

VOLVO CARS

GREEN FINANCING FRAMEWORK

SEPTEMBER 2020

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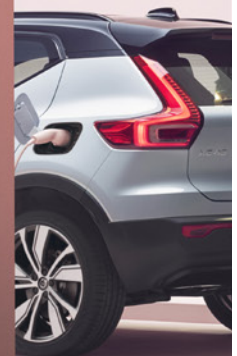
INTRODUCTION

Volvo Cars

Volvo Car AB and its consolidated subsidiaries ("Volvo Cars") is a truly global organisation with Scandinavian roots. Founded in 1927, it is today, one of the most well-known and respected premium car brands in the world with sales of over 700,000 cars in 2019 in about 100 countries. Volvo Cars has been under the direct ownership of Geely Sweden Holdings AB and ultimately by Zhejiang Geely Holding Group Co Ltd since 2010.

In 2019, Volvo Cars employed on average approximately 41,500 full-time employees. Volvo Cars' Head Office, product 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 and Daqing (China), while engines are manufactured in Skövde (Sweden) and Zhangjiakou (China) and body components in Olofström (Sweden).

Our group comprises of Volvo Cars including the car subscription and mobility businesses Care by Volvo and M. Our non-consolidated, independent joint venture companies Polestar and Lynk & Co are important strategic affiliates, enabling us to deliver on our strategy. 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.



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SUSTAINABILITY

Central to our business and key to our future success



As a human-centric mobility provider company, we are a brand for people who care about other people and the world in which we live. At Volvo Cars, we have made it our mission to take back the feeling of freedom and let the car be the enabler of a richer life. Our business is guided by our purpose to provide: “Freedom to move in a personal, sustainable and safe way”.

We recognise that becoming a truly sustainable business is key to our future success. It will attract customers, employees and investors, and help drive our profitability. We have a responsibility to minimise our environmental impact and have a positive social impact, across our value chain.

We commit to the highest standard of sustainability in mobility. 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. We believe that by working towards climate neutrality, embracing the circular economy and conducting business responsibly, we will help the planet, contribute to a fairer and more equal society, as well as support our profitable growth.

Climate Action

Action to reduce our carbon emissions has the highest priority in our sustainability strategy. We are a contributor to climate change. We are part of the problem, but we are also part of the solution. We are taking actions across our whole value chain, and not just by reducing tailpipe emissions. Therefore, we have the ambition to be a climate neutral company by 2040, in line with the 2015 Paris Agreement which seeks to limit global warming to 1.5°C above pre-industrial levels.

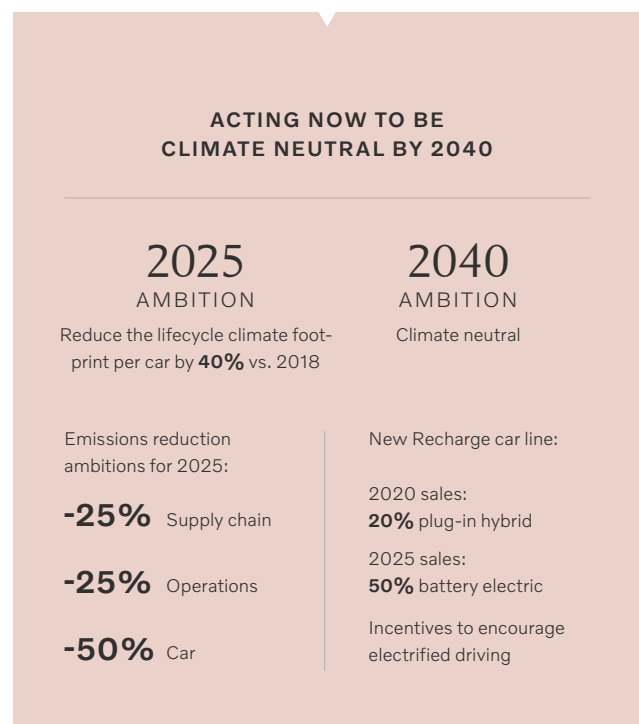
However, we must act now. So, we are aiming to reduce our lifecycle carbon footprint per car by 40% between 2018 and 2025 – one of the most ambitious climate plans in our industry. We plan to achieve this through the following carbon reductions (per vehicle) across our value chain:

- 50% reduction in tailpipe emissions
- 25% reduction in supply chain emissions
- 25% reduction in operational emissions (including from logistics and manufacturing)

Tailpipe emissions will be reduced through our electrification strategy. Volvo Cars was the first conventional carmaker to commit to all-out electrification and phasing out cars powered only by an internal combustion engine. We are aiming for 50% of our sales to come from fully electric vehicles (BEVs) by 2025, with the rest being hybrids.

