

# Corporate Governance Report

## Introduction to Volvo Car Group's Corporate Governance

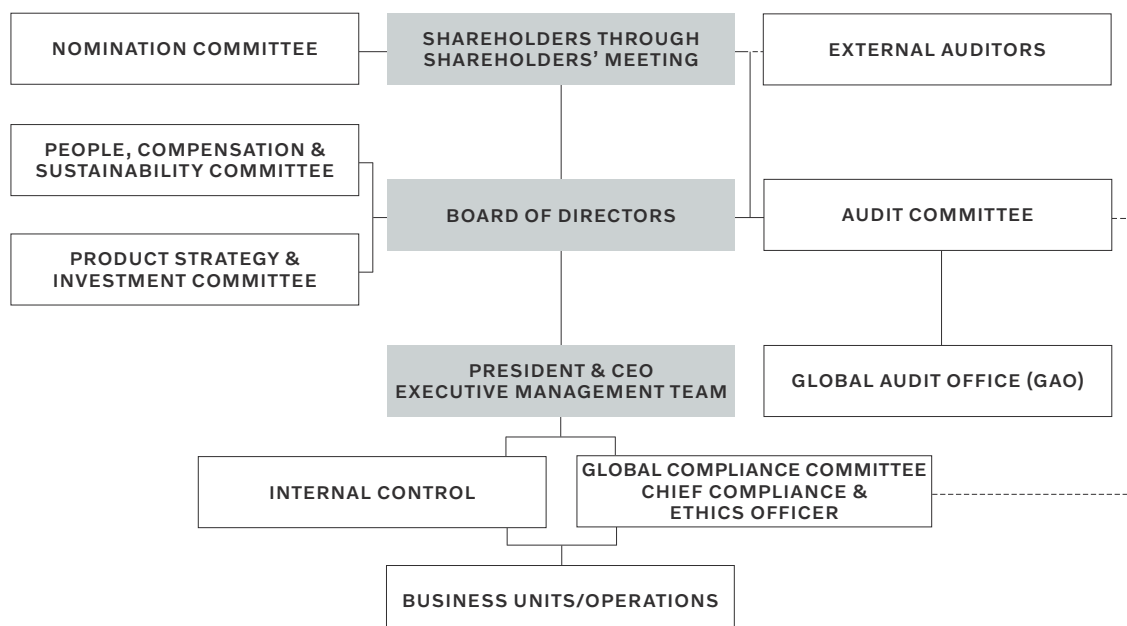
The purpose of corporate governance in Volvo Cars is to create a good foundation for active and responsible ownership, a proper distribution of responsibility between the different Company bodies, as well as good communication with all of the Company's stakeholders. The corporate governance principles adhered to by Volvo Cars are based on Swedish law (Swedish Companies Act and Swedish Annual Accounts Act). Volvo Cars applies the principles of sound corporate governance and responsible business practice and has decided to follow relevant parts of the Swedish Code of Corporate Governance (the "Code"). Being a company not listed on the stock market, Volvo Cars acknowledges it is not required to do so, and that some principles are not relevant to Volvo Cars.

The shareholders execute their influence at the shareholders' meetings, the highest decision-making body of the Company, where an annual general meeting shall be held at least once a year within six months after the end of the financial year. Some of the decisions made by the shareholders' during the shareholder's meeting are (i) election of a Nomination Committee which nominates members to the Board of Directors of the Company (the "Board" or the "Volvo Cars Board"), (ii) determination upon number of Board members, composition of the Board and remuneration for the members of the Board, based on suggestions by the Nomination Committee, (iii) election of external auditors, (iv) determination of the distribution of dividends and (v) determination of amendments to the Articles of Association.

The Board is responsible for the organisation of Volvo Cars and the management of its business worldwide and is obliged to follow directives provided by the shareholders' meetings. The Volvo Cars Board may appoint committees with specific areas of responsibility and furthermore authorise such committees to decide specific matters in accordance with regulations established by the Volvo Cars Board. Currently, the Volvo Cars Board has established the Audit Committee, the People, Compensation and Sustainability Committee and the Product Strategy and Investment Committee. The Chairman of the Board shall direct the work of the Board and monitor that the Board fulfils its obligations and may elect to seek support from the Vice Chairman when so is required. The Board annually adopts the Regulations for the work of the Volvo Cars Board, which sets out the principles as regards the governance of the Board, see below under the heading "The Volvo Cars Board" for further information. The President of the Company, who is also the Chief Executive Officer (CEO), is appointed by the Board to handle the day-to-day management of Volvo Cars and to lead the Executive Management Team (EMT) as overseen by the Board. EMT's role is to assist the CEO in the operation of Volvo Cars' business. The EMT has appointed boards of the EMT to assist in carrying out decisions and actions, but the CEO will retain responsibility for the actions of the boards of the EMT.

