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1. Summary

The Volvo Cars Tax Policy sets out the standards for how Volvo Cars should act in tax matters and ensuring compliance with applicable tax laws and regulations.

2. Purpose

The Volvo Cars Tax Policy consists basically of setting out the standards for how Volvo Cars should act in tax matters and ensuring compliance with applicable tax laws and regulations and seeking to establish an appropriate coordination of the tax policy followed by the Volvo Cars entities, all within the framework of fulfilling the corporate interest and support for the long-term business strategy, avoiding tax risks and inefficiencies in the implementation of business decisions. Pursuing a competitive tax level in a responsible way.

To that end, Volvo Cars takes into account all legitimate interests, including public interests, which converge in its business. In this connection, the taxes that the Group pays in the countries and territories in which it does business are its main contribution to the funding of public purpose needs and, accordingly, one of its contributions to society.

3. Concerned

All Units at Volvo Car Group.

4. Directive

4.1 Principles – how we manage our tax affairs

4.1.1 Volvo Car Group

Volvo Car AB (publ.), with its registered office in Gothenburg, is 97,8 per cent owned by Geely Sweden Holdings AB, owned by Shanghai Geely Zhaoyuan International Investment Co., Ltd., registered in Shanghai, China, with ultimate majority ownership held by Zhejiang Geely Holding Group Ltd., registered in Hangzhou, China. Volvo Car AB (publ.) holds shares in its subsidiary Volvo Car Corporation and provides the Group with certain financing solutions and other services. Volvo Car AB (publ.) indirectly, through Volvo Car Corporation and its subsidiaries, operates in the automotive industry. In excess of engaging in development, manufacturing, marketing and sales of cars, the company also offers subscriptions of cars and other related mobility services for transport of people and goods. Volvo Car Group and its global operations are referred to as “Volvo Cars” or “Volvo Car Group”.

Volvo Cars applies International Financial Reporting Standards (IFRS) as adopted by the EU.

4.1.2 Code of conduct

The Volvo Cars Code of Conduct, which is based on existing corporate policies, is our way of ensuring that we conduct business in an ethical and compliant way. The Code applies to everyone within Volvo Cars, as well as consultants and agency personnel working under the direction of Volvo Cars. The Code is also valid for the Volvo Car Group, our Chinese joint-venture companies and certain Geely-owned legal entities in China being operated by Volvo Car Group. As outlined in The Code, Volvo Cars is complying with all relevant laws, regulations and standards in all of the countries in which we operate. All employees are trained upon The Code and required to be aware of, and conduct their activities in accordance with the Code and all supporting policies, directives and guidelines.

The Code also involves compliance to tax laws whereas Volvo Cars shall be tax compliant. All taxes and charges are to be paid according to local laws and regulations in the countries where Volvo Cars operates. The overall aim of this tax policy is to reflect and support our business by ensuring a sustainable tax rate, dealing with tax matters in a timely and cost efficient way and complying with rules and regulations in the jurisdictions in which Volvo Cars operates.

4.1.3 Tax Principles

As a good corporate citizen, Volvo Cars sees tax as an important part of its social responsibility and applies ethical and transparent business practices. Volvo Cars complies with the OECD Transfer Pricing guidelines.

Volvo Cars is present in many countries and by its presence contributes to society through various taxes and charges such as corporate tax, duties, payroll taxes and also indirectly through VAT levied on cars and parts sold to customers.

Compliance by the Group with its tax obligations and its relations with tax authorities shall be governed by the following principles:

a) Compliance with tax rules in the various countries and territories in which the Group operates, submitting all returns by their due dates in line with local tax rules, paying all taxes due in accordance with the legal system.

b) Ensuring that taxes bear an appropriate relationship to the structure and location of activities, human and material resources, and the Group's business opportunities.

c) The strengthening of the relationship with tax authorities based on open and honest dialogue.

d) Information is to be provided annually (or more frequently if required) to the Board of Directors on ongoing tax matters and on the main tax implications of the transactions or matters submitted to it for approval, when they are a significant factor in making a decision.

4.1.4 Volvo Cars Transfer Pricing

Countries, where Volvo Cars activities are performed, may, through adjustments on the transfer pricing, seek to increase its share of allocated profits and attributable taxes. Such a reallocation correspondingly entails a decrease for the country in which the opposite party of the transaction is located. Consequently, the general underlying aim for Volvo Cars' transfer pricing method as outlined in the Volvo Cars Transfer Pricing Policy is that profits should be taxed where the value is created in accordance with the internationally accepted OECD guidelines on transfer pricing.

Volvo Car Corporation (located in Gothenburg, Sweden) is the entity containing Volvo Car Group's head office. Volvo Car Corporation is responsible for product strategy and vehicle line management, research and development, design, marketing and administration.

The manufacturing strategies are outlined by Volvo Car Corporation and Volvo Cars produces Volvo vehicles in Sweden, Belgium, China, Malaysia and in the US.

Volvo Cars has distribution activities in more than 100 countries through about 2,300 dealers (most of the dealerships are independent companies). The group has National Sales companies in 35 markets, i.e. group companies. On other markets, Volvo products are sold via independent importers.

