

Volvo Group Request to Pay Directive 2011 - External

Routines and conditions for invoice handling and supplier payments in the Volvo Group

Introduction

The objective of this Directive is to secure efficient management of payments to suppliers and to support a global purchasing process.

To enhance the understanding we recommend the terms and definitions section, appendix 1.

Why is Volvo Group Request to Pay instruction important?

Volvo Group's ambition is to be regarded as a preferred and highly ranked customer. Together with our suppliers we continuously develop our relations, products and administrative routines. A payment is a part of a business transaction.

To facilitate the relationship with our suppliers, Volvo Group strives to receive invoices from and make payments to our suppliers in the most efficient way in order to minimize administration for both parties and to avoid delay and bankfloat in payments.

Administration of supplier invoices

The administrative cost for handling of supplier invoices is substantial. It is therefore important that all parties involved adapt the most efficient processes, based on EDI solutions. All Volvo Group paper invoices will be stamped with the arrival date, to secure correct calculation of payment date (in case when payment date is based upon arrival date). It is only arrival date at VBS or local accounts payable department which is valid.

Administration of supplier payments

Payments to suppliers should be made with the objective to reduce costs and administration as well as to minimize timelag and risk of fraud. Electronic payments directly to the suppliers bank account is Volvo Group's preferred payment method. Check payments should be avoided.

Common routines in Volvo Group companies

There is a continuous development within Volvo Group to improve routines and systems in order to reduce costs and reach optimal efficiency in administration.

The objective is to use the most efficient solutions as the Volvo Group standard and thereby have a common way of working for the mutual benefit of both Volvo Group and our counterparties.

Common information to suppliers

Many of Volvo Group suppliers have relations with more than one Volvo Group company. It is therefore most important that conditions and documentation are co-ordinated and reflect Volvo Group's general rules for invoice handling and supplier payments.

Common information for suppliers can be found on Volvo Group Supplier Portal (www.volvogroup.com/suppliers)

Contract writing

Volvo Group's General Purchasing Conditions

Volvo Group's General Purchasing Conditions determine purchase made by Volvo Group companies. The Purchasing Conditions should be part of the documentation that is agreed and signed between the parties.

Different purchasing conditions apply to automotive and non-automotive purchases. More information is available at Volvo Group Supplier Portal (www.volvogroup.com/suppliers).

Invoicing via EDI

Invoices to Volvo Group must be sent via EDI according to Volvo's specifications, see www.volvo.com/edi.

Suppliers that send EDI invoices to Volvo Group are not allowed to also send paper invoices for the same invoice number.

Payment terms

Payment terms are normally calculated based upon receipt of invoice or goods, whichever is latest. Invoices sent via EDI will generally arrive 1 – 7 days faster than paper invoices.

The supplier payment term policy in Volvo Group is minimum E090 - free month of delivery based upon receipt of invoice or goods (whichever is the latest) + 3 calendar months of credit, paid next coming Thursday. More information regarding payment terms are found in appendix 3 - Payment terms and definitions.

Purchasing currency

A Volvo Group Company's external purchases should be done in the local currency of the supplier.

Currency clauses

A currency clause is defined as any price adjustment mechanism, included in a purchasing or sales contract, designed to adjust for changes in foreign exchange rates
Sales and purchasing agreements **must not** include currency clauses.

Cash discounts

Cash discounts must not be used within Volvo Group. All price reductions should be included in the agreed price.

Other Rebates

All kind of rebates/bonuses should be included in the negotiated agreed price.

Additional costs

Additional cost e.g. freight, packaging material, environmental fees, etc. should always be included in the agreed unit price.

Placing an order

AP (Automotive Purchasing) - Production material

AP buyers use Material Order for production material and spare parts, Tooling Order for tooling and Sample Order for initial samples.

NAP (Non-Automotive Purchasing) – Indirect material

NAP products are goods and services that are not part of the final products of the Volvo Group. NAP products should always be procured using purchasing systems approved by NAP, in which purchase order numbers are generated, e.g. EBD.

