-site re-evaluation (audit) at the Vendor’s location(s) having given an appropriate and reasonable notice period. All associated

facilities involved in the manufacture and/or supply of products and services to VELUX will be in scope for this evaluation. Reasonable limitations notified by the supplier to safeguard its technological knowhow will be accepted.

VELUX shall communicate the result of evaluation (audit) to the supplier and any corrective actions agreed and documented will be tracked and followed up as necessary.

Each party shall bear its own costs in connection with evaluations by VELUX unless it has been agreed otherwise by mutual consent.

Supplier Product Realisation Process (SPRP)

Suppliers of production material are required to complete documents related to the VELUX Supplier Product Realisation Process. This realisation process needs to be completed for each product or material prior to initial shipment, unless instructed otherwise by VELUX.

The process operates within the framework of:

Supplier Product Realisation Process:

Supplier Product Realisation Process is a process to gather and to document all quality, engineering, purchasing, marketing and logistic requirements before submitting an RFQ to potential suppliers. The Supplier Product Realisation Process covers the period from RFQ through supplier selection, supplier industrialisation to the final product approval.

Supplier Evaluation and Approval Process:

This process is a standardised methodology to establish uniformity in evaluating and approving suppliers to VELUX.

Supplier Industrialisation Process:

Within the Supplier Industrialisation process VELUX will work with the suppliers to ensure that all VELUX requirement and specifications are understood by the vendors. It ensures that the vendors have integrated the VELUX requirements into their manufacturing processes as stipulated by VELUX. Completion of the industrialisation process will produce the documentation and data required for the approval process.

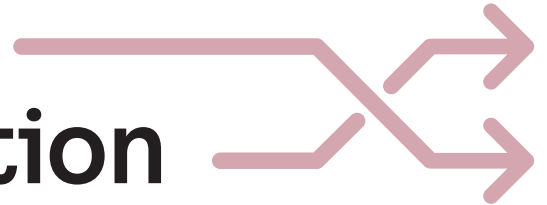
Supplier Product Approval Process:

Is a framework on how VELUX approves products and services from a supplier. It standardises the approval process to ensure that supplied products and services meet VELUX specifications and design requirements. Completion of this process results in products and/or services being released for use.





Change Notification



All proposed changes or modifications, whether permanent or temporary and including proprietary designs, must be reviewed, approved and authorized in writing by VELUX designated personnel.

Permanent changes shall be subject to the appropriate change control process. Temporary changes shall be described by either a deviation, concession or waiver.

The vendor shall not make any changes in part design, material, testing and checking methodology or manufacturing process without prior **written** VELUX authorization. A new **Supplier Product Approval Submission** may be required at VELUX's discretion.

In circumstances where a supplier wishes to change manufacturing location(s) or relocate the manufacturing equipment the supplier must also obtain prior **written** agreement from VELUX. Any new manufacturing location or facility involved in providing goods and services shall be subject to the processes listed above (SPRP).

Under no circumstances can verbal requests be accommodated and will not be agreed.

Request for change shall contain the following minimum information:

Permanent Change:

Must include detailed information of the required change, its proposed timing, and the reason for change, e.g. Continuous Improvement.

Temporary Change:

Where component or material deviates from the VELUX specification, but is considered on a temporary basis "fit for purpose" both functionally and/or cosmetically. The mechanism for controlling this is the Supplier Material Request for Release (obtainable from VELUX) and as a minimum, shall include:

- The quantity or period of time the components or material are thus affected.
- The potential root cause for the out-of-specification condition.
- The containment detail and Non-conformance report reference number.
- The Batch or Lot number as appropriate.



Quality Expectations

VELUX has a zero defects mentality, which means that, whilst we realise there will be failures from time to time, we expect our suppliers to address these in a proactive and sustained manner. Reducing failures toward an ultimate goal of zero defects embodies VELUX's commitment to provide high quality products to our customers by ensuring we have a high- quality supply chain.

