

VOLVO



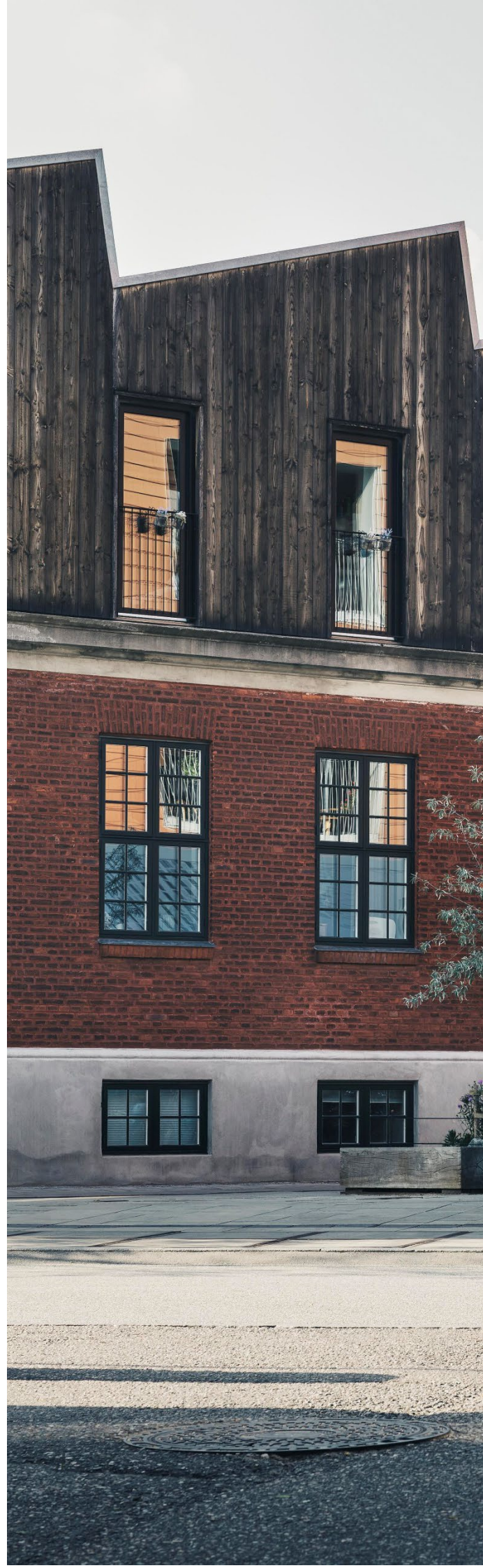
KEP 7

LOGISTICS REQUIREMENTS

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INTRODUCTION

Volvo Group maintains a set of procedures that define specific requirements and expectations in key areas such as Supplier Quality Assurance, Suppliers Code of conduct, Production & Engineering and Logistics. The Key Elements for Logistics highlights the main expectations and Logistics working procedures and applies to all SUPPLIERS delivering Automotive Parts to the VOLVO Group. This document is a “VOLVO Procedure” according to VOLVO’s General Purchasing Conditions (GPC).



KEY ELEMENTS

1. 100% Compliance with Supply Instructions

- 1.1. VOLVO requires on time deliveries of the right product, with the correct quantity, in the correct packaging at the agreed Point of delivery according to the agreed delivery terms.

2. Dispatch Performance Measurements

- 2.1. All VOLVO Suppliers are expected to have a dispatch precision/service level of 100%.
- 2.2. A dispatch precision of less than 85% (considering the preceding six-month period) is considered a STOP parameter for new business awards.

3. Performance Evaluation

- 3.1. The SUPPLIER shall measure and report dispatch precision performance for each VOLVO goods receiver (or location) as per the requirements set out in section 2.1 of this policy.
- 3.2. The SUPPLIER shall be familiar with and regularly use the performance information provided in VOLVO's supplier portal.
<https://supplier-portal.volvo.com/login> (login required).
- 3.3. The SUPPLIER is responsible to measure delivery performance for each of their sub-suppliers and should make this information available to VOLVO if needed.