Necessary information on supplier invoices

A specification of all necessary information on supplier invoices is found in the document "Mandatory information to be stated on supplier invoices" in appendix 2.

Invoices that are incomplete according to mandatory information for invoices will be returned with a specified reason. The supplier should be informed either via letter, mail or phone call. Payment terms will be calculated from the arrival date of correct invoice.

A general rule is that the invoice should look like the purchase order, e.g. same unit of measure on the invoice as on the order, same currency on the invoice as on the purchase order etc.

Some of the basic and most important information needed is described below.

Address

If the invoice is sent to the wrong address, or if necessary information (as specified in appendix 2) is missing, the invoice will be returned with specified reason. This could lead to delayed payment.

The invoice should be sent to the address specified in the purchasing order or purchasing agreement. No personal references or department information should be stated in the address field.

Parma number / Supplier number

The supplier's unique Volvo Group identification number (Parma number) should be clearly stated on the invoice.

Order number

Volvo Group's purchase order number or workflow reference is mandatory information on each invoice. Invoices without purchase order number or workflow reference will be returned with specified reason. Payment terms will be calculated from the arrival date of correct invoice. Valid workflow reference should be provided by the requester.

The general rule "one delivery note = one invoice" should be applied. Invoices with multiple purchase order numbers are not allowed.

Corporate identity number (VAT, FID etc...)

The supplier's corporate identity number, as well as the Volvo Group company's corporate identity number, shall be clearly stated on the invoice.

Administrative costs, fees and charges

Volvo Group will not pay invoice fee, administration fee, reminder fee or similar fees and charges.

Payments to suppliers

A detailed specification of calculation of payment terms and payments can be found in appendix 3 "Payment terms and definitions".

Payment procedure

Payments will only be executed for:

- Registered invoices
- Approved and fully matched invoices and
- Invoices due for payment.

Payments are executed once a week, normally on Thursdays. Deviations due to holidays may occur.

Payment dates can be found on Volvo Group's Supplier Portal;
www.volvogroup.com/supplier

Payment method

The preferred payment method for supplier payments from Volvo Group, both domestic and international, is electronic payments directly to the supplier's bank account, preferably with same day valuation. Volvo Group will only pay to one bank account per supplier and currency.

Payment charge

The payment instruction from Volvo Group to the banks for charges related to international payments is SHARED. The definition implies that Volvo Group takes the costs that occur in the sending bank and the supplier takes other costs.

Handling of reminders

Routine

In order to facilitate handling of reminders the supplier should attach a copy of the original invoice. This will prevent unnecessary delay of payment.

In view of Volvo Group's payment routines as described above, we do not expect to receive reminders or penalty interest invoices concerning invoices due less than 7 days.

Due to administrative costs we do not find it meaningful, neither for the debtor nor for the creditor, to work with penalty interest invoices with amounts less than the countervalue of USD 100.

If the prerequisites above regarding interest invoices are met it is important that a **separate** interest invoice is sent. It is not allowed to have extra line item with interest charges on the next ordinary invoice.

Others

Returned Invoices

Invoices that are incomplete according to mandatory information for invoices will be returned with a specified reason. Payment terms will be calculated from the arrival date of correct invoice.

Factoring

If the supplier has a factoring agreement Volvo Group will only accept paying all invoices to the finance company. Confirmation of and changes in the factoring set up should be informed only from the supplier to Volvo Group.

Appendix 1 – Terms and definitions

Payment term starting with “B” - Credit period based upon receipt of invoice or goods (whichever is latest), paid next coming Thursday. Payment terms will be calculated from the arrival date of correct invoice.

Payment term starting with “E” - Free delivery month based on receipt of invoice or goods (whichever is latest) + X calendar months of credit, paid next coming Thursday. Payment terms will be calculated from the arrival date of correct invoice.

Payment term starting with “C” - Credit period based upon invoice (document) date, paid next coming Thursday.