Non-Conformities and Corrective Action

Suppliers are fully responsible for the quality and integrity of products, and ensuring they meet the requirements as laid down in the agreed specifications.

If a delivery – in whole or in part – is nonconforming, the supplier may – immediately and before delivery to VELUX - apply to VELUX for a concession, deviation or waiver. Supplier shall complete Supplier Material Request for Release form (available from VELUX) and submit it to the receiving VELUX facility. VELUX facilities shall handle the request for release according to Request for Release Process and inform the supplier of the outcome. In this case a copy of the approved Supplier Material Request for Release form shall accompany each affected delivery and be attached to each package.

In the case of the request for release being granted, the affected volume will not be included when calculating the defect rate for any reporting.

In the situation that a supplier delivers nonconforming products, VELUX will inform the supplier and describe the defect in a non-conformity report created in SAP with attachments as appropriate.

The supplier shall respond and react to the non-conformity report and requested actions within the following timeframe unless agreed otherwise with the receiving facility.

- Containment actions - verbal communication of containment actions to VELUX within 24h and written communication of containment actions to VELUX 72h
- Complaint can be rejected by supplier after containment and before root cause within 4 days as long as an agreed reason is justified
- Root cause analysis provided to VELUX within 14 days
- Corrective action plan sent to VELUX within 28 days
- Closure of Non-conformity report by VELUX within 42 days

The supplier shall answer with corrective actions documented in a Velux 8D report (supplied by VELUX) or an equivalent form to communicate actions initiated as a result of the non-conformity. When conducting corrective actions, the following 8D methodology should be adopted:

8D Methodology

1. Establish a Team:

Establish an appropriate group of people, with the process and product knowledge, authority to act and skill in the required technical disciplines to solve the problem and implement corrective actions. The group must have a designated champion.

2. Define problem:

Specify and define the problem in identifiable and quantitative terms, giving a detailed description of the failure and its impacts.

3. Define and implement containment actions:

Define and implement containment actions to isolate the problem from known good product and identify affected product within the supply chain. Containment actions shall stay in place until permanent corrective actions have been implemented and verified.

4. Root Cause Analysis:

Identify any potential root causes and evaluate and identify the true root cause. All analysis and documentation associated with this activity should be archived for future reference.

5. Define corrective actions:

Establish corrective action plans for each identified root cause and construct an implementation plan.

6. Implement and validate permanent corrective actions:

Implement the appropriate permanent corrective actions as defined in the associated plan. The corrective actions shall be monitored and validated over a specified time period and the necessary controls incorporated into the manufacturing control plan.

7. Define and implement preventive actions:

Identify what management systems, if in place, would have prevented this problem.

Modify the management systems, operating systems, practices, and procedures to prevent recurrence of this and all similar problems and provide copies of updates to the customer. Apply this solution to similar processes within the organisation.

8. Sign off and celebrate:

After the appropriate validation is complete and verified, submit the 8D for closure and sign-off. Recognize the collective efforts of the team and associated personnel.

It is the responsibility of the vendor to ensure that the results of sorting activities carried out by themselves or their agents are communicated to VELUX in a timely manner.

This is required to make sure that accurate ppm data is attributed to vendor. Failure to do so may result in an inflated ppm score which may have a detrimental effect on VELUX's perception of vendor's quality performance.

Costs associated with Non-Conforming Materials

The supplier has financial responsibility for nonconforming materials and their effects upon VELUX, which may include warranty issues and/or cost recoveries for sorting, re-work, scrap, premium transportation, etc.

Each occurrence may be the subject of a recharge notification invoice raised by the receiving plant and charged to the supplier upon closure of the notification. The currency and amount will very dependent upon the location of receiving plant.

The recharge may include but not be limited to any of the following:

1. Sorting cost – is the cost of sorting non-conforming materials incurred by VELUX

Operation of sorting can be performed by 3rd party sorting company, supplier personnel or VELUX personnel as necessary and agreed.

