

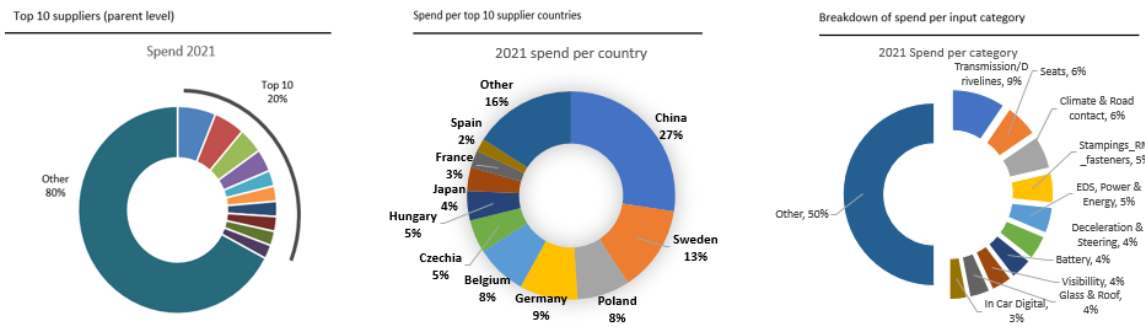
# Supply Chain Sustainability Management

## Supplier management and key facts

Volvo Cars has approximately 900 suppliers delivering production materials and 7400 suppliers delivering indirect products and services.

Volvo Cars' cooperation with our suppliers is vital not only in terms of business continuity and effectiveness but also in managing sustainability. Their environmental and social responsibility footprint is highly important to us. The foundation of Volvo Cars Procurement operations strategy is to incorporate and adapt sustainability activities into Procurement's day-to-day processes and tools. The Global Head of Procurement is responsible for supporting and managing sustainability related to the supply chain.

Volvo Cars has a diversified and global supply chain.



## Sustainability risk awareness

Volvo Cars relies on a global network of suppliers for sourcing raw materials, parts and components used to manufacture our cars. Suppliers delivering critical components, high spending suppliers, non-substitutable and single sourced suppliers are included in our definition of critical suppliers. Critical non-tier 1 suppliers are defined as Volvo Cars directed tier 2 suppliers on site level.

Volvo Cars is a member of the Responsible Business Alliance (RBA) and we use the RBA Risk Tool to assess potential risks with regards to supply chain sustainability. Risk factors include generic risks such as geographical risks related to labor rights, business ethics, health & safety and the environment, as well as specific commercial risks e.g., spending and supplier dependency. The result from the risk assessment is used to prioritize our due diligence efforts (e.g., identifying suppliers which are to be selected for sustainability audits).

## Ensuring supplier compliance

We conduct sustainability assessments prior to and during business operations on supplier sites as well as at the parent or holding company level. The purpose of the assessments is to verify compliance with our sustainability requirements and identify potential areas for improvement among our suppliers. Here are a few examples of the assessments that we conduct:

- Volvo Cars Sustainability Questionnaire**  
 The Volvo Cars Sustainability Questionnaire (VSQ) is a standardized tool developed by Volvo Cars to evaluate suppliers' overall sustainability performance. The assessment is used prior and during sourcing and determines if a manufacturing site meets Volvo Cars sustainability requirements and identifies areas of improvement.
- Environmental Assessment**  
 The Environmental Assessment (EA) is targeting our existing supplier manufacturing sites with the purpose of tracking their progress towards Volvo Cars' sustainability targets year by year and finding hot spots as well as identifying areas of improvement. The assessment includes questions regarding CO2e emissions, energy efficiency, climate neutral energy and waste management.
- Supplier Evaluation Model**  
 The Supplier Evaluation Model (SEM) supports the selection of new suppliers. The model evaluates potential suppliers from a holistic perspective, covering areas such as working conditions, business ethics and environmental impact. The model can also be used for analyzing current suppliers.

- Sustainability Self-Assessment**  
 New direct material suppliers are required to complete the Self-Assessment Questionnaire (SAQ) on sustainability during the sourcing process. Existing suppliers are required to conduct the SAQ bi-annually. The SAQ has been developed in conjunction with the automotive industry as part of the collaborative initiative Drive Sustainability. The questionnaire covers areas such as business ethics, human rights, environmental management and responsible sourcing. All answers in the SAQ are validated by an external assessor and the suppliers are provided with recommendations on how to improve. Our ambition is that all active supplier sites delivering production materials have submitted a completed SAQ.
- Audits**  
 Volvo Cars takes a risk-based approach to audits:  
  
 All suppliers (suppliers of services with low spend excluded) are annually screened using the RBA risk tool. Suppliers receiving a high-risk score are selected for RBA VAP audit. The audit covers areas such as working conditions and human rights, caring for the environment and business integrity. Our ambition is that all identified suppliers based on the result of the analysis should be covered by a sustainability audit. Also, from 2021, all supplier sites (providing production material) located in high-risk countries (according to RBA risk tool) need to conduct an RBA VAP audit prior to start production to show compliance with our sustainability requirements. Since 2015, Volvo Cars has performed 182 sustainability audits amongst our Tier 1 and directed sub-tier suppliers. As of 2021, Volvo Cars has addressed approximately 94 per cent of the improvement findings identified in the audit programme. We are continuing to work to address the remaining findings in close collaboration with our suppliers.  
  
 In addition, Volvo Cars commission independent audits of suppliers in the battery supply chain as well as at suppliers delivering components containing tin, tungsten, tantalum and gold (3TG). These audits are conducted according to the OECD due diligence guidance.
- Carbon disclosure project**  
 In 2021 Volvo Cars invited a selection of strategic suppliers (89 direct material suppliers and 44 indirect material suppliers) to fill in the CDP questionnaires for Climate Change (from 2020) and Water risk (from 2022). The CDP is a valuable tool to help the suppliers to set targets to reduce their environmental impact. In 2020 107 suppliers were invited and 95 suppliers have submitted an answer (response rate 89%). In 2021 133 suppliers were invited and 124 suppliers submitted an answer (response rate 93%).

### Escalation Process

The Supplier Escalation Process is a procedure used when suppliers deviate from the agreed deliverables part of the agreement and therefore pose a risk for quality, delivery, environmental or social responsibilities. The purpose of the process is to remediate the deviations in an effective manner.

### Sustainability training

All procurement employees are invited to register for sustainability training on the RBA e-learning platform. In addition, several internal digital trainings in the area of sustainability are made available for all Procurement professionals via an internal tool. Sustainability is also part of the onboarding training for new employees at Procurement.

We offer sustainability training for our suppliers through Drive Sustainability, which we are partners in, and the RBA e-learning platform.