4. Logistics Evaluation, MMOG/LE

The Global MMOG/LE is an industry-standardized tool used by VOLVO to assess business partners' conditions for a flexible, reliable, and cost-effective supply chain, and to guide towards logistics excellence. Training is available on the tool from Odette/AIAG.

- 4.1. New and existing Suppliers are to be evaluated at each manufacturing site using the Global MMOG/LE (Global Material Management Operational Guidelines/Logistics Evaluation).
- 4.2. The SUPPLIER is required to fill in the full latest version of the MMOG/LE self-assessment in English, to be considered for new business with VOLVO (on-site audit will be performed as needed by VOLVO). Any deviation needs to be validated by the VOLVO auditor.
- 4.3. VOLVO's target audit result for all SUPPLIERS is minimum level A.
- 4.4. Audit result below C 80% is a STOP parameter to new business awards.
- 4.5. New SUPPLIERS are required to create action plans to be approved by VOLVO's lead assessor to reach a set target level before start of production. All SUPPLIERS are requested to present a solid time and action plan with clear target dates to reach A level.

- 4.6. If the SUPPLIER has previously completed the Global MMOG/LE self-assessment for VOLVO or another customer, SUPPLIER will provide VOLVO with documentation that confirms the completion date and audit result.
- 4.7. Performed audit results are valid for 3 years.
- 4.8. To order the MMOG/LE self-assessment, please access the ODETTE or AIAG (for US SUPPLIERS) website.
ODETTE: <https://www.odette.org/mmog/information/>
AIAG: <https://www.aiag.org/supply-chain-management/materials-management/global-materials-management-operations-guidelines/>

5. Communication

- 5.1. If the SUPPLIER is not able to fulfill the VOLVO delivery demand, the SUPPLIER is obliged to inform VOLVO immediately and to agree upon solutions to avoid the risk of disruptions in the supply chain.
- 5.2. In the daily communication with VOLVO, the SUPPLIER shall use VOLVO part numbers and VOLVO's contact persons at the SUPPLIER shall be able to communicate fluently in English.



6. Points of Delivery

- 6.1. Point of delivery (to goods receiver) will be clearly defined in the Price Agreement.
- 6.2. At point of delivery, risk, and cost pass from the SUPPLIER to VOLVO.
- 6.3. At point of delivery, the SUPPLIER may release the invoice to VOLVO.
- 6.4. Incoterms are explained in section 19 of this document.

7. Delivery Demands

- 7.1. VOLVO will provide delivery demands by EDI (Electronic Data Interchange) to the SUPPLIER.
- 7.2. Delivery demand will include a firm period (unique per VOLVO location), and a 6-month forecast minimum.
- 7.3. The date specified in the delivery demand is the date when the parts are to be transferred at the point of delivery to VOLVO according to the agreed-upon Incoterms.
- 7.4. VOLVO expects the SUPPLIER to manage communications with its sub-suppliers regarding all VOLVO demands.
- 7.5. VOLVO reserves the right to claim compensation for the costs that are incurred due to late dispatches/deliveries or other non-conformities.
- 7.6. The SUPPLIER acknowledges and agrees that the non-binding delivery forecasts set forth in the Delivery Schedule indicate VOLVO's anticipated requirements for the relevant part(s) only. Any quantity included in the Delivery Plan that exceeds what is a firm request for delivery of parts, or any volume estimates provided elsewhere, shall be considered a forecast only and shall not be binding on VOLVO.

8. EDI Communication

- 8.1. VOLVO EDI standard is mandatory (in accordance with AUTOMOTIVE EDIFACT messages). Specifications for outbound and inbound messages, transport labels can be found at <https://www.edi.volvogroup.com/>
- 8.2. EDIFACT is the appointed standard for all connections. WebEDI can be used by suppliers with very few part numbers or as a backup/in case of technical issues and only after validation with all supply chain stakeholders. Information regarding WebEDI can be found on <https://www.edi.volvogroup.com/en-en/webedi.html>
- 8.3. If one partner is not able to send or receive a message, this partner shall contact the other party immediately to solve the problem.
- 8.4. The SUPPLIER shall send the EDI dispatch message in a timely manner and the message shall reflect the physical flow in quantities. Provided documents shall reflect the EDI dispatch message.