Recharge costs due to sorting cannot exceed 2.5 x the hourly rate of a shop floor worker at the receiving facility

2. Rework cost - is the cost of reworking non-conforming materials as agreed between supplier and VELUX

3. Transport cost - is any cost associated with transporting samples, non-conforming or replacement products between VELUX and the supplier.

4. Scrap cost - is any cost associated with the disposal of product categorized as scrap by VELUX and the supplier incurred by VELUX

5. Administration cost – may be charged by receiving facility at their discretion

Where requested by VELUX the vendor will be required to supply any conformation certificate pertinent to the product. e.g. material certificate, certificate of conformity or certificate of supply.

During our normal operations, there are occasions when product is placed in quarantine or in a "Hold" status. This product is usually the subject of a quality investigation or awaiting the issue of a concession or waiver. A majority of these issues are resolved during the usual operation of the business processes, however, there are times when product remains in quarantine for extended periods and from time to time events overtake the process. This leads to product remaining on hold with no clear status. On these occasions there has to be a resolution. As of 1st January 2021, any product left in a hold status or quarantine for longer than 6 months and with no clear outcome, will be either returned to the original vendor at their expense, available for collection at an agreed time or disposed of by VELUX. Any costs associated with this disposal will be recharged to the vendor. A notification will be issued, giving the vendor 60 days to decide what their preferred option is. This only relates to product which is still the legal property of the vendor.

Measuring and Inspection:

The requirements for measuring and inspection will be agreed during the SPRP process. Where no agreement is in place, the supplier shall, as a minimum, carry out inspection and maintain evidence of conformity with the requirements of:

- The properties marked as Q-points
- The properties marked as F-points
- Properties identified with a circled letter

- Properties marked as CTQ (Critical to Quality)

Test or measuring results originating from different tools, cavities or machines must be identified separately and not mixed in the documentation and when reporting. Measuring results from testing shall be available in electronic form or as agreed between supplier and VELUX facility.

Control of monitoring and measuring equipment

Where necessary to ensure valid results, the supplier is obliged to ensure that all measuring equipment and methods used are suitable for the purpose and that it is calibrated. The supplier shall also ensure that records of the results of calibration and verification are maintained.

Control of documents and records

The supplier must have a process for controlling documents and records including the documents of external origin from VELUX.

All test results and other documentation on the quality of the product shall be kept with the supplier for the life of the product and not less than five (5) years starting from the date of the testing. Upon request from VELUX, the supplier shall, free of charge and within reasonable time, submit to VELUX copies of all documentation relating to products purchased by VELUX.



Performance Measurement Criteria

Accurate and consistent measurement of key performance indicators (KPIs), tracking and monitoring metrics is critical to a transparent and value-added business relationship.

At VELUX, we use various industry standard metrics to track and monitor our performance in relation to our vendors and our suppliers' own performance. These metrics are collated and distributed within VELUX to aid our understanding of our supply chain and enable us to make fact-based decisions. As such it is critical that the data used in these metrics is as full and accurate as possible.

Scorecard

Those suppliers receiving a VELUX generated scorecard are expected to review its contents in a timely manner and respond with any queries or contradictions as soon as possible to their VELUX Procurement scheduler.

Quality

Metrics associated with quality performance include but are not limited to the following:

PPM (Parts per Million): is the number of defect parts or failures per million delivered or supplied.

CPM (Concerns per Million): is the number of non-conforming incidents or occurrences per million parts or services delivered or supplied.

Number of concerns: is the total number of non-conforming incidents occurring within a given timeframe.

RFT (Right First Time): Is defined as a sample submission correct on first submission.

Non-conformity report closure: Is a measure of the non-conformity report being closed within the prescribed timeframe.

Schedule & Delivery

VELUX aspires to **100% on-time in full (within 10% of ordered volume) delivery performance** within agreed parameters and scheduling time from all its suppliers and sub-contractors unless otherwise agreed. Current delivery slot is defined as 3 (working) days early, 0 days late. Detailed supply rules and measurement methods can be requested via VELUX Procurement department.