Receipt of goods - receipt of goods is made when the Volvo Group take ownership in accordance with the delivery term. For services the receipt of goods is equal to when the service is fulfilled in accordance with the purchasing agreement.

Receipt of invoice - The date for receipt of invoice is the date when the invoice arrives to the invoicing address specified in the purchasing order or purchasing agreement.

Supplier - is defined as a non-Volvo Group Company (third party) who sell goods and services to the Volvo Group.

Volvo Supply Chain Financing (SCF)

The supplier gets early payment through sale of invoices to a Volvo Group external finance company if the Volvo Group has approved the invoice and the delivery.

Appendix 2 – Mandatory Information to be stated on Supplier invoices

- 1, The word INVOICE or CREDIT
 - 2, Invoice date
 - 3, Invoice number
 - 4, “Bill to” / Invoicing address (including the correct company name of the customer)
No personal or department information should be stated in the address field.
 - 5, “Ship to” / Delivery address
 - 6, Customer's reference – Purchase Order number or workflow reference
 - 7, Supplier's name, address and reference
 - 8, Invoicing currency. The invoice needs to have the same currency as the purchase order
 - 9, The quantity and/or nature of the goods or services delivered must be stated. To enable the invoice to be matched successfully with the goods or services, the following information must be provided on the invoice:
 - Volvo- or supplier part number, depending on what is stated in the Purchase order. If no part number is stated in the order, the item description must clearly identify the product or service invoiced.
 - Number of units, Unit price and total price per item
 - Delivery note number with date, specifically for production material
 - Occasionally the district number and chassis number
 - 10, Total invoice amount
 - 11, The supplier's VAT number
 - 12, The customer's VAT number
- Invoices issued within the EU must comply with the sixth VAT 2006/112/EC directive and therefore the following information is mandatory:*
- 13, VAT-rate applied
 - 14, Value added tax amount specified per rate and the taxable amount per rate or exemption, the unit price exclusive of tax and any discount or rebates if they are not included in the unit price
 - 15, If VAT is not charged, reference to “VAT exempt” * or “Reverse Charge“
 - 16, If invoice currency is in other currency than local currency, VAT amount should be stated in both currencies

Invoices in which any of the above information is missing will be returned or the supplier will be notified of any discrepancy by phone. A new corrected invoice will be required. This could lead to delayed payments.

Please note that it is mandatory for you to add your IBAN / BIC no on the invoices (if applicable)

Preferred information to be stated on invoices:

Supplier's PARMA – number (Sender)
Customer's PARMA – number (Receiver)
Terms of payment
Payment instructions

When an Automotive Purchasing (AP) order has been placed in a Purchase order system, every order is connected to a specific suffix. Every Volvo Group company (except Volvo Aero) has its own specific suffix. The suffix shows where the goods were delivered, for example, to a Volvo Group goods receiving department or direct to the customer. Only one suffix is permitted per invoice.

Invoices to a VAT agent: Invoices has to be addressed to the Volvo group company's VAT-agent in the specific country.

See also information stated on the purchase order from Volvo.