9. SUPPLIER Safety Stock

- 9.1. The SUPPLIER is responsible to manage safety stock levels at the agreed point(s) of delivery in order to meet VOLVO's delivery demands.

10. Delivery Manual

- 10.1. The SUPPLIER shall follow the Delivery Manual. For detailed information on the working procedures, please consult the delivery manual on the Supplier Portal <https://supplier-portal.volvo.com/login> (login required).

11. Transport

- 11.1. The SUPPLIER shall comply with the Transport Instruction provided by VOLVO, unless otherwise has been agreed between VOLVO and the SUPPLIER. The latest version of the Transport Instruction is available on the Supplier Portal <https://supplier-portal.volvo.com/login> (login required).
- 11.2. VOLVO reserves the right to change the transport pick up days and frequency during the life of the product without changes to the part price.

12. Customs and Export Control Compliance

- 12.1. As stated in the General Purchasing Conditions (GPC), the SUPPLIER has an obligation to ensure that proper Customs clearance supporting documentation is provided in accordance with the GPC and the laws and regulations set by the exporting and importing country. Failure to provide accurate documents and supplemental technical information to support regulatory filings can result in delayed deliveries, overtime, incorrect customs duties, and penalties at SUPPLIER expense.
- 12.2. In the case of customs-relevant deliveries, the SUPPLIER shall inquire how the customs clearance shall take place and which customs-relevant documents the SUPPLIER needs to furnish. The SUPPLIER shall provide the information to VOLVO according to the GPC and the SUPPLIER is obliged to appoint a customs contact (i.e., name and email address) to support in customs related questions.
- 12.3. For deliveries to regions/countries with Free Trade agreements with the exporting country, the SUPPLIER needs to provide completed and confirmed Preferential certificates and should be provided annually or with each shipment based on local requirements. Preferential certificates should also be provided upon request.
- 12.4. Volvo is committed to complying with all applicable customs, trade and import/export laws and regulations that govern the movement of products across international borders. To ensure compliance the supplier is obligated to deliver all assistance, information or certificates needed by Volvo, including upon request from Volvo, technical information sufficient to determine the applicable Harmonized Tariff Classification, import tax and duties, manufacturing country of origin and comply to all government agencies.
- 12.5. To ensure compliance with trade regulations and security protocols related to export controls, sanctions, embargoes the supplier is obliged to deliver all assistance, information or certificates needed by Volvo. Customs and Export Control related questions can be addressed to Customs & Trade function within VOLVO.