VELUX can provide delivery forecast to our suppliers. The supplier should use this forecast proactively to ensure on-time delivery and mitigate any associated risks. The planned delivery lead times are to be aligned between the supplier and VELUX facility.

VELUX purchasing orders are channelled by agreed purchasing platforms (ARIBA Supply Chain Collaboration, EDI, manual inbound flow) with agreed planned delivery lead time. Supplier is obliged to confirm the purchase order through the purchasing platform within the agreed timeframe per the General Terms and Conditions.

If circumstances indicate that a supplier may miss their allocated delivery slot or quantity of product to be delivered, it is incumbent on the supplier to inform VELUX immediately and agree a recovery plan. Suppliers are to notify the Logistics

Manufacturing function at the receiving VELUX facility as well as Logistics Inbound function at the global locations where VELUX is in charge of inbound transportation contracts.

Non-compliance of delivery on-time and in full may have contractual implications, if described in a Performance Agreement.

Where VELUX defines packaging and labelling requirements the supplier is obliged to follow them. The packaging dimension consistency is critical for automated warehouse operations and VELUX facilities. In all other cases the supplier must ensure satisfactory protection against damage, contamination, and corrosion during shipment. Suppliers are encouraged to consider using returnable or recyclable containers where possible, and to provide internal separation/lining, if necessary, to maintain cleanliness, integrity, and appearance requirements.

VELUX owned returnable packaging that is lost, damaged, or otherwise unsuitable for use shall be reported to the Logistic organization of the VELUX location which provides the returnable packaging.

The supplier shall establish and maintain processes for identifying the product by suitable means from receipt and during all stages of production, delivery and installation.

VELUX use INCOTERMS rules. The supplier should use optimum freight costs (where it is their contractual responsibility) to ensure proper logistic service as well as comply with VELUX preferred and approved incoterms which are: EXW, FCA, FOB, DAP, DDP.

In order to avoid premium freight charges, suppliers are required to utilize logistics service providers VELUX as approved. The appropriate VELUX personnel must authorize all proposed shipping deviations and/or changes. When extra charges or costs, which exceed the norm, occur (e.g. existing cartage contracts) the supplier shall track and keep good record of such premium "freight costs". These may be resultant of such events as poor scheduling, quality, or production inefficiencies. The need for premium freight could be caused by the customer, VELUX or the supplier. If the premium charge has occurred due to urgent delivery, as the result of supplier non-complying with the expected delivery time (accepted by supplier), supplier has the financial responsibility for the extra cost.



VELUX Supplier Decarbonization Policy

We expect that our suppliers:

- **Set reduction targets** for decarbonization. Targets should address supplier's scope 1, 2 & 3 greenhouse gas emissions and as a minimum meet an annual 4,2% reduction.
- Have a clear pathway to base near **100% of electricity consumption on renewable sources** by 2030 and meet 50% renewable electricity by 2027.
- Make **low carbon products, services and activities** available for VELUX and can present a **verified carbon footprint** for those.
- **Publicly disclose** reduction targets and greenhouse gas emissions and make the data available for VELUX.

Setting reduction targets

VELUX has set an ambitious decarbonization target addressing our value chain. We expect our suppliers to do the same. Setting an annual 4,2% reduction target is in line with the Paris agreement goals to limit global warming to 1.5° C above pre-industrial levels.

Targets shall address company's scope 1, 2 & 3 emissions. VELUX refer to the Science Based Targets initiative ([SBTi](#)). SBTi offers guidelines and promotes best practices in target setting and monitoring emissions reductions targets.

Near 100% electricity based on renewable sources

When making claims on electricity based on renewable sources, we expect that our suppliers follow best practice. VELUX refers to the [RE 100](#) initiative that offers guiding documents on this topic.

Energy efficiency implementation, own generated renewable electricity, equity share of renewable assets, and Power Purchase Agreements are considered valid ways to increase renewable electricity. Purchase of renewable electricity certificates should be carefully evaluated against best practice for such claims.

