

V O L V O

VOLVO CARS
GREEN FINANCING FRAMEWORK

MAY 2023



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Volvo Cars

Volvo Car AB and its consolidated subsidiaries (“Volvo Cars,” “the Group” or “the Company”) is a truly global organisation with Scandinavian roots. Founded in 1927, it is today, one of the most well-known premium car brands in the world with sales of over 600,000 cars in 2022 in over 100 countries. Volvo Cars has been a listed company on the Nasdaq Stockholm stock exchange since 2021, with approximately 180,000 share-owners with Geely Sweden Holdings AB as the main owner.

In 2022, Volvo Cars employed on average approximately 43,000 full-time employees. Volvo Cars’ Global Headquarters, research and development, marketing and administration functions are mainly located in Gothenburg, Sweden. The company’s main car production plants are located in Gothenburg (Sweden), Ghent (Belgium), South Carolina (US), Chengdu, Daqing and Taizhou (China), while body components are manufactured in Olofström (Sweden) and E-motors in Skövde (Sweden).

Our group comprises of Volvo Cars including the car subscription and sharing businesses Care by Volvo and Volvo On Demand.

Our non-consolidated, independent corporate portfolio companies, strategic affiliate Polestar, and joint ventures Lynk & Co and NOVO Energy, enable us to deliver on our strategy. Further we have Zenseact and HaleyTek that, although being consolidated group companies, operate more independently to ensure a focused approach to their technology areas respectively, still in close collaboration with Volvo Cars. Through collaboration between the different brands, greater competitiveness and/or synergies are created within the areas of electrification, mass market sales and ADAS/AD software technology.

**OUR BUSINESS IS GUIDED
BY OUR PURPOSE:**

“For Life. To give people freedom to move in a personal, sustainable and safe way”.

Central to our business and key to our future success

At Volvo Cars, sustainability is as important as safety. We aim to pioneer in protecting people and the planet by working towards climate neutrality, embracing the circular economy, and conducting business responsibly. We believe doing this, in partnership with others, ensures we help address global sustainable development challenges and support our profitable growth. Sustainability is central to our business and, quite simply, key to our future success. It will attract customers, employees, and investors, and help drive our profitability. In partnership with our stake-

holders, we can increase the impact of our efforts to make a global difference and promote sustainable development in line with the UN Sustainable Development Goals (SDGs).

We aim to apply the highest standard of sustainability in mobility and have set ambitious sustainability ambitions.

Through our sustainability strategy that is an integrated part of our corporate strategy, we focus on three areas: Climate Action, Circular Economy and Ethical and Responsible Business.



CLIMATE ACTION

Become climate neutral by 2040



CIRCULAR ECONOMY

Become a circular business



ETHICAL AND RESPONSIBLE BUSINESS

Become a recognised leader in ethical and responsible business

Climate Action

With one fifth of all greenhouse gas (GHG) emissions in Europe resulting from the transport of people and goods on streets and roads, the automotive industry’s contribution to climate change mitigation is key.

We are taking action to reduce GHG emissions throughout our value chain, with the ambition to be aligned with the 1.5°C pathway and the goals of the Paris Agreement. It is our ambition to become a climate neutral company by 2040, while meeting ambitious interim targets by 2025 and 2030.

Volvo Cars has already started its decarbonation trajectory by following its ambitious climate plan for 2018-2025, which seeks to reduce the total carbon footprint by 40% on an average vehicle between 2018 and 2025.

Our 2030 climate action ambitions are in line with the 1.5°C pathway as verified by the Science-Based Targets initiative (SBTi).

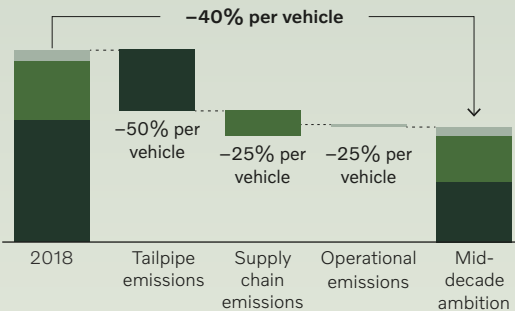
Regarding Scope 1 and 2 GHG emissions, the Volvo Car Group aims to accomplish a 60% reduction in absolute by 2030 from a 2019 base year, in line with a 1.5°C scenario. On Scope 3 emissions, the Volvo Car Group ambition is to reduce GHG emissions from use of sold products by 52% per vehicle kilometer by 2030 from a 2019 base year, in line with a well-below 2°C scenario.

We intend to halve tailpipe emissions by ensuring that 50% of our global sales are from fully electric vehicles by mid-decade, through continuing the ongoing electrification of our full product offering and launching new electric models. Since 2019, every new Volvo car launched has been electrified and the Group is publicly disclosing the average life-cycle assessment (LCA) carbon footprint of each new fully electric model.



We plan to achieve this through the following carbon reductions (per vehicle) across our value chain:

CO₂ REDUCTION AMBITIONS (TONNES CO₂ PER VEHICLE)



KEY DRIVERS

- TAILPIPE EMISSIONS**
 - All-electric vehicles to account for 50 per cent of sold vehicles by 2025
- SUPPLY CHAIN EMISSIONS**
 - 100 per cent climate neutral energy at Tier 1 supplier sites
 - Increasing use of recycled and fossil-free materials
 - Efficient battery supply and production
- OPERATIONAL EMISSIONS**
 - Climate neutral manufacturing and non-manufacturing operations by 2025
 - More rail and less air freight in logistical operations



We currently have three fully electric cars in our product range, with a fourth to be launched during 2023, and aim to only manufacture all-electric vehicles by 2030. This is 10 years ahead of the science-based target for our industry, as set out in the Glasgow Declaration on Zero Emission Vehicles launched at COP26. In addition, our electrification ambition for 2030 is supporting our effort to align with the EU Taxonomy technical screening criteria¹ for substantial contribution to climate change mitigation of 0 g CO₂ per km.