Our first BEV, the XC40 Recharge, will be delivered to customers in late 2020. Over the coming years, Volvo Cars will launch a fully electric vehicle every year. Since 2019, every new Volvo car launched has been electrified and the company will disclose the average lifecycle carbon footprint of each new model, starting with the XC40 Recharge.

As we reduce our tailpipe emissions, our supply chain will become an even greater source of our overall emissions. So, we are working closely with our suppliers to reduce their emissions, including using renewable energy, more recycled and bio-based material, and limiting wastage. Embracing the circular economy (see section below) together with our suppliers will be key. Volvo Cars is also a member of CDP Supply Chain and this year we are introducing data collection via the CDP climate questionnaire for our top 100 strategic suppliers based on emission intense product categories as well as spend (both direct and indirect). The result will be embedded in supplier dialogues and in future



supplier selections. We will follow the supplier emission levels and their related activities on a yearly basis.

We will also continue to address our total operational emissions. We are making good progress towards our ambition of having climate neutral manufacturing operations by 2025. Already, our global plants are run on 58% climate neutral energy (including 86% climate neutral electricity). We aim for all our global manufacturing plants to be powered by 100% climate neutral energy by 2025. However, emissions from manufacturing represents a small part of our operational emissions. Hence, we also work to reduce emissions from our offices and business travel, as well as from our logistical operations (which currently represents the largest part of our operational emissions), including through greater use of rail and less use of air freight.

Volvo Cars has submitted carbon reduction targets to the Science-Based Targets Initiative (SBTi). These have been approved as in line with the reductions necessary to meet the goals of the Paris Agreement to limit global warming to well-below 2°C above pre-industrial levels. We have also shared our full carbon emissions data with CDP, the world's foremost environmental disclosure organization.

A summary table of Volvo Cars emissions reduction targets is available in Appendix I.

Circular Economy

We recognise the benefits of the circular economy in keeping our products and components in use for longer; minimising the need to extract finite resources; 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. This means that we need to transform the way our products are designed, produced and used.

Volvo Cars has the ambition to be a Circular Business by 2040. From 2025, we are aiming for our adoption of the circular economy to generate annual cost savings of SEK 1 billion and carbon emission reductions of 2.5M tonnes (2018 baseline).

The creation of a closed loop of materials, components and products is our ultimate goal. All Volvo cars are designed to be recovered to at least 95% and for at least 85% of the material within them to be recycled (by vehicle weight). Recovery includes both material recycling and energy recovery from recycled materials. These targets apply to all propulsion types (ICEs, BEVs and all variants in between). We have made good progress in some areas, for example, 94% of our global production scrap was recycled in 2019.

Volvo Cars has recently become a Member of the Ellen MacArthur Foundation (EMF) to help both drive our internal adoption of the circular economy, as well as promote wider adoption within industry.

WE AIM TO ACHIEVE CIRCULAR BUSINESS BY 2040 THROUGH:

- Using 25% recycled and bio-based material in our cars by 2025.
- Increasing resource utilisation and minimising waste, including through reducing production waste by 15% by 2021.
- Retaining component value (including electric batteries) through reusing, refurbishing and remanufacturing parts.
- Developing new business models, which optimise the use of our products and components.



Ethical & Responsible Business

We aim to be a recognised leader in Ethical & Responsible Business. 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 AIM TO ACHIEVE TO BE A LEADER IN
ETHICAL & RESPONSIBLE BUSINESS 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.
- **Putting sustainability on a 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. We will continue to work with our suppliers to increase transparency and traceability and help ensure that we minimize the risk of human and labour rights abuses within our supply chain.
- **Engaging in sustainable financing.** We recognize 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.
- **Tackle corruption and unethical business practices.** We will continue to take a zero tolerance to corruption and unethical business practices within our own operations and supply chain, whilst developing an ethical culture. We will be even more diligent in assessing the ethical behavior of potential and existing business partners.

Alignment with UN Sustainable Development Goals

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

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 Sustainable Development Goals (SDGs). The SDGs most relevant to our business and value chain have acted as our guiding star in developing our strategy.

We are a strong believer in the power of collaboration and partnerships to drive forward sustainable business. We are active members of several prominent initiatives, including Drive Sustainability, the Responsible Minerals Initiative and the UN Global Compact. We will seek to join other organisations in the coming year, which will allow us to collaborate with like-minded companies, as well develop our internal knowledge and expertise.

In 2019, we were recognised as one of the World's Most Ethical Companies, by the Ethisphere Institute, for the third consecutive year.

Volvo Cars is focused on engaging in Sustainable Financing. Through our sustainability strategy and the strategic initiatives, we are committed to meet institutional investors' requirements for financing that demonstrate a positive impact on the environment and society.