13. Dangerous goods compliance

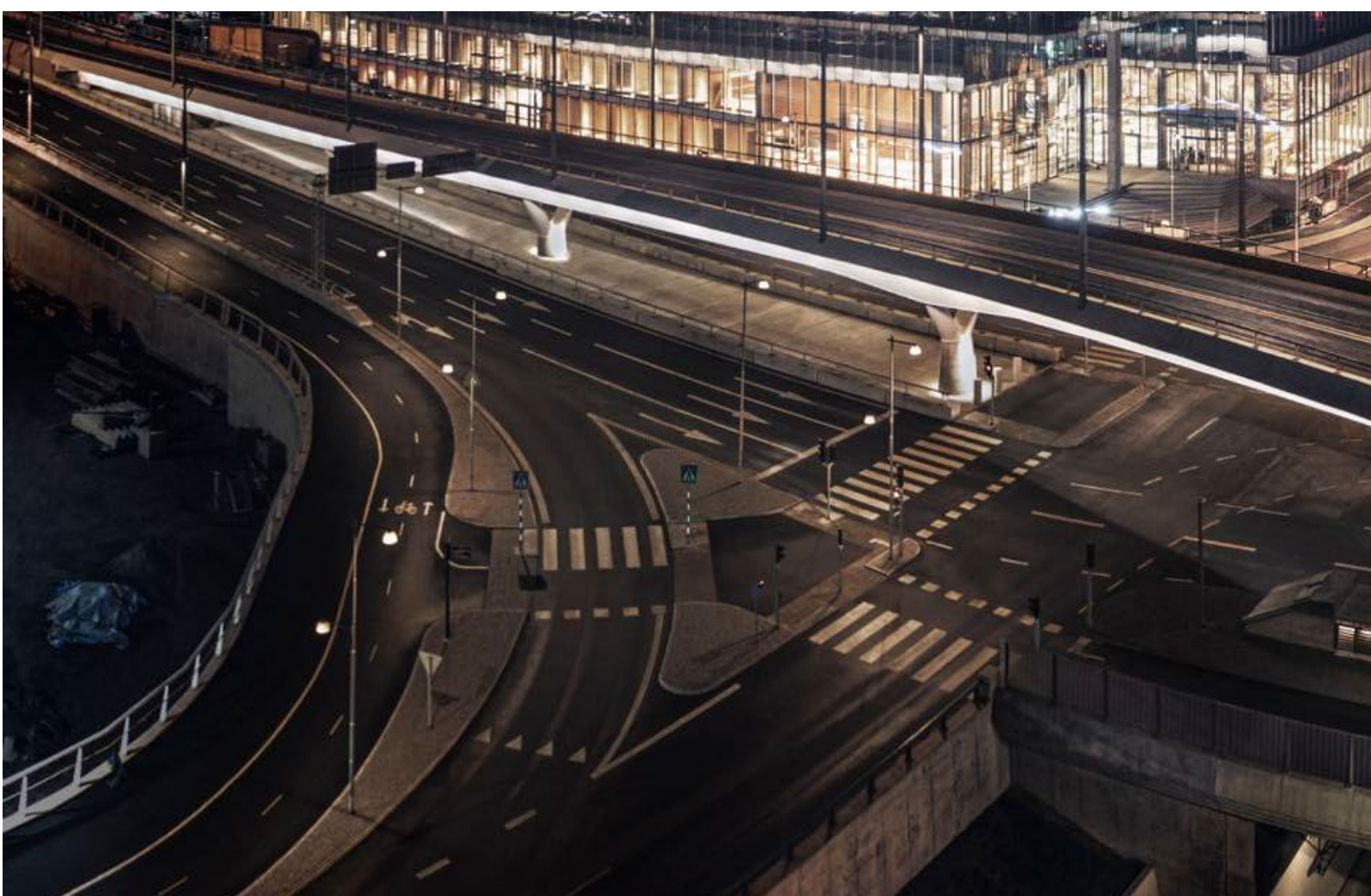
- 13.1. Parts need to be designed and delivered in compliance with applicable transport regulations for all applicable transport modes (road, railway, sea, air).
- 13.2. For each part classified as dangerous goods, the Dangerous Goods Request form found in the Review of Technical Specification (RTS) compliance matrix in the Request For Proposal (RFP) shall be filled in and submitted in accordance with the instruction in the form.

LONG DISTANCE SUPPLIERS

VOLVO considers SUPPLIERS with a transport lead-time above 72 hours as long-distance SUPPLIERS. VOLVO's strategy is to have a reliable and stable transport lead time with a 24h maximum lead-time for express transports.

14. LONG DISTANCE SUPPLIERS

- 14.1. If SUPPLIER has an existing, smooth-running, pick-up point within the required transport distance, this pick-up point shall be used.
- 14.2. If SUPPLIER has no existing local pick-up point, the SUPPLIER shall investigate and secure a new pick-up point located within 72 hours of transport lead-time to VOLVO and include it in any new business quote.