Volvo Cars confirmed its corporate ambitions of facilitating and increasing the pace of the transition to zero emission mobility by joining the Accelerating to Zero Coalition at the COP27 event in the end of 2022, which is a platform committed to driving the adoption of zero tailpipe-emission mobility.

In 2022, Volvo Cars became the first traditional carmaker to fully exit the development and manufacturing of internal combustion engines (ICE) in order to focus our investments and capital allocation on developing high performance fully electric powertrains.

In line with this decision, we announced plans to set up one of Europe's largest battery cell plants in a joint venture company with Northvolt named NOVO Energy, positioning us as one of the few automotive brands to

deeply integrate battery development and production into its end-to-end engineering capabilities.

As we reduce our tailpipe emissions, our supply chain will become an even greater source of our overall emissions. Most supply chain emissions from our electric cars are caused by aluminium, steel, and lithium-ion batteries. We are seeking to limit these emissions by increasing our use of recycled materials (as described in the section below) and by increasing the use of climate-neutral energy among our suppliers. To support and incentivise the transition of our supply chain towards using 100% climate-neutral energy by 2025, Volvo Cars has recently launched a sustainability-linked supply-chain financing program targeting suppliers committed to the climate-neutral energy target. The terms of the program are linked to the assessment and commitment of the supplier in order to incentivise transition, which we believe in turn will create an upstream positive environmental influence for Volvo Cars. In 2022, 14% of our supplier sites have reported that they had 100% climate-neutral energy at their manufacturing sites during 2021.

In 2022, Volvo Cars became the first carmaker to join the SteelZero initiative, which was launched by the Climate Group, in partnership with Responsible Steel, of which Volvo Cars is a member. Through Responsible

Steel, Volvo Cars gains access to reliable, third-party verified and audited information about its steel supply chain and relevant sustainability credentials. Volvo Cars is also exploring the use of near-zero emission automotive-grade steel to become the first carmaker to use this steel in our own production.

Finally, to attain its CO₂ reduction ambition, Volvo Cars intends to reach climate neutrality in its operations (manufacturing and non-manufacturing) by 2025. As of 2022, our manufacturing facilities are run on 66% climate neutral energy (including 94% climate neutral electricity) and we seek to continuously increase the use of zero-emission production equipment. We also work to reduce non-manufacturing emissions from our offices and business travel, as well as from our logistical operations, including through greater use of rail and less use of air freight.

Volvo Cars does not buy or accept any type of carbon offsetting to reach its 2025 ambitions. We accept the fact that to achieve climate neutrality by 2040 some credible carbon

offsetting solutions will be needed. In the meantime, we strive to reduce our carbon footprint as far as possible without using carbon offsets.

To ensure we are on course towards our ambition to becoming a climate neutral company by 2040, we have increased our efforts to improve CO₂ performance by factoring CO₂ emissions into all major decisions. Updating key processes and improving our digital tools for collecting CO₂ data provide us with solid capabilities to monitor and steer us towards our climate action ambitions. Having CO₂ data available in key processes, digital tools in place, and CO₂ integrated in incentive models, is fundamental for implementing our internal carbon price of 1,000 SEK for every tonne of CO₂ emissions. This internal carbon price, introduced in 2021, intends to future-proof decisions by helping us identify cost-efficient CO₂ reduction measures.

A summary table of Volvo Cars' emissions reduction ambitions from Annual Report 2022 is found below.

Climate action KPIs (%)	Mid-Decade Ambitions	2030 Ambitions	2022	2021	2020	2019
CO ₂ emission reduction per vehicle ^{1,2,3)} (baseline 2018)	-40	—	-14.8	-9.5	-6.0	-1.1
Tailpipe CO ₂ emission reduction per vehicle (baseline 2018)	-50	-100	-31.5	-21.6	-12.6	-3.1
Supply chain CO ₂ emission reduction per vehicle (baseline 2018)	-25	—	19.9	16.8	7.7	3.2
Operations CO ₂ emission reduction per vehicle (baseline 2018)	-25	—	0.0	0.0	0.0	0.0
Fully electric vehicles (BEVs) sold	50	100	10.9	3.7	0.7	—
Energy usage reduction per vehicle in manufacturing operations ^{5,11,21)} (Baseline 2018)	-30	—	-13	-7	-12	-7
Climate neutral energy in manufacturing operations ^{11,21)}	100	100	66	62	53	50
Climate neutral energy at T1 suppliers ⁹⁾	100	100	19.0	8.5	6.0	—
Share of Tier 1 suppliers having signed a commitment to reach 100% climate neutral energy by 2025	100	100	12.0	—	—	—

For further definitions and reporting principles, see pages 194–196 in the Annual and sustainability report.