By setting up a Green Financing Framework, Volvo Cars will mobilise the debt capital markets to support our journey towards sustainable mobility and will offer investors further insight in the company's sustainability strategy in line with its commitment.

Volvo Cars' sustainability strategy directly supports the following SDGs:



SDG 5 Gender Equality:

We will work to increase gender equality in pay and positions within our company, as well as establish a gender neutral global parental leave offer.



SDG 12 Responsible Consumption and Production:

Through embracing the circular economy, we are working to significantly reduce waste and the use of raw materials, as well as optimise the usage and lifetime of our products and components.



SDG 8 Decent Work & Economic Growth:

We will increase our efforts to protect human and labour rights within our own organisation, as well as our supply chain. We will push for greater focus on these issues within our own industry.



SDG 13: Climate Action:

We are committed to reducing our carbon footprint across our value chain with the ambition to reach climate neutrality by 2040, in line with the goals of the Paris Agreement.



SDG 11 Sustainable Cities and Communities:

We are committed to supporting the development of safe and sustainable urban mobility through our fleet electrification, industry-leading safety technology and our car-sharing offers.

Green Financing Framework



This Green Financing Framework defines how Green Financing Instruments are set up within Volvo Cars from date of publication.

In this Green Financing Framework, “Green Financing Instruments” means bonds, loans, project financing or other financial instruments, 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 Green Financing Framework.

Volvo Cars believes that the issuance of Green Financing Instruments can contribute to fostering the transition to a low-carbon economy, by giving financial backing to the projects enabling this transition.

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 Green Financing Framework, which is drafted in alignment with the Green Bond Principles published by ICMA (2018 edition¹) and Green Loan Principles published by the LMA (2020 edition²).

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

- I. Use of Proceeds
- II. Process for Project Evaluation and Selection
- III. Management of Proceeds
- IV. Reporting

The Company has also taken into account, on a best effort basis, the recommendations of the Technical Expert Group (TEG) final report on the EU Taxonomy (the “EU Taxonomy”) published in March 2020³ in establishing the definition of the Eligibility Criteria described below.

1) <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Green-Bonds-Principles-June-2018-270520.pdf>

2) <https://www.lsta.org/content/green-loan-principles/#>



3) https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf

Use of Proceeds

An amount at least equivalent 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 or activities that meet the Eligibility Criteria defined below (hereafter “Eligible Green Projects”).

For avoidance of doubt, we have not included any costs, investments and expenditures related to Hybrid Electric Vehicles (HEV) and Plug-In Hybrid Vehicles (PHEV), although these vehicles will in the near term constitute a larger part of our product portfolio and support our electrification journey, as well as our transition into a carbon neutral company.

Eligibility Criteria:

ELIGIBLE CATEGORIES (ICMA GBP/ LMA GLP)	DESCRIPTION	EU ENVIRONMENTAL OBJECTIVES ⁴
CLEAN TRANSPORTATION  	<p>Investments and expenditures (incl. acquisition costs, research & development and licensing cost) for the design, development and manufacturing of Zero Emission Vehicles that is Battery Electric Vehicles (BEV):</p> <ul style="list-style-type: none"> • Research & Development dedicated to Zero Emission Vehicles, (including powertrains) and technology which include testing, development of facilities, tooling and manufacturing of Zero Emission Vehicles. • Manufacturing Facilities, including new facilities and upgrading or modifying of current manufacturing facilities to produce Zero Emission Vehicles or related components such as EV Batteries and powertrains, as well as remanufacturing and/or recycling of batteries. 	CLIMATE CHANGE MITIGATION

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.

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

The GFC is comprised of members from the following teams/departments across the Company:

1. Sustainability Team;
2. Treasury Team;
3. Business Control Team and relevant business functions;
4. Investor Relations Team; and
5. Other functional teams/departments (as needed)

The GFC will meet on a semi-annual basis and as and when the situation requires.

The GFC will be responsible for:

1. Reviewing and validating the pool of Eligible Green Projects as suggested by the relevant project teams, based on the sustainability strategy, an ESG assessment of potential controversies such as lock-in and rebound effects and the Green Financing 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 Green Financing Framework ahead of executive management approval;
4. Reviewing and preparing the Green Financing Instruments report for investors, ahead of executive management approval (as defined below in the Reporting section);
5. Monitor the on-going evolution related to the sustainable financing markets in terms of disclosure/reporting in order to be in-line with market best practices;

4) https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2020.198.01.0013.01.ENG&toc=OJ:L:2020:198:TOC

The selection process for Eligible Green Projects is performed and coordinated by the GFC. Eligible Green Projects will be selected in consensus by the Group Treasurer, Group Controller and the Head of Global Sustainability (i.e. all three departments have a veto).