Volvo Cars' transfer pricing model is in line with the OECD Transfer Pricing Guidelines. Volvo Cars also follows the local regulations of the country in which the relevant subsidiary is located when determining the prices of its inter-company transactions. Volvo Cars conducts its inter-company transactions at arm's length to ensure that parties to the intra-group transactions are appropriately remunerated, that the transfer pricing methods are consistently applied, and has implemented transfer pricing documentation to verify and support the transfer pricing methods applied.

Volvo Cars Transfer Pricing Policy is one of Volvo Cars' mandatory steering documents and valid for all entities within Volvo Car Group.

4.1.5 Tax Governance

The Board of Directors of Volvo Cars in the exercise of its duties, approves this Tax Policy. The policy shall be reviewed annually and it is the responsibility of the Head of Tax to ensure such review and applicable updates are performed.

4.1.5.1 Delegation of Authorities (DoA)

The delegation of authority from the Volvo Cars Board to the Volvo Cars CEO is established and adopted by the Volvo Cars Board in the Volvo Car Group Business Governance as outlined in clause 1.3 of the DoA. In addition, this DoA clarifies such delegation from Volvo Cars Board and sets out the further delegation of authority from the CEO to the EMT members and the Performance Owners down to the direct reports and where relevant further delegations (to specifically outlined authority levels). Tax matters are delegated from the CEO to the CFO and are the responsibility of Head of Tax (heading the Group Tax team). Approvals and concurrence for tax matters are required by CEO, CFO, Head of Accounting and Tax, Head of Tax and Group Tax as outlined in the DoA.

4.1.5.2 Tax Roles and Responsibility

The ultimate responsibility for tax matters is as outlined above. Since most company transactions have a tax implication, it is the responsibility of all employees to act in accordance with this Tax Policy. Volvo Cars global Finance and Tax team actively ensures that objectives are being met and that compliance with national and international standards is ensured. The Group Tax team also provides guidelines and systematically informs decision makers about changes to the current system (roles and responsibilities outlined in BMS).

4.1.5.3 Monitoring and Control

Volvo Cars shall adopt the control mechanisms necessary to ensure compliance with tax laws and regulations and with the principles set forth above by all the companies of the Group, as part of an appropriate business management (outlined in the Instruction for Tax Efficiency and Control System in BMS).

It shall also use proper and sufficiently qualified human and material resources for such purposes. In order to achieve Volvo Cars' short and long-term objectives, according to the business plan, Enterprise Risk Management (ERM) is part of the daily activities at Volvo Cars. The ERM process serves to identify the risk situation and mitigating actions, which are summarized in the risks matrix report prepared for the Board of Director and the Audit Committee. Tax matters are included in the Enterprise Risk Management process.

In addition, in the case of transactions or matters that must be submitted to the Board of Directors for approval, it shall report on the tax consequences thereof when they constitute a significant factor.

4.1.6 Tax Risks and external advisors

Volvo Cars' approach is to always maintain an independent position with respect to managing tax matters. Within Volvo Cars, tax exposures and tax risks can arise for numerous reasons. In most cases, this can be handled in-house by Volvo Cars' own tax function but in certain situations, external tax advisors are used.

4.1.7 Volvo Cars Tax Data

As for further information with respect to tax paid and booked, reference is made to the Volvo Car Group Annual report.

5. Definitions

Arm’s length principle: According to the arm’s length principle, companies within a multinational group should act as if they are independent of each other, i.e. “at arm’s length”. The international standard that OECD member countries have agreed should be used for determining transfer prices for tax purposes. It is set out in Article 9 of the OECD Model Tax Convention as follows: where “conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly”.

BMS: Business Management System – the way in which Volvo Cars manage and run the business

CEO: Chief Executive Officer

CFO: Chief Financial Officer

DoA: Delegation of Authorities

EMT: Executive Management Team

ERM: Enterprise Risk Management

IFRS: International Financial Reporting Standards

OECD: Organization for Economic Co-operation and Development whose mission is to promote policies that will improve the economic and social well-being of people around the world. The OECD provides a forum in which governments can work together to share experiences and seek solutions to common problems. The OECD works with governments to understand what drives economic, social and environmental change. The OECD measures productivity and global flows of trade and investment and analyses and compares data to predict future trends. The OECD sets international standards on a wide range of things, from agriculture and tax to the safety of chemicals. OECD works hard in close partnership with organizations such as the International Chamber of Commerce and the UN to ensure that the transfer pricing rules are as fair as possible and that no individual countries attempt to circumvent the guidelines drawn up within the OECD by means of local legislation. OECD Transfer Pricing Guidelines aim to give each country a fair share of a company’s profit under the arm’s length standard as well as protecting companies from double taxation. According to the OECD guidelines, companies within a multinational group should act as if they are independent of each other. The current practice is recognized and accepted by most countries and legislators around the world.

Tax: Governmental charges including corporate income tax, withholding tax, value added tax, excise duties, sales tax, use tax, real estate tax, social security charges etc.

VAT: Value Added Tax

This Tax Policy was approved by Volvo Cars Board of Directors on 16 of March 2017

Reference to documents in BMS
Tax Directive (docV:0421153308MAG)