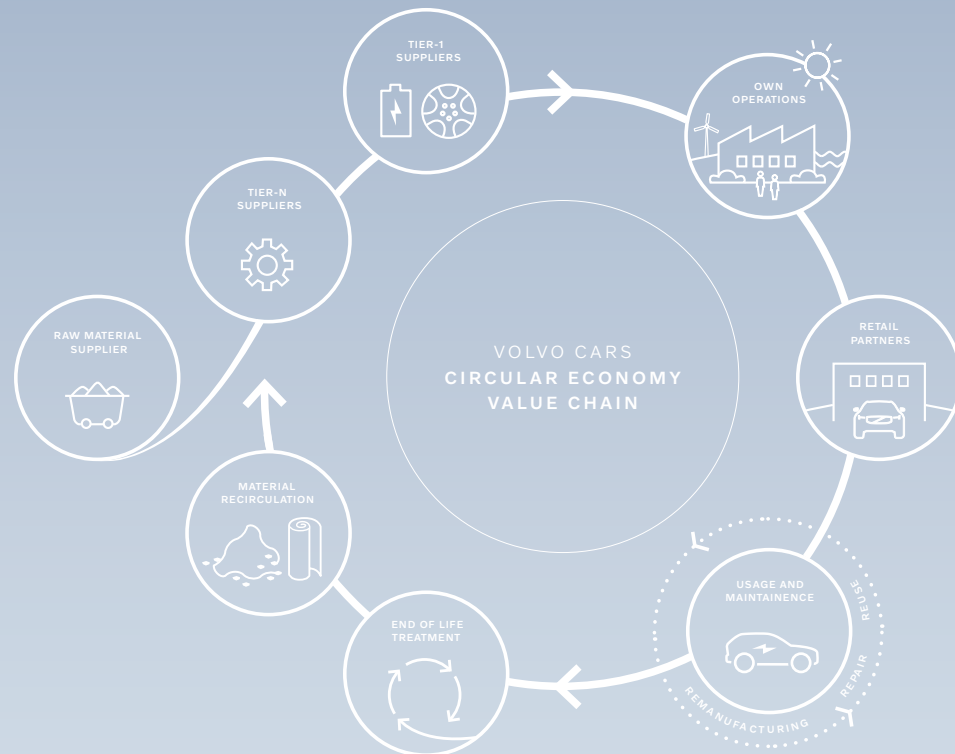
1) Refers to EUR-Lex - 32021R2139 - EN - EUR-Lex (europa.eu), 'Commission Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives' (<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R2139&from=FR>). This Regulation will be referenced throughout the Framework using 'EU Taxonomy,' or similar.

Circular Economy

We recognise the benefits of the circular economy in keeping our products and components in use for longer while minimising the need to extract finite resources and eliminating wastage and helping reduce our overall carbon emissions. We also acknowledge that the circular economy can help generate substantial savings, as well as create new revenue streams, including through greater material efficiency and component value retention. We need to move away from the linear economic model and apply circular economic principles in order to meet our climate ambitions,

secure future availability of materials, as well as ensure efficient raw material usage and waste management practices. We regard decoupling resource use from business growth as the ultimate ambition of a circular business.

Therefore, Volvo Cars is further integrating circularity into its operations, with the overriding ambition to become a circular business. We already started our transition with the aim to generate annual CO₂ savings of 2,500 kilo tonnes and 1 billion SEK of cost savings by 2025 through our adoption of circular economic principles.



This transition requires us to:

① Significantly increase the share of sustainable recycled and bio-based materials in our cars. The Group has set itself the following ambitions for increasing the use of secondary raw materials:

Ambitions for 2025



25%

**RECYCLED OR
BIO-BASED PLASTICS**

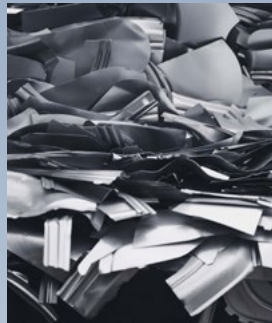
We have made significant progress in reaching our ambition to use at least 25% recycled plastics and bio-based materials in our new models from 2025. The Volvo EX90 will contain around 15% recycled plastics and bio-based materials – the highest level of any Volvo car as of the date of this Framework.



40%

**RECYCLED
ALUMINIUM**

To make a positive impact on our carbon and biodiversity footprint, we aim to use 40% recycled aluminium in our new models, from 2025.



25%

**RECYCLED
STEEL**

Iron and steel account for the largest percentage of material content in our vehicles. To mitigate the environmental impact of our future models, we are securing supplies of recycled and low-emission steel. Our aim is to use 25% recycled steel in our new models by 2025.

② Use less resources by improving efficiency, making materials circular, and circulating them at maximum value. We design our vehicles to be durable and extend the lifecycle through service and repair. All Volvo Cars' products fulfil the obligations of the European End-of-life Vehicles Directive; at least 85 percent (by weight) of a vehicle can be reused or recycled into new materials and 95 percent can be recovered. Recovery includes both material recycling and energy recovery from recycled materials. These targets apply to all propulsion types (ICE vehicles, BEVs and all variants in between).

Batteries, electronics, and mechanical equipment, such as motors, are great examples of high-value components that must be kept in circulation for as long as possible.

As part of our circular strategy for batteries, we are establishing regional battery centres in the EU, US, and China to maximise battery utilisation, minimise environmental impact and enable circular material flows. We strive to repair batteries that still have the potential to power electric vehicles, reducing the need for replacements. For batteries available to us, batteries that are deemed unsuitable for repair or other applications are recycled in a Volvo Cars-designed process that recovers as much raw material as possible for potential use in the production of new batteries.

③ Eliminate all waste and pollution by designing products and operations for long and high utilisation lifecycles. Volvo Cars' long-term ambition is to eliminate waste across the various stages of our value chain.

Concerning our production process, we sharpened our ambition in 2022 for reducing

waste from 20% to 40% between 2018 and 2025 (standpoint in 2022: 16%). We intend to achieve this by working with open and closed recirculation loops, changes in planning and internal processes, reducing packaging and improved material sorting. Moreover, the majority of our global production waste is recycled – we are therefore keeping valuable material in circulation, that in turn reduces the amount of virgin material needed.