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 Global Sustainability Team, based on internal expertise.
- The list of potential Eligible Green Projects is then submitted to the GFC for validation with the Eligibility Criteria and selection of Eligible Green Projects. The GFC will check with the Global Sustainability Team (among others) that the relevant projects are available, and that double counting is avoided.
- Once an Eligible Green Project is selected by the GFC, 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 GFC 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.

Management of Proceeds

The net proceeds from Green Financing Instruments will be deposited in Volvo Cars general account and an amount equivalent to the net proceeds will be earmarked for allocation to the Eligible Green Projects portfolio, in accordance with Volvo Cars Green Financing Framework.

The Eligible Green Projects consist of recent and new projects with expenditures incurred within a three-year look-back period before their inclusion in portfolio.

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, the proceeds will be reallocated to other Eligible Green Projects. Volvo Cars will use its best efforts to substitute any projects that the GFC deems do no longer meet the Eligibility Criteria, as soon as practical once an appropriate substitution option has been identified.

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 Projects.

Until the full allocation of the Green Financing Instrument proceeds to Eligible Green Projects, the balance of unallocated net proceeds will be earmarked and invested in cash and/or cash equivalent and/or other liquid marketable instruments, as per Volvo Cars' cash management policy.

Reporting

Volvo Cars is committed to transparent reporting and will publish a Green Financing Instrument report within one year from the date of issuance of each Green Financing Instrument and annually thereafter until full allocation of the proceeds. Volvo Cars intends to provide an aggregated report for all of Volvo Cars Green Financing Instruments.

The Green Financing Instrument report will appear as a standalone document published on the investor relations website, or as part of Volvo Cars' sustainability report which is integrated with the Annual report.

The Green Financing Instrument report will provide information on the allocation of the net proceeds of Green Financing Instruments (see section below on allocation report for more details) and where possible, on the environmental impact of Eligible Green Projects portfolio financed by the Green Financing Instruments (see section below on impact report for more details).

Volvo Cars will have the allocation report reviewed by an independent third party and, where feasible, the environmental metrics disclosed in the impact report.

Wherever possible, Volvo Cars intends to align portfolio reporting with the approach described in the "Green Bond – Working towards a Harmonized Framework for Impact Reporting" (April 2020)⁵.

5) <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Handbook-Harmonized-Framework-for-Impact-Reporting-220520.pdf>



Allocation Report

Within one year after the issuance of each Green Financing Instrument and until full allocation of the proceeds, Volvo Cars will disclose on an annual basis:

- The aggregated amount of allocation of the net proceeds to the Eligible Green Projects at category level;
- 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:

Eligibility Criteria:

ELIGIBLE CATEGORY	POTENTIAL QUANTITATIVE PERFORMANCE INDICATORS
CLEAN TRANSPORTATION	<ul style="list-style-type: none"> • Absolute CO₂ tailpipe emissions avoided • Percentage reduction in CO₂ tailpipe emissions per vehicle • Number of BEV cars sold • Percentage of BEV cars in the overall fleet mix

External Review

Second Party Opinion

Volvo Cars has appointed CICERO Green to provide a second party opinion on this Green Financing Framework (hereafter the “Second Party Opinion”)⁶.

CICERO Green has reviewed this Green Financing Framework for its sustainable and green qualities as well as its alignment with the Green Bond Principles, 2018. The objective of the Second Party Opinion is to provide investors with an independent assessment.

CICERO Green have 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 Green Financing 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, 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 Green Financing Framework and with the “Use of Proceeds” section of the final Green Financing Instrument documentation and, where feasible, will confirm that the environmental metrics disclosed in the impact report are in compliance with the reporting commitments set forth in the Green Financing Framework.

6) If Cicero 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.

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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 Green Financing Framework, ICMA's Green Bond Principles and LMA's Green Loan Princi-

ples, 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.



Appendix I - Summary Table of Volvo Cars Emissions Reduction Targets

TARGET	ABSOLUTE/INTENSITY	FROM (t CO ₂ e)	TO (t CO ₂ e)
Climate-neutral manufacturing operations covers the main part of scope 1 and 2	Absolute	197,700 (2019)	0 (2025)
100% renewable energy at T1 suppliers in 2025 is a part of scope 3	Absolute	N/A	0 (2025)
Be a climate-neutral company by 2040	Absolute	37,307,000 (2018)	0 (2040)
Aim to reduce GHG emissions by 40% per car between 2018 and 2025, including reducing: <ul style="list-style-type: none"> • Tailpipe emissions by 50% per car • Supply chain emissions by 25% per car • Operational emissions by 25% per car 	Intensity	55.9/car (2018)	33.5/car (2025)

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