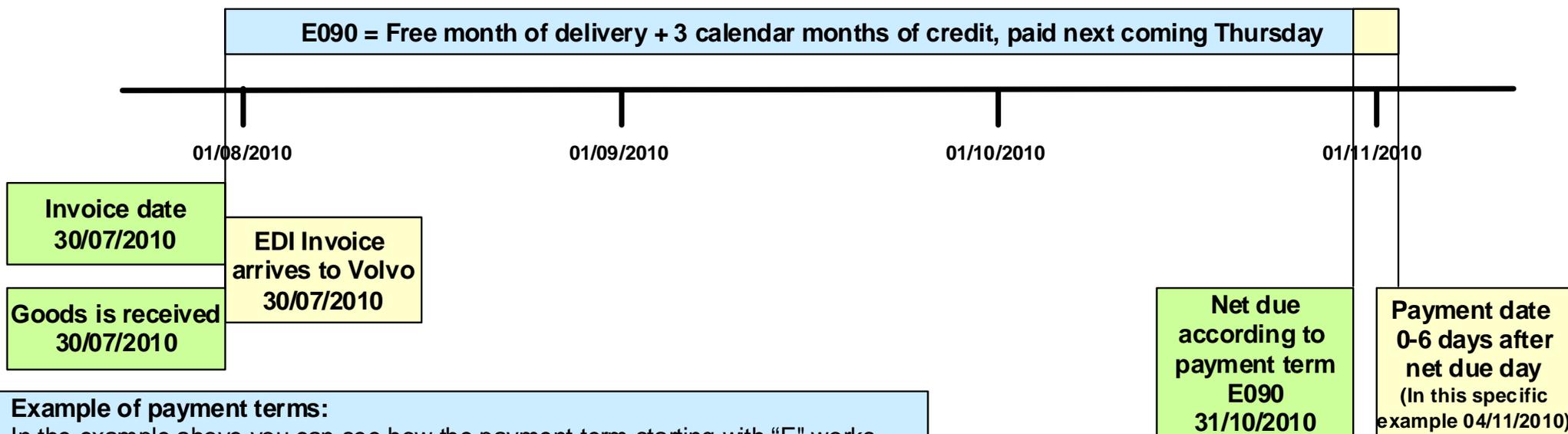
*** VAT Exempt**

VAT Exempt	To be used when invoicing not taxable goods and services
VAT Exempt - EC sale	To be used when invoicing goods which are delivered from one EC country to another EC country, if the customer in the other EC country has a VAT number
VAT Exempt - Export	To be used when invoicing goods which are delivered from one EC country to a Non EC country
VAT Exempt - Triangulation	To be used when invoicing from a Volvo-company who is the middleman in a triangulation i.e. goods trade between three parties in different EC countries and the goods is delivered from the first part to the last part.
No VAT - Reverse charge EC	To be used when invoicing all taxable services to a customer in another EC country apart from the following services: -Real Estate Services -Passenger Transports -Cultural, Artistic, Sporting, Scientific, Educational, Entertainment or similar activities, such as fairs and exhibitions. -Restaurant- and Catering services -Short-time Rental of car/vehicle (Hiring of means of transport)
No VAT - Reverse charge Non EC	To be used when invoicing all taxable services to a customer in Non EC country apart from the following services: -Real Estate Services -Passenger Transports -Cultural, Artistic, Sporting, Scientific, Educational, Entertainment or similar activities, such as fairs and exhibitions. -Restaurant- and Catering services -Short-time Rental of car/vehicle (Hiring of means of transport)
No VAT - Domestic reverse charge procedure	To be used by a foreign entity in a EC country when invoicing goods and some services to a VAT registered customer in the same EC country.

Appendix 3 - Payment terms and definitions

Example of Payment term

- starting with "E" for EDI invoices



Example of payment terms:
 In the example above you can see how the payment term starting with "E" works. In this example we have used payment term E090.