The above mentioned corporate governance functions can be described in the below model:

## Volvo Car Group Corporate Governance



### Nomination Committee

The shareholders' meeting has elected a Nomination Committee, which shall nominate members to the Volvo Cars Board, propose appropriate remuneration principles for the Volvo Cars Board and on a yearly basis propose the remuneration and other terms for the Volvo Cars Board to be decided by the Annual General Meeting. Please see the table under The Volvo Cars Board, regarding relevant remuneration for 2018. Any changes to the Nomination Committee's duties are subject to approval at a shareholders' meeting. Appointment or removal of a member of the Volvo Cars Board shall be proposed by the Nomination Committee but is subject to the approval of the shareholders' meeting. The Nomination Committee shall comprise of three representatives. Currently Li Shufu, Mikael Olsson and Hans Olov Olsson (chairman) are members of the Nomination Committee. The Nomination Committee has adopted a framework for nomination of members to the Board, which stipulates that the composition of the Board shall be diverse in terms of gender, nationality, professional background and other competences to ensure that the Board has the appropriate balance of expert knowledge, which matches the scale and complexity of Volvo Cars, supports a sustainable development and meets the independency requirements of Volvo Cars. It is Volvo Cars' aim to have a balanced composition when it comes to gender and by 2020 it is the ambition that each gender shall have a share of at least some 40 per cent of the Board members elected by the shareholders' meeting. The Unions represented in the Volvo Cars Board shall be encouraged to apply the corresponding goal when appointing their representatives. The Nomination Committee evaluates the performance of the members of the Board once a year.

### The Volvo Cars Board

#### Composition of the Board

At all times, the Volvo Cars Board shall consist of a minimum of three and a maximum of twelve members and in addition thereto the number of employee representatives as is required under Swedish law.

The Regulations for the work of the Board stipulates that the majority of Volvo Cars Board members shall be independent of Volvo Cars and the management and at least two of these independent members shall also be independent of the shareholders.

At the end of December 2018, the Board (excluding the employee representatives) consisted of ten members as further detailed below as well as in Note 9 - Employees and remunerations. No member of the management other than the CEO is a member of the Board. Details of the remuneration principles for the Board can be found in Note 9 – Employees and remuneration.

Each new Board member is provided with an introduction programme to learn about the Volvo Car Group and the Board visits at least once every year a Volvo Car Group site other than the headquarters.

#### Conflicts of interest

The Board members shall immediately disclose to the Chairman and/or the Vice Chairman if they find themselves to have a conflict of interest. A Board member having a conflict of interest in relation to any matter to be dealt with by the Board may not participate in the discussions or decisions regarding such matter.

#### Board meetings

The Volvo Cars Board is, according to the Regulations for the work of the Board, expected to meet four to eight times per year at venues to be agreed by the Volvo Cars Board. The Volvo Cars Board has held eleven meetings during 2018, of which eight were ordinary and three extraordinary. The Volvo Cars Board will meet the statutory auditor at least once a year without the CEO or any other member of EMT present. In addition, the Volvo Cars Board will hold non-executive meetings with regular intervals.

Generally there is high level of attendance of the Board members at the Board and Committee meetings. The CEO, CFO and the General Counsel, who is the secretary of the Board, are also present at the Board meetings. The table below shows the Board members'

Name of the Board members	Independence in relation to the company/senior management	Independence in relation to the major shareholder of the company	Attendance at meetings of the Board	Attendance at meetings of the Committees	Remuneration Board and Committees <sup>1)</sup> TSEK
Li Shufu (Chairman of the Board)			2/11	0/2	—
Lone Fønss Schrøder (Vice Chairman of the Board)	X	X	11/11	9/9	2,400
Winnie K.W. Fok	X	X	8/11	9/9	775
Håkan Samuelsson (CEO)		X	11/11	4/4	—
Li Donghui	X		10/11	5/9	—
Carl Peter Forster	X		10/11	4/4	—
Thomas Johnstone	X	X	10/11	10/10	875
Betsy Atkins	X	X	11/11	8/10	875
Michael Jackson*	X	X	4/4	—	625
Xingsheng (Jim) Zhang**	X	X	3/4	—	625
Mikael Ohlsson***	X	X	2/2	2/2	—
Peng (Peter) Zhang***	X		2/2	2/2	—

\* Member of the Volvo Cars Board from July 31, 2018.