④ Enable growth beyond vehicle sales by offering services and solutions to all Volvo users and products. Our mobility solution, Volvo On Demand, is one example of how new business models can support our circular economy strategy. We believe that car sharing, when expanded more broadly, will play a critical role in reducing the number of cars in urban settings, and increasing the utilisation of fleets, while meeting growing demand for shared ownership. In 2022, an external study of Volvo On Demand in Stockholm showed that one Volvo on Demand car can replace up to 11 privately owned vehicles.

We align with the Do No Significant Harm (DNSH) Criteria related to Circular Economy on the Manufacture of low carbon technologies for transport and Transport by motorbikes, passenger cars and light commercial vehicles categories, as reported by Volvo Cars in 2022.

We are members of the Ellen MacArthur Foundation and use their Circulytics® annual reporting tool.

The results help us to identify areas for improvement and monitor our progress towards becoming a circular business.

Ethical & Responsible Business

We aim to be a recognised leader in Ethical & Responsible Business within our industry. By acting ethically and responsibly on both a corporate and individual level, we believe that this will not only enhance our brand appeal and avoid reputational damage, but, importantly, help address global environmental and social challenges including within our industry. Volvo Cars recognises that acting as a responsible company makes business sense and supports our profitability. We will work in partnership with others and aim to be an industry change-maker. We support the United Nations SDGs, and our internal policies reflect the values of the international norms of behaviour and guidelines outlined below and further detailed in Volvo Cars' website and annual report. Our policies and guidelines support ethical and responsible business behaviour in all levels of the group:

Our Code – How we Act, which we have developed is in line with the following internationally recognised guidelines:

- The Universal Declaration of Human Rights
- UN Convention on the Rights of the Child
- The eight core conventions of the UN's International Labour Organisation (ILO); Child Labour (138 and 182), Forced Labour and Compulsory Labour (29 and 105), Equal Remuneration and Discrimination (100 and 111), and Freedom of Association and Collective Bargaining (87 and 98)
- UN Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises
- OECD Due Diligence Guidance for Responsible Business Conduct

Our Code – How we Act is our company's Code of Conduct (CoC) and our way of doing business, and contains 12 corporate policies that guide all our employees:





One example is the *People Policy*, that ensures that we have health and safety, diversity and inclusion, fair employment conditions, and forbidding discrimination, harassment and bullying at the top of our agenda.

Furthermore, we have *Our Code of Conduct for Business Partner* (CoC BP) which sets forth the requirements that our business partners are expected to follow with regards to working conditions and human rights, care for the environment and business integrity. All our suppliers are obliged to comply with the CoC BP and implement management systems that ensure their employees and sub suppliers adhere to its requirements.

Corporate sustainability practices

Volvo Cars is a founding member of the United Nations Global Compact and we work to generate and implement advanced corporate sustainability practices.

We aim to achieve to be a leader in ethical and responsible business in our industry through:

- **Setting a new global people standard for our industry.** This includes prioritising and protecting the wellbeing and rights of our employees, striving for gender equality, establishing an industry-leading parental offer, and committing to a living wage. Our global Family bond policy expands our commitment to equal parenting roles. We offer all employees, regardless of gender and geographical location, to take up to 24 weeks of parental leave, at 80 per cent of their base salary. We continue to work dedi-

catedly to improve our health and safety performance for our employees with a low injury rate (LTCR)² of 0.07 in 2022. In 2022, we defined our gender equality ambitions for senior leaders and connected it to long-term incentive pay where we are aiming for 34% of our senior leadership positions to be filled by women by 2025 and to increase the proportion to 38% by 2030.

- **Putting sustainability on par with cost and quality in our sourcing decisions.** The sustainability performance of potential and existing suppliers will be as important as quality and cost when assessing their suitability for Volvo Cars. Volvo Car Group's CoC BP states our requirements for suppliers. All our suppliers are obliged to comply with the CoC BP and implement management systems that ensure their employees and sub suppliers adhere to its requirements. We develop and implement procurement practices in line with global standards and require our suppliers to also establish policies, management systems, and due diligence measures to adequately address risks. Volvo Cars recognises a broad set of environmental, social and governance (ESG) risks, including the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas Annex II risks.

2) Injury rate (LTCR) is defined as the number of work and occupational accidents reported with at least one day sick leave, divided by hours worked and multiplied by 200,000.

Volvo Cars continuously conducts risk-based due diligence to ensure conformance with our responsible sourcing requirements, to identify ESG risks and detect improvement areas across our supply chain. Our supply chain due diligence process consists of multiple assessments at two levels: 1) basic due diligence targeting directly contracted suppliers and 2) enhanced due diligence for directly contracted suppliers operating in high-risk countries or suppliers of parts containing Materials of Concern. Among others, the Materials of Concern includes suppliers of batteries and components containing tantalum, tin, tungsten and gold (known as conflict minerals or 3TG). We conduct supplier assessments prior to sourcing and throughout our business relationships.

- **Safeguarding human rights in our total value chain.** We see respecting human rights as vital to demonstrating leadership in ethical and responsible business. We seek to respect the rights of people throughout our value chain by continuously improving our human rights risk based due diligence to identify, cease, prevent, and remedy any human rights violation. In our assessment of EU Taxonomy Minimum Safeguards criteria, our current due diligence processes and procedures meet the requirements for alignment in 2022.





We seek to continually improve our due diligence processes and are working towards meeting the standards of the upcoming Corporate Sustainability Due Diligence Directive, as well as The World Benchmarking Alliance's 12 core indicators used in the Corporate Human Rights Benchmark.