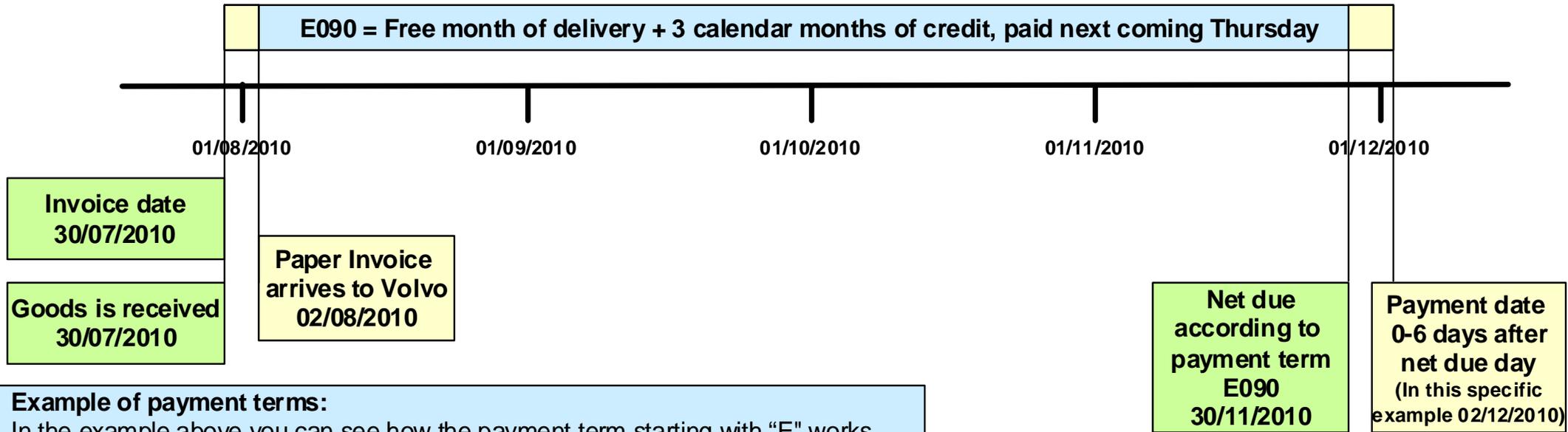
E090 – Free month of delivery based upon receipt of invoice or goods (whichever is latest) + 3 months of credit, paid next coming Thursday.

Payment Frequency

- Volvo Group units should only execute payments to suppliers once a week (each Thursday). (0-6 days after net due date).
- Domestic supplier contracts, which are paid in domestic currency, may in addition be executed each Monday if not contrary to contractual terms. In this case suppliers will be paid Monday and Thursday (0-3 days after net due date).

Example of Payment term

- starting with "E" for paper invoices



Example of payment terms:
 In the example above you can see how the payment term starting with "E" works. In this example we have used payment term E090.

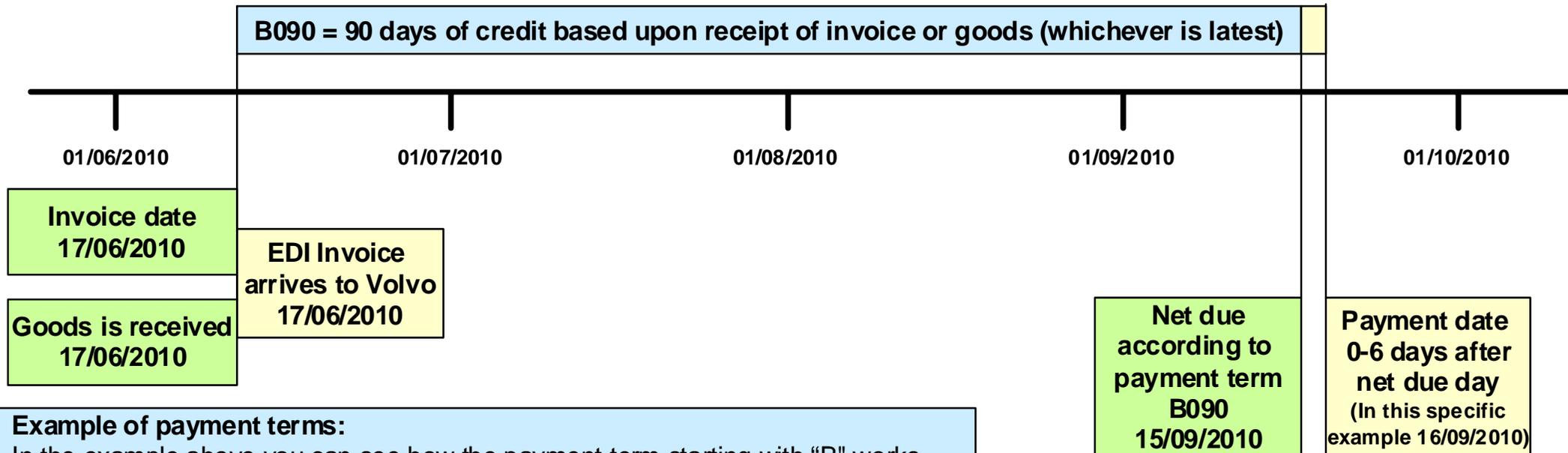
E090 – Free month of delivery based upon receipt of invoice or goods (whichever is latest) + 3 months of credit, paid next coming Thursday.