\*\* Member of the Volvo Cars Board from August 20, 2018.

\*\*\* Members of the Volvo Cars Board until the annual shareholders' meeting held on March 22, 2018.

1) Remuneration for Board and Committees on a yearly basis as agreed at the Annual Shareholders' Meeting 2018.

attendance to the Board meetings and Committee meetings in addition to their independence according to the requirements of the Code in relation to (i) the Company and (ii) the major shareholder.

#### **Matters for the Board**

The Volvo Cars Board is responsible for the organisation of Volvo Cars and the management of its business worldwide. The Board continuously monitors Volvo Cars' performance, evaluates Volvo Cars' strategic direction and business plan as well as other aspects such as Volvo Cars' adherence to Code of Conduct. The Board further monitors Volvo Cars' sustainability efforts based on our sustainability programme (Omtanke) being the framework for Volvo Cars sustainability work and conduct in society. Matters that have not been expressly reserved to the Board as set out in the Regulations for the work of the Volvo Cars Board are delegated to the Board's Committees or to the CEO.

The work of the Board follows a yearly cycle in order to allow the Board to address the matters within the responsibility of the Board on a yearly basis. To ensure that the Board has a good visibility of the business of the Volvo Car Group, the CEO and President of the Volvo Car Group gives a report on the business of Volvo Cars, including reporting from the Group's strategic affiliates, as applicable, at all Board meetings. The CFO also gives a report on the financials of the Volvo Car Group, including relevant matters relating to treasury, hedging, risk management, insurance etc. In addition thereto the Board discusses specific strategic topics of relevance and the Board Committees gives a report of their work. Furthermore, at each Board meeting the Board is presented with a number of decision items for them to consider and approve as set out in the Regulations for the work of the Board.

#### **Evaluation of the work of the Board**

The Board conducts a yearly survey regarding its performed work during the year. The survey covers areas such as the climate at board meetings and the allocation of time spent on different topics, the work of the Board committees, the efficiency of the work of the Board, the Board leadership and the relations with the executive management team. Based on the result of the survey the Board will evaluate the performance and identify possible areas of improvements. In addition to the yearly survey, the Vice Chairman conducts meetings with each individual Board member during the year.

#### **Audit Committee**

The Board of Volvo Cars has assigned an Audit Committee to oversee the corporate governance, financial reporting, risks and compliance with external and internal regulations. The Audit Committee has held nine meetings during 2018, whereof four ordinary and five were extraordinary interim meetings. The Audit Committee is responsible for identifying and reporting relevant issues to the Volvo Cars Board within the Audit Committee's areas of responsibility. The Audit Committee shall monitor the integrity of Volvo Cars' financial reporting system, internal controls, operation procedure and enterprise risk management framework, recommend to the Volvo Cars Board the appointment, removal and remuneration for the statutory auditors (subject to approval at the shareholders' meeting) in accordance with the Swedish Companies Act, monitor the independence of the statutory auditors and review the effectiveness of the Internal

Audit and Compliance and Ethics' function. Both the Internal Audit function and Compliance and Ethics have a direct reporting line to the Audit Committee. Lone Fønss Schrøder (Chairman), Winnie K.W. Fok and Li Donghui are currently members of the Audit Committee.

#### **People, Compensation and Sustainability Committee**

The Board has assigned a People, Compensation and Sustainability Committee to determine the remuneration to the CEO and the EMT members. The People, Compensation and Sustainability Committee has held six meetings during 2018, whereof five ordinary and one extraordinary. The duties of the People, Compensation and Sustainability Committee are to prepare, propose and/or decide and present to the Volvo Cars Board matters related to remuneration, remuneration principles, performance and succession planning of the CEO and the EMT and other matters related thereto. The Committee is also responsible for supervising and providing guidance with regard to the People strategy. The Company's progress in delivering on its Omtanke programme is also on the agenda for the People, Compensation and Sustainability Committee twice a year, in addition to the Board's review of sustainability matters and the Committee is responsible for supervising Volvo Cars' Sustainability strategy. Thomas Johnstone (Chairman) and Betsy Atkins are currently members of the People, Compensation and Sustainability Committee.