- **Engaging in sustainable financing.** We recognise the importance of finance in stimulating sustainable development, through responsible investment. We will offer opportunities for the financial community to make sustainability-focused investments in Volvo Cars, while improving ESG-screening of our own investments. Our ambition is to have all outstanding debt in a green or sustainability-linked format by mid-decade.
- **Tackle corruption and unethical business practices.** We will continue to take a zero tolerance approach to corruption and unethical business practices within our own operations and supply chain, whilst developing an ethical culture. We will continue to be diligent in assessing the ethical behavior of potential and existing business partners.



Alignment with UN Sustainable Development Goals

In addition to supporting the targets of the 2015 Paris Agreement, we have aligned our sustainable business activities with the United Nations General Assembly 2030 Agenda and the SDGs. Volvo Cars is committed to supporting the SDGs and uses them as a guide in our sustainability work. Our products and operations have the largest impact on SDG 3, 5, 7, 8, 11, 12, 13 and 16. In addition, we contribute to SDG 1, 4, 6, 9 and 17.

	<ul style="list-style-type: none"> • Safety is at the core of our business. We have established a zero-collision vision and strategy. (3.6) • We have incremental goals to reduce Carbon emissions and aim to become a climate-neutral company by 2040. (3.9)
	<ul style="list-style-type: none"> • Our business culture is described in our CoC and People Policy. (5.1, 5.2) • Volvo Cars Family Bond offers gender-neutral parental leave to all employees. (5.4) • We seek to increase gender equality, both in terms of pay and senior management positions. (5.5)
	<ul style="list-style-type: none"> • By the middle of this decade, we aim to use only climate-neutral energy in our operations and encourage our Tier 1 suppliers to also meet this objective. (7.2) • By the middle of this decade, we aim to reduce energy consumption in our manufacturing operations by 30 per cent per vehicle (2018 baseline) and increase the energy efficiency of our products. (7.3)
	<ul style="list-style-type: none"> • Through our growth, electrification and digitalisation strategies, we create jobs and sustainable development. (8.2, 8.5) • We aim to become a circular business (8.4) • We aim to build a better future in local communities, through education, job training and employment. (8.6) • We aim to protect human rights within our organisation and throughout our value chain. (8.7, 8.8)
	<ul style="list-style-type: none"> • We support safe and sustainable mobility through electrification, safety technology and car sharing offers. Safety is at the core of our business. We have a zero-collision vision and strategy. We are active participants in the Gothenburg Green City Zone project. (11.2, 11.3)
	<ul style="list-style-type: none"> • By contributing to the circular economy, we aim to significantly reduce waste and consumption of virgin raw materials. We seek to optimise the lifecycles of our products and components (12.2, 12.4, 12.5) • We publish our sustainability report in accordance with international standards and guidelines. (12.6)
	<ul style="list-style-type: none"> • We are committed to reducing the carbon footprint of our value chain. We aim to become a climate-neutral company by 2040, in line with the goals of the Paris Agreement. (13.1) • Our measures to limit climate change are defined in our sustainability strategy (13.2) • We inform and influence our stakeholders on the importance of climate change mitigation through stakeholder dialogue, position papers and conferences, among other measures. (13.3)
	<ul style="list-style-type: none"> • We have a zero-tolerance for discrimination, harassment and bullying. (16.1) • Volvo Cars and its business partners work actively to prevent all forms of child labour. We aim to ensure there are no forced labour of any kind relating to Volvo Cars' business, products and services. (16.2) • We monitor adherence to our CoC and CoC BP. We encourage concerns or suspected violations to be reported via the Tell-us grievance channel for investigation and action. (16.3) • Volvo Cars strives to act at all times as a fair and responsible market participant and expects the same from its Business Partners. (16.5) • We respect the right to privacy and take all appropriate precautions to protect personal data. (16.10)



Sustainable Corporate Governance

Volvo Cars sustainability governance structure is organised according to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). This means that frequent sustainability reviews are conducted at each management level including the Board of Directors (BoD), which sets the strategic direction and approves our sustainability strategy and follows its progress. Our climate action plan with its risks and opportunities is discussed at the regular BoD meetings.

Volvo Cars Group Management Team (GMT) is responsible for the overall governance, execution and implementation of the sustainability strategy and regularly monitors progress through several KPIs while the Global Sustainability Team (GST) is responsible for the day-to-day governance and coordination across the company.

The Green Financing Framework (“the Framework”) is part of Volvo Car Group’s sustainability strategy. Its deliverables strengthen the company’s focus on clean transportation by contributing to climate change mitigation, through Volvo Cars’ transition to zero tailpipe-emission vehicles. In order to oversee the Framework and to review and validate the selection of eligible green projects under the Framework, GMT has established a cross-departmental Sustainable Finance Committee (SFC), consisting of representatives from Finance, the GST and other functional management teams.

Sustainability at Volvo Cars is centrally governed and coordinated



Enterprise Risk Management, ESG risks assessment and EU Taxonomy reporting

Being an Automotive industry actor, Volvo Cars acknowledges the global threat of climate change and global warming, particularly the importance of our own contribution to prevent global Climate Action failure and promoting a just transition for our affected stakeholders. Volvo Cars continuously evaluates how ESG risks such as climate change transitional and physical risks affect our business strategy and operations since sustainability is deeply integrated in our business model. Volvo Cars follows the recommendations of TCFD for scenario analysis of transitional and physical risks. TCFD recommended disclosures are incorporated in Volvo Cars' Annual Report. A focus on social risks is also present throughout our evaluations, guided by our internal people strategy, with the intent of promoting a just transition for our affected stakeholders. Examples of this are the continuous upskilling and reskilling programs for our workforce, to allow engineers to keep using and developing their knowledge when transforming our company from ICE vehicles to BEV development and to support the digitalisation of our processes in general.