15. SUPPLIER Pick-up point

- 15.1. The SUPPLIER provides VOLVO with proposed logistics flow between the SUPPLIER manufacturing location and the pick-up point.
- 15.2. The SUPPLIER owns and manages the inventory and safety stock levels in order to meet VOLVO's delivery demands.
- 15.3. The SUPPLIER is responsible for the warehouse operations and handling, including EDI capabilities.
- 15.4. The SUPPLIER is accountable for securing compliance in the VOLVO systems and processes by the involved SUPPLIER (sub)contracted operators and partners.
- 15.5. The SUPPLIER manages the transport to this location.
- 15.6. The SUPPLIER is responsible to choose appropriate packaging up to the SUPPLIER pick-up point.
- 15.7. VOLVO may require a logistics audit at the designated pick-up point.
- 15.8. The SUPPLIER shall comply with the VOLVO defined time plan for pick-up point implementation.
- 15.9. In case of a bonded warehouse setup, the SUPPLIER shall contact VOLVO Customs and Trade organization, to ensure correct customs clearance and allocation of customs administrative costs.





REPLENISHMENT METHODS

VOLVO applies different replenishment methods depending on type of part, diversity, and end user prerequisites etc. The replenishment method needs to be agreed with VOLVO for each part number and might change over time. The setup is unique for each Volvo end user, requirements will be specified case by case.

16. External replenishment methods are based on the following ordering principles:

- Push – based on planned production sequence.
- Pull – based on actual production rate in real time.

Examples of replenishment methods:

- Material Replenishment Planning (MRP) – Push
- Kanban – Pull
- Order Based Replenishment – Push
- Sequence Deliveries – Push or Pull
- Sequence deliveries are deliveries of materials that are packed in the correct assembly sequence (according to VOLVO production flow).
Sequence instructions include chassis number, part information, quantity, serial number, line set number, rotation number, use date, etc.
- Vendor Managed Inventory (VMI)

- 16.1. The SUPPLIER needs to deliver according to the replenishment method defined with the VOLVO end user.

INCOTERMS

VOLVO requires all SUPPLIERS to use Incoterms 2020. The incoterm regulates who is responsible for freight, who carries the risk, who is responsible for customs procedures, documents, and insurance. It also states when the risk is transferred from the seller to the buyer, and at which point the goods are considered to be delivered (and can be invoiced). VOLVO's most commonly used incoterm is the "Free Carrier" (FCA) term.

17. VOLVO requires all SUPPLIERS to use Incoterms 2020.

- 17.1. The SUPPLIER quotation to VOLVO shall include the specific Incoterms rule, place, and Incoterms 2020. Example: FCA Factory X/City, Country (Incoterms 2020).
- 17.2. Definition 1: FCA "SUPPLIER premises", Loaded, Incoterms 2020
- VOLVO collects the cargo at the SUPPLIER premises.
 - The SUPPLIER is responsible to load cargo onto VOLVO collecting vehicle.
 - The SUPPLIER is responsible to arrange and pay for export customs clearance (procedures and duties).
 - Risk passes from the SUPPLIER to VOLVO after the cargo is loaded onto VOLVO collecting vehicle.
 - VOLVO is responsible to arrange and pay for transport and insurance from this collection point to the final destination.
 - VOLVO is responsible to arrange and pay for import customs clearance (procedures, duties, VAT).