#### **Product Strategy and Investment Committee**

The Board has assigned a Product Strategy and Investment Committee to oversee Volvo Cars' product strategy and the investments linked to it. The Product Strategy and Investment Committee has held four meetings during 2018, all ordinary. The purpose of the Product Strategy and Investment Committee is to review Volvo Cars' product strategy, cycle plan and product programmes to confirm that the strategy and the plans as well as programmes for the overall strategy, meet customer demand and market development and addresses new technology and business opportunities in all segments relevant to Volvo Cars. The duties of the Product Strategy and Investment Committee are furthermore to ensure that the changes in society, peoples view on mobility and cars as well as changes in the automotive market are reflected in Volvo Cars' strategic product plans and when choosing technologies. Thomas Johnstone (Chairman), Carl Peter Forster, Betsy Atkins together with Håkan Samuelsson are members of the Product Strategy and Investment Committee.

#### **Global Audit Office**

Volvo Cars has an independent Internal Audit department with the assignment to determine whether Volvo Cars' governance, internal control and risk management processes, as designed, operated and represented by management, are adequate and effective. The scope for the internal audit is determined by means of a risk assessment process and any additional requirements by the Board. The head of the Internal Audit function reports to the Audit Committee.

#### **Corporate Compliance and Ethics Office**

The Compliance and Ethics Office supports the business operations in conducting business in a responsible and ethical manner, by developing, implementing and maintaining Volvo Cars' Compliance and Ethics Programme. This Programme consists of ten elements designed on the basis of guidelines describing "effective compliance

programme” and “adequate procedures”, such as the US Sentencing Guidelines and the UK Bribery Act Guidance (supporting respectively the Foreign Corrupt Practices Act and the UK Bribery Act) as well as guidance from Anti-Trust Offices throughout Europe. Among these ten elements are: a regular risk assessment that leads to identify, understand and prioritise the main risk fields to which Volvo Cars is exposed, so as to customise the Compliance and Ethics Programme with a view to minimise the Group's exposure to risks; implementation of a Compliance and Ethics framework (Code of Conduct and Corporate Policies, Directives and Guidelines); Compliance and Ethics training, awareness and communication; Internal reporting and investigations; and monitoring and assessment with a view to continuously improve the Compliance and Ethics Programme.

In 2018, Volvo Cars' Code of Conduct (called Our Code – How We Act) was revised to reflect Volvo Cars' culture and way of doing business in a responsible manner, by putting the emphasis on our values and commitments in addition to focusing on the requirements set out in our corporate policies.

The Chief Compliance and Ethics Officer reports to the General Counsel and further continuously reports on compliance issues to the Global Compliance Committee. The Chief Compliance and Ethics Officer also reports to the Audit Committee of the Board of Directors and provides compliance training to the Board of Directors. The Global Compliance Committee is chaired by the General Counsel and the other members are the SVP Human Resources, the CFO, the SVPs heading the regions (APAC, EMEA and Americas), and the Head of Internal Audit (Secretary).

#### External Auditors

Volvo Car Groups' external auditors are elected by the Annual Shareholders' Meeting. Deloitte AB was appointed auditor in Volvo Car Group in the financial year 2010. The Annual Shareholders' Meeting has then re-elected Deloitte AB, and the current audit engagement period is ending at the 2019 Annual Shareholders' Meeting. Lead Audit Partner is the authorised public accountant Jan Nilsson. The external auditors discuss the external audit plan, audit findings and risk management with the Audit Committee. The auditors review the interim report for the period January 1 to June 30 and present the result of the work to Audit Committee in July. The auditors present the result from their review for the period January 1 to September 30 to the audit Committee in December. The result from their financial year audit and audit of the Annual Report of the parent company and the consolidated financial statements is presented to the Audit Committee and the Board of Directors at meetings after year-end. When Deloitte is asked to provide services other than the external audit, it is done in accordance with general independency rules. Annually Deloitte assures its impartiality and independence in writing to the Audit Committee in accordance with the Swedish Companies Act and ISA 260.

