

# Supply Chain Sustainability Management

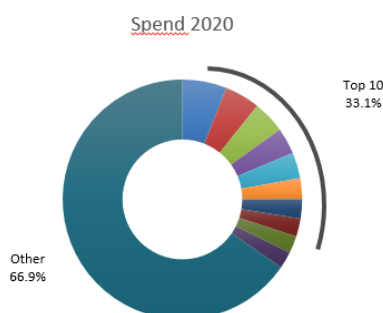
## Supplier management and key facts

Volvo Cars has approximately 974 suppliers delivering production materials and roughly 7650 suppliers delivering indirect products and services.

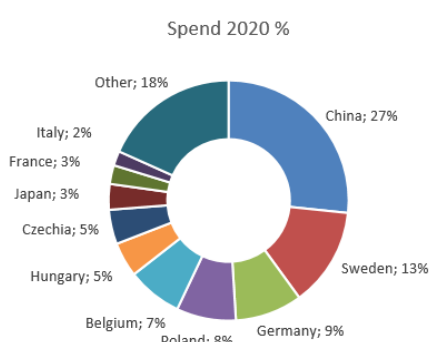
Volvo Cars' cooperation with our suppliers is vital not only in terms of business continuity and effectiveness but also in managing sustainability. The majority of the components used in our vehicles are manufactured by suppliers, therefore their environmental and social responsibility footprint is very important to Volvo Cars. 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 Senior Vice President Procurement is responsible for supporting and managing environmental and social responsibility related to the supply chain.

Volvo Cars has a diversified and global supply chain.

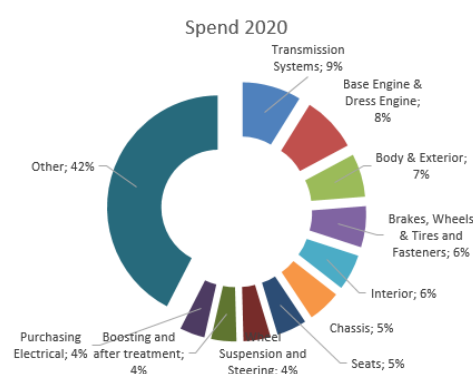
Top 10 suppliers (parent level)



Spend per top 10 supplier countries



Breakdown of spend per input category



## Sustainability risk awareness

Volvo Cars relies on a global network of suppliers for sourcing raw materials, parts and components used in the manufacture of our cars. Suppliers delivering critical components, high spend 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 Model to assess inherent/potential risks with regards to supply chain sustainability. Risk factors include generic risks such as country risks and geographical risks related to labour rights, business ethics, health & safety and the environment, as well as specific commercial risks such as spend and supplier dependency. The result is used to prioritize efforts and activities like supplier trainings and audits to help ensure supply chain sustainability.

## Ensuring supplier compliance

To ensure that business is executed in a responsible way across the supply chain, different sustainability activities are used to identify, indicate and verify social and environmental compliance on supplier parent and site level. The work is proactive with a coaching approach to encourage continuous improvements, not policing.

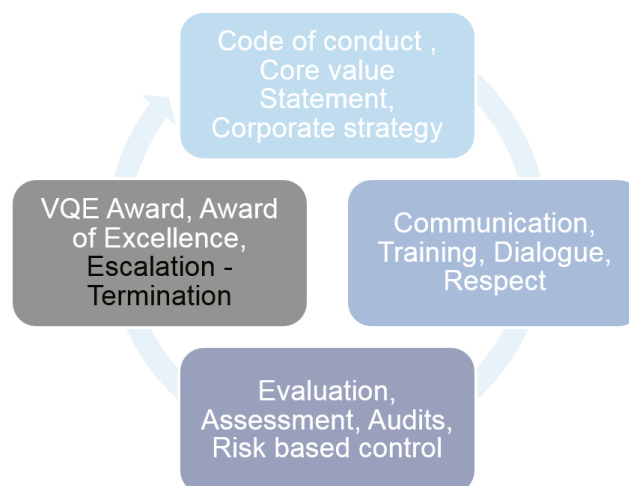
- SEMAT – Supplier Evaluation and Manufacturing Assessment Tool**  
 The SEMAT is a standardized tool used and developed by Volvo Cars to evaluate suppliers overall manufacturing capability. It is used prior and during sourcing to select supplier and evaluates whether the supplier is performing up to customer expectations on Quality and Delivery. The assessment determines if a manufacturing site satisfies Volvo Cars Quality of Excellence (VQE) requirements, which also includes sustainability, and will identify any opportunity for improvement. Later on, the SEMAT will verify that systems and processes continue to operate at the same high level as when the supplier achieved Sourcing / Award status.
- Supplier Evaluation Model on new suppliers**  
 Volvo Cars has a global Supplier Evaluation Model (SEM) that 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**  
 The Sustainability Self-Assessment Questionnaire (SAQ) is used to assess and evaluate suppliers' sustainability performance and compliance to Volvo Cars Sustainability requirements set out in our Purchasing Agreement. The SAQ is exercised by suppliers upon request and cover areas such as social sustainability (working conditions and human rights), environmental sustainability, business ethics and supplier management. As part of the SAQ, supplier's improvement areas are identified in order to take action and comply. This includes cooperation with suppliers to strengthen their performance within prioritized areas in order to comply with Volvo Cars' requirements. Our target is that all active supplier sites delivering production materials shall have completed a SAQ by 2020. During 2020, 663 supplier sites submitted a completed SAQ with Volvo Cars. (2017:160, 2018: 587, 2019: 754) So far, at the end of 2020, we have reached 89.0 per cent completed SAQs. All active sites have been invited to complete the SAQ which is line with our ambition to achieve the target.
- Sustainability Audit**  
 Volvo Cars' Supplier Sustainability Audit is based on Volvo Cars' Code of Conduct for Business Partners, which is part of our contractual agreement with suppliers. The audit covers areas such as working conditions and human rights, caring for the environment and business integrity. It also includes health and safety, risk management and emergency preparedness as well as legal compliance. We perform an annual risk-based analysis of our suppliers and select suppliers for monitoring activities. As of 2019, we use the Responsible Business Alliance (RBA) Risk Model as basis for our analysis. Our target is that all identified suppliers based on the result of the analysis should be covered by a sustainability audit by 2022. During 2020, we conducted 25 supplier audits based on risk or for other commercial reasons. As a result, at the end of 2020 we cover 76 % of suppliers identified in the RBA Risk Model (2017: 6 %\*, 2018: 21 %\*, 2019: 87%)\*<sup>1</sup> If non-conformities are identified during the audits, Volvo Cars will work with concerned suppliers to improve and verify implemented corrective actions.
- 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.

### Supply chain management training

All procurement employees are annually invited to face-to-face Sustainability training.

### Activities for ensuring supplier's compliance



<sup>1</sup> \* The indicator is based on different risk scoring methods