Our Enterprise Risk Management (ERM) is integrated in the business with an objective to improve decision making, proactively protect the fulfilment of strategies and plans and protecting our assets. The ultimate responsibility

for ensuring risks (including ESG risks such as climate related risks) of Volvo Car Group are sufficiently managed lies with the BoD.

The formal Enterprise Risk reporting process towards the BoD occurs semi-annually. Input is gathered throughout the organisation via the local risk managers, where the Head of GST, who is also part of the SFC, is the responsible owner for ESG risk reporting. The result is a comprehensive overview of risks across the organisation. ESG risks are prioritised, and mitigation actions are identified through collaboration with a cross-functional team of Senior Sustainability Managers.

Included in the yearly risk assessment is the assessment of the DNSH criteria and as previously mentioned the Minimum Safeguards criteria within the EU Taxonomy. As one example we assessed our compliance with DNSH climate adaptation in 2022 by performing climate risk assessments of our global manufacturing sites. We assessed that material physical climate risks have been identified, and a robust climate risk and vulnerability assessment has been performed. This included assessment of adaptation solutions for physical climate risk and considered IPCC pathways 4.5 and 8.5 with the time horizons 2030, 2050 and 2100. The results of these assessments are included in our Annual Report and its EU Taxonomy report section.





Green Financing Framework

This updated Framework has been drafted to reflect Volvo Cars' latest sustainability strategy and the integration of the most recent and advanced market practices and standards to define how Green Financing Instruments are set up within Volvo Cars to financially accompany the Group's sustainability journey towards a climate neutral model by 2040.

"Green Financing Instruments" means finance instruments that may include, but are not limited to, Green Bonds, Green Loans, Green Project Financing, Green Bonded Loans ("Schuldscheindarlehen"), for which the proceeds of which are intended by Volvo Cars to be allocated to one or more assets or projects which meet the Eligibility Criteria set out in this Framework.

Furthermore, these instruments will contribute to further transparency and meet investors' growing interest for greener assets to better allocate their funds and measure their contribution to a more sustainable financial system.

For the purpose of issuing Green Financing Instruments, Volvo Cars has developed this updated Framework in alignment with the 2021 ICMA Green Bond Principles, including the updated Appendix I of June 2022³ and the 2023 LMA, LSTA, APLMA Green Loan Principles⁴.

3) https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles_June-2022-280622.pdf

4) https://www.lma.eu.com/application/files/4716/7715/0338/Green_Loan_Principles_23_February_2023.pdf

Volvo Cars intends to follow best market practice and will communicate in a transparent manner on:

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds
- Reporting

Where feasible, Volvo Cars will prioritise projects that are considered to be aligned with the EU Taxonomy, with particular focus on those that meet the technical screening criteria for climate change mitigation. In assessing the project, Volvo Cars will consider the substantial contribution, DNSH and minimum social safeguards criteria. Where feasible, Volvo Cars intends to follow the recommendations on the Sustainable Finance Platform⁵ and where necessary, will be transparent in our interpretations and assessments.

In addition, this Framework has been designed to be consistent with the EU Proposal for a European Green Bond Standard⁶ (the "EU GBS"), when relevant and feasible.

5) https://finance.ec.europa.eu/system/files/2022-04/220330-sustainable-finance-platform-finance-report-remaining-environmental-objectives-taxonomy_en.pdf

6) https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/european-green-bond-standard_en

Use of Proceeds

An amount at least equal to the net proceeds from the issuance of the Green Financing Instrument, will be used to finance or refinance, in whole or in part, new or existing,

projects, assets, related expenditures or activities that meet the Eligibility Criteria defined below (hereafter “Eligible Green Projects”).



Exclusions

For avoidance of doubt, we have not included any direct costs, investments and expenditures related to Internal Combustion Engine (ICE) vehicles, Hybrid Electric Vehicles (HEV) and Plug-In Hybrid Vehicles (PHEV), although

these vehicles will in the near term constitute a large part of the product portfolio and support our electrification journey and transition into a carbon neutral company.



Eligibility Criteria:

Eligible categories (ICMA GBP / LMA GLP) and SDG contribution	Eligible green projects	EU environmental objectives and related EU taxonomy activities
	Clean transportation	Climate change mitigation
	Investments and expenditures (incl. acquisition ⁷ costs, research & development) for the design, development and manufacturing of Zero (tailpipe) Emission Battery Electric Vehicles (BEV):	
	Research & Development	3.3 Manufacture of low carbon technologies for transport
	Research & Development dedicated to Zero Emission BEV, (including powertrains) and technology which include testing, development of facilities, tooling and manufacturing of Zero Emission Battery Vehicles	3.4 Manufacture of batteries
	Manufacturing	7.4 Installation, maintenance and repair of charging stations for electric vehicles in buildings
	Manufacturing facilities including new facilities and upgrading or modifying of current manufacturing facilities to produce Zero Emission BEV or related components such as EV Batteries and powertrains, as well as recycling of batteries.	

7) Eligible acquisition costs can only relate to the costs of tangible and intangible assets. The intention is to be in line with the annual EU Taxonomy reporting of Volvo Cars).

Process for Project Evaluation and Selection

Project evaluation and selection is a key process in ensuring that the projects financed by the Green Financing Instruments meet the Eligibility Criteria set out in the Use of Proceeds section.

Volvo Cars has established a cross-departmental Sustainable Financing Committee (the SFC) as an important structure within its overall governance framework. The role of the SFC is to coordinate, validate, perform, and review the selection of the Eligible Green Projects.

