

Notice to Suppliers



Cost of Non-Quality Charges

Originator: Chris Speake/Charles Ryle
Job Title: Head of Supplier Quality / SSQM
Business Unit: Civil and Defence Aerospace

NTS Number: 592
Issue: 1
Date: 14 December 2023

For the attention of the Managing Director and Quality Manager / Director

Dear Sir or Madam,

Scope/Applicability:

Civil Aerospace and Defence managed suppliers

Introduction:

Rolls-Royce enters into an agreement with a supplier for the purchase and supply of products/services on the premise that such products/services will fully conform to all the applicable quality and warranty requirements stated in the applicable agreement.

Without prejudice to Rolls-Royce's other rights and remedies (whether in contract or at law), for every occurrence of the following quality issues listed in this NTS (under the heading of Policy), Rolls-Royce will exercise its contractual right to charge the supplier a CONQ charge in the amounts stated in the below table (as adjusted in accordance with this NTS to the year in which the applicable quality issue occurs). Rolls-Royce may deduct such adjusted CONQ charge from any payments due to the Supplier to compensate Rolls-Royce only for its internal administration costs arising directly from such quality issue.

Further to NTS532 and in order to provide a mechanism to adjust our CONQ charges in line with business costs, going forward the CONQ charges will be annually adjusted on a compounding basis in line with the "Engineering & Allied Industries Index: Non Seasonally Adjusted Regular Pay Including Arrears", as found in this link:

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/timeseries/k5ae/emp>.

The adjusted CONQ charge for 2024 has been calculated using the end of July 2022 (183.2) to the end of July 2023 (198.8) indices (an 8.5% increase) and adding the percentage increase to the existing CONQ charge for 2023. This will be applied to all concessions and delivered non-conformance issues raised or occurring in 2024. In each subsequent calendar year, (with effect from 1 January of that year) the CONQ charges will be automatically adjusted from the previous year's adjusted rate (a) without the issuing of an NTS; and (b) in line with the changes in the above index over the previous July to July time period. For these purposes, 'the previous July to July time period' means the 12 month period ending on 31 July of the calendar year immediately preceding the calendar year in respect of which the adjustment is to be made.

Policy

CONQ Charges

From 1st January 2024 the supplier CONQ charges are shown below being +8.5% on existing charges for 2023.

Description	Existing Charges (USD) 2023	New Charges (USD) 2024
Concession	\$2600	\$2821
Non-conformance identified at receipt inspection/assembly or test	\$4800	\$5208
Non-conformance identified at customer/operator level	\$8500	\$9222

Action Required:

All recipients of this NTS to ensure that these changes have been communicated to all pertinent members of your organisation.

NTS Category:

SABRe

Authorised by:

Uzam Khan - Supplier Quality Executive

James Partington - Chief Procurement Officer Civil Aerospace Operations

Tracey Lockhart - Head of Quality, Defence