- 17.3. Definition 2: FCA "SUPPLIER Pick-up point", Loaded, Incoterms 2020.
(For suppliers shipping to US Plants, please consult chapter 17.6).
- VOLVO collects the cargo at the SUPPLIER pick-up point.
 - The SUPPLIER is responsible to arrange and pay for export customs, transport, and insurance from the SUPPLIER premises to the SUPPLIER pick-up point.
 - Warehousing activities in the SUPPLIER pick-up point are contracted and paid for by the SUPPLIER.
 - The SUPPLIER is responsible to warehouse cargo and subsequently load cargo onto VOLVO collecting vehicle – the SUPPLIER is responsible to insure the cargo up to this point.
 - Risk passes from the SUPPLIER to VOLVO after the cargo is loaded onto VOLVO collecting vehicle.
 - VOLVO is responsible to arrange and pay for transport and insurance from this collection point to the final destination.
- 17.4. The SUPPLIER pick-up points should be a bonded warehouse, capable of administering the import customs-related procedures at SUPPLIER expense.
- The incoterm shall be "FCA, Customs Bonded Warehouse Named PUP, Loaded, Incoterms 2020". A bonded warehouse shall be used to store parts until the time VOLVO Picks up per plant call-offs.
 - VOLVO normally pays the import duties and VAT from the SUPPLIER bonded warehouse, but this can be reviewed case-by-case.
- 17.5. Definition 3: DAP "named VOLVO factory", Incoterms 2020
- The SUPPLIER delivers to designated delivery point at VOLVO factory.
 - The SUPPLIER is responsible to arrange and pay for export customs, transport, warehousing, and insurance from SUPPLIER premises to VOLVO factory.
 - Risk passes from the SUPPLIER to VOLVO when the cargo-carrying vehicle is ready for unloading at the VOLVO factory.
 - VOLVO is responsible to arrange and pay for unloading.
 - VOLVO is responsible to arrange and pay for import customs (procedures, duties, VAT).
- 17.6. Import Requirements for VOLVO U.S. Plants (Valid for Long distance suppliers)
- If localization of manufacturing is not available a local Pick-up Point (PUP) shall be used to facilitate warehousing, repacking into V-EMB, and safety stock storage.
 - There are two options for delivery/incoterm set-up.
 - For suppliers with US Legal entities: The U.S. domestic incoterm shall be FCA Named U.S. PUP, Loaded, Incoterms 2020". The sales invoice must be created/transmitted to VOLVO using a domestic U.S. Supplier ID (Parma) at the time of Pick-up and Post U.S. Customs Clearance.
 - For suppliers without U.S. Legal entities: The incoterm shall be "DDP, Named U.S. PUP, loaded Incoterms 2020". The sales invoice must be created/transmitted to VOLVO at the time of Pick-up and Post U.S. Customs Clearance.
 - The SUPPLIER shall be the U.S. importer of record responsible from point of export, with filing of the US customs entry in the name of the SUPPLIER, with payment of duties and fees by the SUPPLIER.
 - Warehousing, repacking, material handling, and loading of parts onto the means of transport provided by VOLVO shall be the responsibility of the SUPPLIER.
 - VOLVO Part Pick up and Invoicing should happen only after parts have cleared customs.
 - Please contact the U.S. Customs and Trade Governance Department for support and before any decision regarding set up for entry out of supplier bonded warehouse at time of pickup.

PACKAGING

To secure quality and safety and facilitate transport efficiency, the adequate packaging of goods is a vital logistics concept within VOLVO. VOLVO standard packaging (V-EMB) is the default transport packaging for inbound supply, but some components or set-ups may require specific packaging.

18. VOLVO standard packaging (V-EMB) shall be used for all inbound supply flows.

- 18.1. Each concerned VOLVO site will decide the final packaging solution, this solution may vary from site to site.
- 18.2. Some components or set-ups may require specific packaging or one-way packaging.
- 18.3. The SUPPLIER shall be capable to handle all V-EMB, specific packaging or one-way packaging depending on the final packaging solution.
- 18.4. VOLVO reserves the right to change the packaging instructions during the life of the product without changes to the part price.
- 18.5. The SUPPLIER shall use appropriate protective material inside the packaging to secure the quality of the part and that fulfills applicable transport regulations for all transport modes (road, railway, sea, air).
- 18.6. SUPPLIER shall comply to the requirements that are specified in the Volvo Group Sustainable Packaging Directive as well as "Sustainability and Environmental requirements" section which is available on Supplier portal.
<https://supplier-portal.volvo.com/login> (login required).
- 18.7. VOLVO manages the deliveries of empty V-EMB packaging to the SUPPLIER.
- 18.8. V-EMB is a VOLVO Group asset.
- 18.9. V-EMB external usage is limited to the flow between the agreed pickup point and the VOLVO material user, unless otherwise decided by VOLVO.