The SFC is comprised of members from the Sustainability Team, Treasury Team, Business Control Team, Investor Relations Team and other relevant functional teams and departments (as deemed necessary). The SFC will meet on a semi-annual basis (or as and when the situation requires), and Eligible Green Projects will be selected in consensus by the Group Treasurer, the Group Controller and the Head of Global Sustainability (i.e. all three departments have a veto).

The main responsibilities of the SFC include but are not limited to:

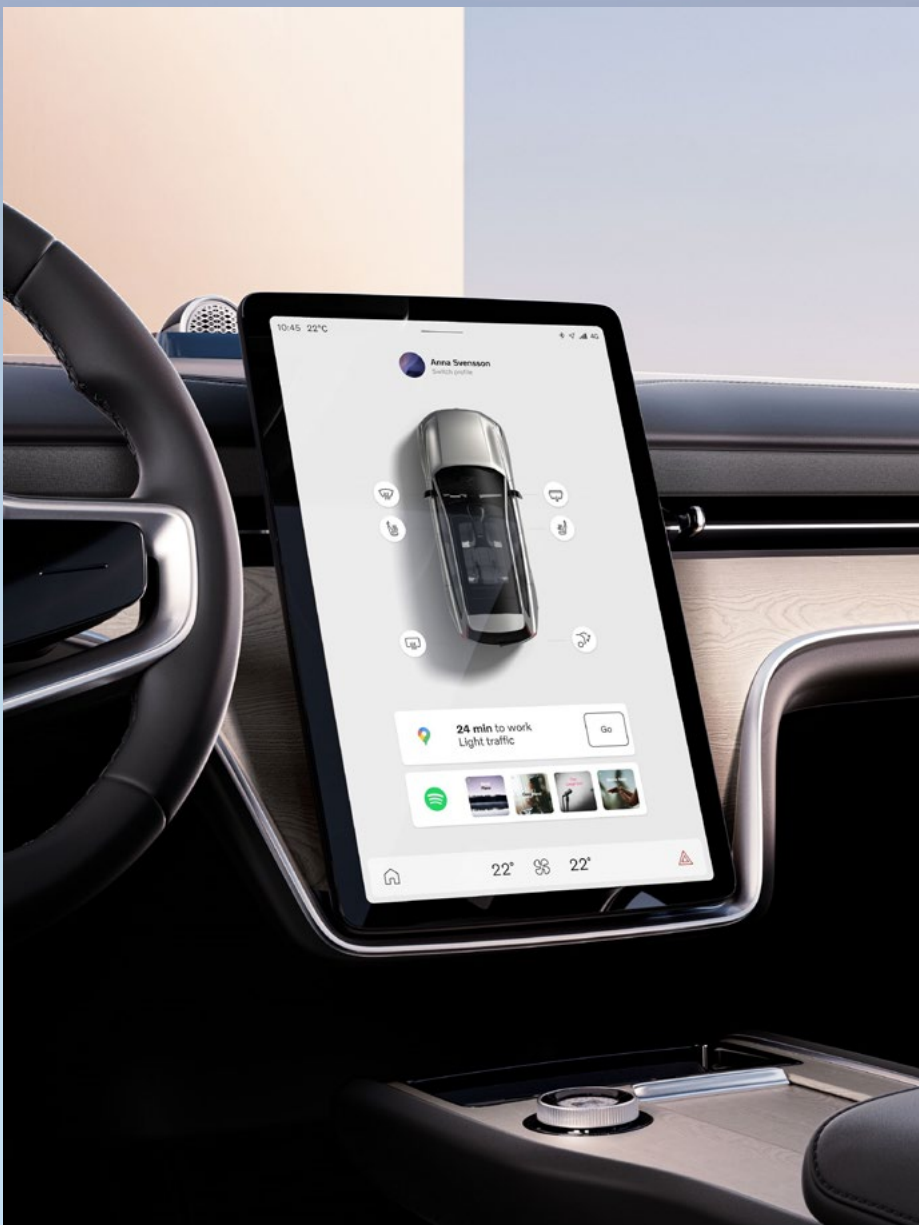
1. Reviewing and validating the pool of Eligible Green Projects as suggested by the relevant project teams, based on the Eligibility Criteria, including considerations around the EU Taxonomy where feasible, the sustainability strategy, an ESG assessment of potential controversies such as lock-in and rebound effects and the Framework;
2. Monitoring the Eligible Green Projects portfolio during the life of the Green Financing Instruments;

3. Preparing and recommending any changes or updates to the Framework ahead of executive management approval;
4. Reviewing and preparing the Green Financing Instruments report (the “Green Financing Report”) for investors ahead of executive management approval (as defined below in the Reporting section);
5. Monitor the ongoing evolution related to the sustainable financing markets in terms of disclosure and reporting in order to be in line with market best practices.

The process for the evaluation and selection of Eligible Green Projects will be as follows:

- A list of potential Eligible Green Projects is identified by the relevant business functions and the GST, based on internal expertise.
- The list of potential Eligible Green Projects is then submitted to the SFC for validation with the Eligibility Criteria and selection of Eligible Green Projects. The SFC will check with the GST (among others) that the relevant projects are available, and that double counting is avoided.
- Once an Eligible Green Project is selected by the SFC, the Business Control Team will keep track, monitor, and follow up on each Eligible Green Project, while the Treasury Team will maintain a register to keep track of the Eligible Green Projects.
- Semi-annually, the SFC will review the register of Eligible Green Projects and determine if the projects still align with the Eligibility Criteria or if any reallocation of proceeds is necessary (see section in Management of Proceeds below).