#### Disclosure Committee

Volvo Car AB is required to comply with certain disclosure obligations following from the listing rules of the Luxembourg Stock Exchange's Euro MTF market and the Market Abuse Regulation (MAR) and other applicable regulations related to trading in the securities issued by Volvo Car AB. In order to ensure that Volvo Cars follow the relevant requirements Volvo Cars has established a Disclosure Committee and the Board of Directors have adopted a set of procedures for the Disclosure Committee. The Audit Committee is kept updated on the discussions and decisions by the Disclosure Committee via sharing of the minutes kept at the meetings of the Committee. The members of the Disclosure Committee are the General Counsel (chairman), the CFO and the Head of Corporate Communication. The Head of IR is a permanent participant as a rapporteur and other senior company representatives attend the meetings on an agenda-driven basis. The Legal Counsel, Corporate Governance Office acts as secretary. The Disclosure Committee has been established to i.a. implement required disclosure controls and procedures, resolve whether information shall be categorised as inside information or not and consider whether there is a reason to delay disclosure of inside information or if immediate disclosure is required. The Disclosure Committee also monitors the Company's fulfilment of its disclosure obligations under IFRS and MAR related to transactions with related parties.

#### Internal control over financial reporting

According to the Swedish Companies Act, the Board is ultimately responsible for ensuring that an effective internal control system exists within the Group. In order to assist the Board and management in their internal control responsibilities, Volvo Cars has implemented an internal control function over financial reporting (ICFR), with the purpose to ensure that the external financial reporting is reliable and that the financial reports follow generally accepted accounting principles. The Internal Control function reports to the Audit Committee on a periodic basis.

Volvo Cars bases its internal control on the framework for internal control issued by the Committee of Sponsoring Organisations of the Treadway Commission (COSO) and it consist of five components; Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring activities.

#### Control Environment

The foundation of Volvo Cars' control environment is the Code of Conduct, which is the guiding principle of Volvo Cars, as well as the Group's corporate policies and directives. The foundation of the control environment over financial reporting are further based upon functional policies, directives and guidelines and the Delegation of Authority directive.

**Control activities**

Control activities are the procedures that help to ensure that Volvo Cars' policies, directives and instructions are implemented. Control activities are performed throughout the organisation, at all levels, and in all functions to manage risk and to detect and correct errors in the financial processes. Control activities are documented in Volvo Cars' Internal Control framework.

**Risk assessment**

See page 82 for information related to Joint Risk Assessment. From an ICFR perspective, the outcome of the risk assessment will be the internal control reviews for the coming year.

**Information and communication**

The information and communication component within Volvo Cars includes the systems and processes that support the identification, capture and exchange of information that enable personnel to carry out their responsibilities and that financial reports are generated completely and accurately. Information around the planning, risk areas and results of the self-assessment and internal control reviews are communicated within various fora and to the Audit Committee on a periodic basis.

**Monitoring**

In addition to the Internal Audit function described above, a separate Internal Control function performs internal control reviews and coordinates evaluation activities through the annual self-assessment programme. This assessment programme focuses on management and transaction levels as well as self-assessments of IT general controls. When control deficiencies are identified through self-assessments, regular operations, internal or external audits, such deficiencies are tracked and appropriate corrective actions undertaken to resolve these deficiencies. The Head of the Internal Control reports directly to the CFO.

**Volvo Cars' approach to sustainability management**

Volvo Cars is committed to protecting and improving the environment and wider society, as well as the lives of our own customers and employees. Volvo Cars' sustainability programme (Omtanke) and commitments guide the strategic and operational decisions. Volvo Cars has a clear governance structure to ensure that the company is delivering on these commitments, and take actions in order to improve the performance. Volvo Cars is always looking to identify new ways to measure sustainability performance and seek out strong external partnerships that will improve the performance. We realise that our existing customers, and potential customers, expect us to deliver on our commitments. Finally, Volvo Cars recognise that a sustainable approach not only brings environmental and social benefits, but also enhances the appeal of our products, enhances profitability, engages employees and helps attract the best talent.