19. Packaging Instructions

- 19.1. The SUPPLIER is required to participate in the development and the technical validation of the packaging instructions for each part per the requirements provided by VOLVO.
- 19.2. VOLVO will provide the SUPPLIER with detailed packaging instructions prior to serial production start.
- 19.3. Packaging instructions for an individual part number can vary between VOLVO end users.
- 19.4. The SUPPLIER shall comply to the agreed Packaging Instruction.



20. Prerequisites to use VOLVO packaging material (V-EMB)

- 20.1. The SUPPLIER shall agree to the terms of the Packaging User Agreement (global standard agreement) with VOLVO prior to business award.

21. SUPPLIER Responsibility

- 21.1. To order empty V-EMB to fulfill shipments according to the agreed Packaging Instructions.
- 21.2. To maintain correct V-EMB stock balance in compliance with the Packaging User Agreement.

22. Packaging related costs

- 22.1. VOLVO will not charge any cost to the SUPPLIER for use of V-EMB:
- **Unless** the SUPPLIER stock of V-EMB exceeds 21 calendar days (based on average use of V-EMB per packaging type), excluding transport time.
 - **Unless** the SUPPLIER damages the packaging.
 - **Unless** the SUPPLIER has an unexplained discrepancy in stock balance (considered a loss by VOLVO).
 - **Unless** the SUPPLIER is disregarding sorting & packing instructions when returning empty packaging to VOLVO.
 - **Except** when disposable packaging is ordered from VOLVO.

SERVICE MARKET

VOLVO Service Market Logistics develops, distributes, manages, and optimizes global service parts availability for all brands, securing customers uptime. Whenever a customer vehicle/machine breakdown occurs, first-class customer service is always required. To fulfil customer experience expectations, branding of service parts may also be required. VOLVO Service Market Logistics has its own specifications in many logistics processes.