Management of Proceeds

Time Frame of Eligible Green Projects

The Eligible Green Projects consist of recent and new projects with expenditures incurred within two calendar years prior to the year of issuance of the Green Financing Instrument. Volvo Cars intends to allocate the proceeds of the Green Financing Instrument at the earliest convenience and, in any case, commits on a best effort basis to reach full allocation within two years after issuance.

Unallocated Net Proceeds

Until the full allocation of the Green Financing Instrument proceeds to Eligible Green Project(s) is made, the balance of the unallocated net proceeds will be earmarked and invested in cash and/or cash equivalents and/or other liquid marketable instruments, as per Volvo Cars' cash management policy. The payment of principal and interest on the Green Financing Instruments will be made from Volvo Cars' general funds and will not be linked to the performance of any Eligible Green Project.

(Re)Financing

Furthermore, and to the extent possible, Volvo Cars intends to provide investors with an estimated share of financed versus refinanced expenditures prior to each new Green Financing Instrument issuance. Refinancing is defined as the financing of existing Eligible Green Project(s) whose spending has been identified prior to the issuance of a new Green Financing Instrument.

Monitoring and Reallocation

All relevant information regarding the issuance of Green Financing Instruments and projects (re)financed will be monitored and documented. The balance of the tracked proceeds will be periodically adjusted on a semi-annual basis, in order to match allocations to Eligible Green Projects (re)financed during this period.

In case of divestments or if an Eligible Green Project no longer meets the Eligibility Criteria or is subject to a material sustainability controversy, the proceeds will be reallocated to other Eligible Green Project(s). Volvo Cars will use its best efforts to substitute any projects that the SFC deems to no longer meet the Eligibility Criteria, as soon as practical once an appropriate substitution option has been identified.

Reporting

Volvo Cars is committed to transparent allocation and impact reporting on any relevant Green Financing Instrument. The Group will publish the Green Financing Report on an annual basis, at least until full allocation of an amount equal to the net proceeds of the outstanding Green Financing Instruments, and thereafter in case of any material change to the allocation of the net proceeds.

The Green Financing Report will be integrated in Volvo Cars' Annual and Sustainability Report and / or as a standalone document. The report will be available on Volvo Cars' investor relations website.

The Green Financing Report will provide information on a bond-by-bond basis on the allocation of the net proceeds of Green Financing Instruments (see Allocation Report section below for more details) and where possible, on the environmental impact of Eligible Green Project(s) financed by the Green Financing Instruments (see Impact Report section below for more details).

Wherever possible, Volvo Cars intends to align portfolio reporting with the approach described in the "Handbook – Harmonized Framework for Impact Reporting" (June 2022)⁸.

Allocation Report

Volvo Cars will disclose the allocation of the relevant Green Financing Instruments on an annual basis, more specifically:

- The aggregated amount of allocation of the net proceeds to the Eligible Green Project(s) per Eligible Category;
- The proportion of net proceeds by type of Green Eligible Project;
- The proportion of net proceeds used for financing versus refinancing; and
- The balance of any unallocated proceeds invested in cash and/or cash equivalents

Impact Report

Volvo Cars will also report on relevant environmental impact metrics where feasible, and it will disclose measurement

methodology for quantitative indicators. Below are examples of impact indicators that may be reported:

Eligibles category	Potential quantitative performance indicators
Clean transportation	<ul style="list-style-type: none"> • Absolute CO₂ tailpipe emissions avoided (tCO₂e) • Percentage reduction in CO₂ tailpipe emissions per vehicle (%) • Number of BEV cars sold (# BEV cars) • Share of BEV cars in the overall fleet mix (%)

8) https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Green-Bonds_June-2022v2-020822.pdf





External Reviews

Second Party Opinion

Volvo Cars has appointed CICERO Shades of Green (CICERO Green), now a part of S&P Global, to provide a second party opinion on this Framework (hereafter the “Second Party Opinion”)⁹.

CICERO Green has reviewed this Framework for its sustainable and green qualities as well as its alignment with the 2021 ICMA Green Bond Principles (including the updated Appendix I of June 2022) and with the 2023 LMA, LSTA, APLMA Green Loan Principles. The objective of the Second Party Opinion is to provide investors with an independent assessment.

CICERO Green has awarded the Framework their highest rating – Dark Green. This means that they judge that the eligible projects will support the long-term vision of a low-carbon and climate resilient future. They also judged our governance structure and processes to be Excellent. This includes the selection process to identify eligible projects, the management of proceeds and reporting to investors.

The full Second Party Opinion and this Framework will be made available on Volvo Cars’ website.

Post Issuance External Verification

An independent auditor will be appointed by Volvo Cars to provide an annual assurance report on both the Allocation Report and the Impact Report, until all the proceeds of the Green Financing Instrument have been allocated. This will confirm that an amount equal to the net proceeds of the Green Financing Instrument has been allocated in all material respects in compliance with the Eligibility Criteria set forth in this Framework and with the “Use of Proceeds” section of the final Green Financing Instrument documentation will confirm that the environmental metrics disclosed in the impact report are in compliance with the reporting commitments set forth in the Framework.

⁹ If Cicero Green ceases to provide equivalent second party opinions, the updated Green Financing Framework shall be reviewed by another second opinion provider that, in the opinion of Volvo Cars’ Sustainability Team, meets equally high environmental standards.

Periodic Improvement

As the green bond and loan markets continue to evolve, so too will Volvo Cars' approach to remain consistent with shifting expectations. By using this Framework, ICMA's Green Bond Principles and LMA's Green Loan Principles,

and anticipated regulatory developments such as the EU Taxonomy and EU Green Bond Standard, we aim to continuously enhance our approach and respond to changes in industry best practice and market expectations.



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