**International commitments**

Volvo Cars is proud of the fact that it was a founding member of the UN Global Compact in 2000. Since then, Volvo Cars has endeavoured to observe the Ten Principles of the Global Compact. This includes Principle 7, the adoption of a precautionary approach to environmental challenges. Furthermore, Volvo Cars is committed to supporting the Sustainable Development Goals (SDGs), which guide our sustainability approach. In addition to the UN Global Compact, our own Code of Conduct reflects the following international conventions and guidelines:

- The eight core conventions of the UN agency, ILO (the International Labour Organization):
  - Child Labour (138 and 182),
  - Forced Labour and Compulsory Labour (29 and 105),
  - Equal Remuneration and Discrimination (100 and 111),
  - Freedom of Association and Collective Bargaining (87 and 98)
- The 10 principles of the Global Compact
- The Universal Declaration of Human Rights
- UN Convention on the Rights of the Child
- OECD Guidelines for Multinational Companies
- UN Guiding Principles on Business & Human Rights

**Sustainability Governance**

Volvo Cars has a clear governance structure to monitor both our progress against our sustainability commitments, and develop our existing programme. This includes the designation of an EMT member responsible for the delivery of each of our Omtanke commitments.

**The Sustainability Board**

Sustainability at Volvo Cars is governed by the Sustainability Board, which is a decision making body responsible for directing and monitoring the delivery and communication of our sustainability programme. The Board members also ensure that our sustainability programme is aligned with the corporate strategy and the Volvo Cars business plan, and that the company operates in accordance with Volvo Cars' values and Code of Conduct. The Board consists of the CEO as well as a number of EMT members. The Board is chaired by the General Counsel.

**The Sustainability Working Group**

The Sustainability Working Group consists of the operational leads responsible for the delivery of our Sustainability Programme, Omtanke. It meets fortnightly to discuss emerging opportunities and challenges, and share best practice and ongoing initiatives. The Working Group is chaired by the Director, Sustainability and reports to the Sustainability Board.

**The Global Compliance Committee**

The Global Compliance Committee consists of members of the EMT and oversees the effectiveness and continuous improvement of Volvo Cars' Compliance Programme. The Committee supervises the commitment Ethical Responsible Business through the Corporate Compliance and Ethics Office.

**Sustainability reporting**

Volvo Cars has been reporting on environmental, health and safety aspects of its products and production since it signed the UN Global Compact in 2000. In 2003, the company produced its first Sustainability Report in line with the international reporting guidelines from the Global Reporting Initiative (GRI). By applying and living up to the GRI's international guidelines for sustainability reporting, Volvo Cars aims to ensure transparent reporting based on content that is relevant to its stakeholders. The 2018 report is prepared in accordance with GRI Standards, accordance level Core. Volvo Cars reports on an annual basis, and this report covers the period January 1 to December 31, 2018. Volvo Car Group's sustainability report has been prepared to meet the statutory requirements in accordance with the Swedish Annual Accounts Act 6 chap. 11§. The scope and content of the sustainability report is defined by the GRI index presented on pages 161–162 in this document. Definitions regarding boundaries as well as measuring techniques and calculations for each performance indicator are given in respect to the disclosure concerned. No significant changes occurred during the reporting period or from previous reporting periods. Deloitte AB has performed a limited assurance of the sustainability report in line with ISAE 3000, see page 163 for the limited assurance report. As a signatory to the UN Global Compact, the Sustainability Report is also our Communication on Progress.

**Stakeholder Engagement and Materiality Analysis**

Our stakeholder involvement provides guidance on how we should develop and communicate our sustainability work. One indicator of our success, is whether our stakeholders chose to buy our products and/or do business with us. We have an open dialogue with our major stakeholders not only through networks, conferences, our website or at [citizen@volvocars.com](mailto:citizen@volvocars.com), but also through deeper interviews, surveys and analysis. Over the past few years, we have gathered analysis and input from our stakeholders and aligned them with our internal strategies, together with the Sustainability Board, in order to define what we consider to be our most relevant material topics. The Sustainability Board then developed the structure and focus areas of our Sustainability Programme – Omtanke, with clear priorities and commitments. In 2018, we continued to promote our Sustainability Programme to our stakeholders through press releases, updated websites, presentations at conferences and in individual meetings. We will carry on doing so in 2019.

**Joint Risk Assessment**

Each entity and function is responsible for identifying risks, which are then consolidated and reported according to the Enterprise Risk Management Directive, see page 82. Additionally, on a yearly basis, the functions of Internal Control, Corporate Compliance & Ethics office, Consumer & Enterprise Digital and Sustainability jointly perform a risk assessment to evaluate and determine risks that could hinder the achievement of Volvo Cars' business objectives. The outcome from the joint risk assessment is reported to various EMT boards and to the functions having the operational responsibility.

**CORPORATE GOVERNANCE STRUCTURE**