23. General

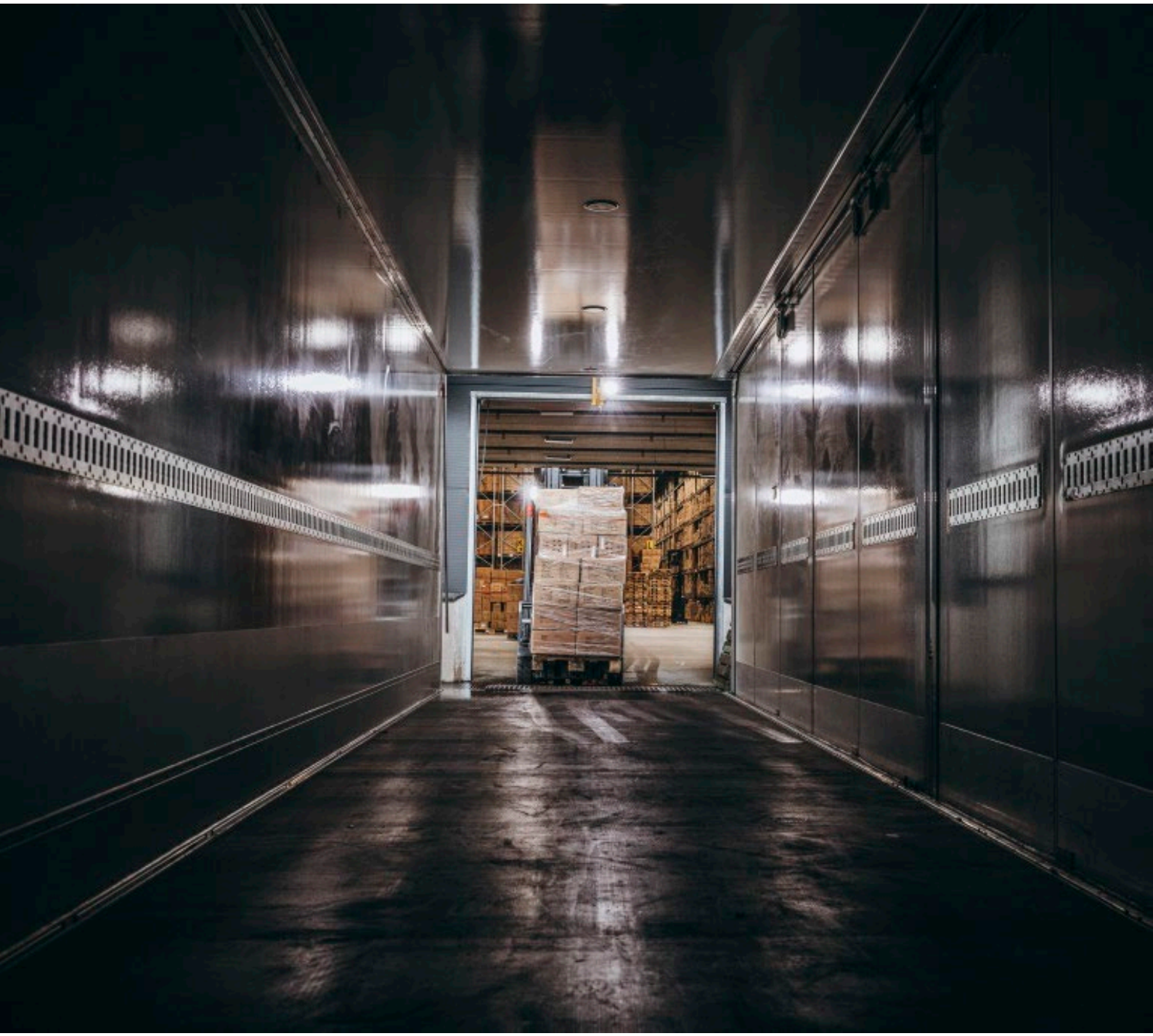
- 23.1. The SUPPLIER agrees to supply spare parts for a period of at least 15 years after the parts have run out of production unless otherwise stipulated. For government applications, the demand for supplied spare parts is 30 years after end of production (Ref: VOLVO's General Purchasing Conditions).
- 23.2. The SUPPLIER shall be able to deliver spare parts during all 52 weeks of a year and in quantities according to Service Market delivery schedules.
- 23.3. Service Market orders are not bound by any minimum order quantities, regardless of if parts are common with production or not.
- 23.4. The SUPPLIER shall be prepared to start supplying spare parts at the same time as production.
- 23.5. When parts are common with production, the SUPPLIER needs to deliver the spare parts with at least the same lead-time as production parts.

24. VOR Vehicle off Road (Trucks), Unit Down / Break Down order (VCE), and Emergency orders (Penta)

- 24.1. VOR Vehicle off Road (Trucks), Unit Down / Break Down order (VCE), and Emergency orders (Penta) always have the highest priority within VOLVO, even above production needs.
- 24.2. In case of a VOR/Unit Down/Emergency, the SUPPLIER shall have the parts ready for pick-up within maximum one day lead-time.
- 24.3. If the SUPPLIER has no stock, he should use his own network and processes to provide the shortest possible lead-time on VOR orders.
- 24.4. The SUPPLIER is obliged to communicate a first status of the VOR request within 2 hours after receipt of the order request.

25. Commercial packaging for spare parts.

- 25.1. For service market deliveries of spare parts there is an additional dimension when it comes to packaging, referring to below as commercial packaging. The main purpose of commercial packaging is to promote VOLVO Group branding and to protect the spare parts.
- 25.2. Commercial packaging for spare parts can be subjected to branding requirements per business area (Renault Trucks / VOLVO Trucks / Mack, etc.) or VOLVO Group common branded.
- 25.3. VOLVO and the SUPPLIER should collaborate to define the appropriate commercial packaging for each part based on the requirements provided by VOLVO.
- 25.4. If decided that the SUPPLIER should commercially pack the part(s), the SUPPLIER should deliver the parts accordingly during the lifecycle of the part unless otherwise agreed.
- 25.5. Costs for commercial packaging shall be specified in the quotation together with a price break down.



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