Low carbon products, services & activities

The VELUX path towards reduction of our value chain emissions depends upon product availability in the market. VELUX expects our suppliers to work towards continuous reduction of the carbon footprint of their products, services and activities and to offer low carbon alternatives to VELUX.

The calculation of the carbon footprint shall follow best practice and include transparent documentation as laid out in VELUX Guidance on carbon footprint reporting. [link to be added]

Publicly disclosing targets and emissions

VELUX expects suppliers to disclose their reduction target as well as their overall greenhouse gas emissions, in line with the [EU Corporate Sustainability Reporting Directive](#). For the calculation of greenhouse gas emissions VELUX refers to the [Greenhouse Gas Protocol](#) and their guiding methodologies.

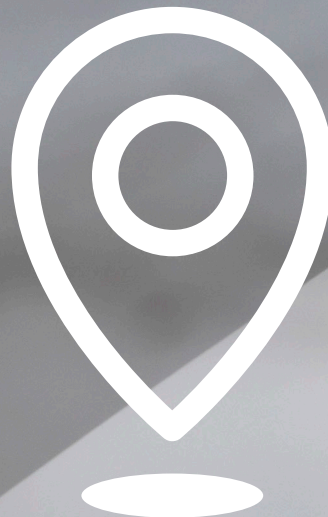
When making emission data available for VELUX we have preference on three ways:

- Product carbon footprint (cradle to gate) following the product over its life cycle stages
- Environmental Product Declaration (EPD)
- Supplier's organizational carbon footprint with emissions allocated to VELUX. VELUX refers to the Carbon Disclosure Project as an acceptable option. Other similar options may be accepted.

The VELUX Guidance on carbon footprint reporting includes further details.

On-Site Contractor Services

All contractors working in or on VELUX premises are responsible for themselves, their employees and any sub-contractors employed by them. Each individual facility will provide requirements before you begin work on site.



Cost Efficiencies and Risk Management



Cost Efficiencies

Suppliers are requested to cooperate with respect to continuously finding efficiencies in the total manufacturing costs of VELUX. VELUX expects the continual optimisation and

development of the Goods to be provided. Suppliers are expected to regularly prepare and deliver to VELUX proposals on cost efficiencies based on “best practices experiences”.

VELUX may request that the supplier contributes to and actively supports VELUX in its aims of conducting a continuous improvement of its sourcing and manufacturing processes.

Areas of focus can include but are not limited to

| | |
|---------------------------------|---|
| Payment Terms | Material Content/Utilization |
| Year-over-year Price Reductions | Scrap Reduction |
| Consignment Inventory Programs | Inventory/Lead Time Reduction |
| Negotiated Supply Agreements | Complexity Reduction/Part consolidation |
| Design Simplification | Improved Sub-supplier Sourcing |
| Process Improvement | Optimization of Manufacturing Location |
| Alternative Materials | Market Competition |
| New Technologies | Freight/FOB Changes |
| Packaging | Multiple Sourcing |
| Product Weight Reduction | VELUX/Supplier Business Practices |

Risk Management

Where requested by VELUX, supplier shall actively contribute to risk management by establishing, maintaining and reviewing processes and procedures with respect to the identification of any threat or risks to the delivery of goods, how these threats and risks may be mitigated and how

the delivery of goods may be maintained in the event of any such identified threats or risks materialising.

The supplier is requested, based on an ongoing risk assessment, to proactively advise VELUX on initiatives which may reduce any

known risks. Such input shall be supplied without undue delay, and the supplier shall, in writing, provide to VELUX the results of, and any recommendations in relation to, those risk assessments (Review sourcing agreement)

Cyber Security



We strongly recommend a robust cyber security program that will ensure continued operations at the suppliers' location and at VELUX. By implementing cyber security practices throughout the organization, suppliers can safeguard their information and data.

Suppliers are expected to have the following minimum documented information:

- Cyber security practices and policies
- Disaster recovery plan
- Contingency plan
- Critical information back-up plan
- Antivirus and antispyware
- A plan to keep their PCs and computer systems updated and patched
- Education of employees about cyber threats and how to protect the organizations data

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