Payment Frequency

- Volvo Group units should only execute payments to suppliers once a week (each Thursday). (0-6 days after net due date).
- Domestic supplier contracts, which are paid in domestic currency, may in addition be executed each Monday if not contrary to contractual terms. In this case suppliers will be paid Monday and Thursday (0-3 days after net due date).

Example of Payment term

- starting with "B" for EDI invoices



Example of payment terms:

In the example above you can see how the payment term starting with "B" works. In this example we have used payment term B090.

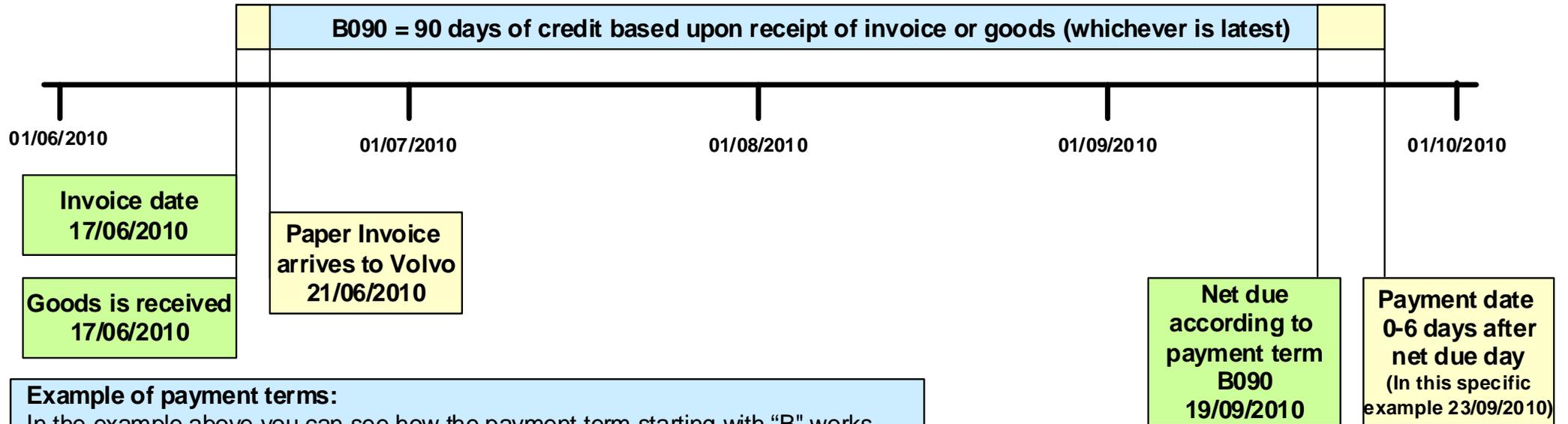
B090 – 90 days of credit based upon receipt of invoice or goods (whichever is latest), paid next coming Thursday.

Payment Frequency

- Volvo Group units should only execute payments to suppliers once a week (each Thursday). (0-6 days after net due date).
- Domestic supplier contracts, which are paid in domestic currency, may in addition be executed each Monday if not contrary to contractual terms. In this case suppliers will be paid Monday and Thursday (0-3 days after net due date).

Example of Payment term

- starting with "B" for paper invoices



Example of payment terms:
 In the example above you can see how the payment term starting with "B" works. In this example we have used payment term B090.

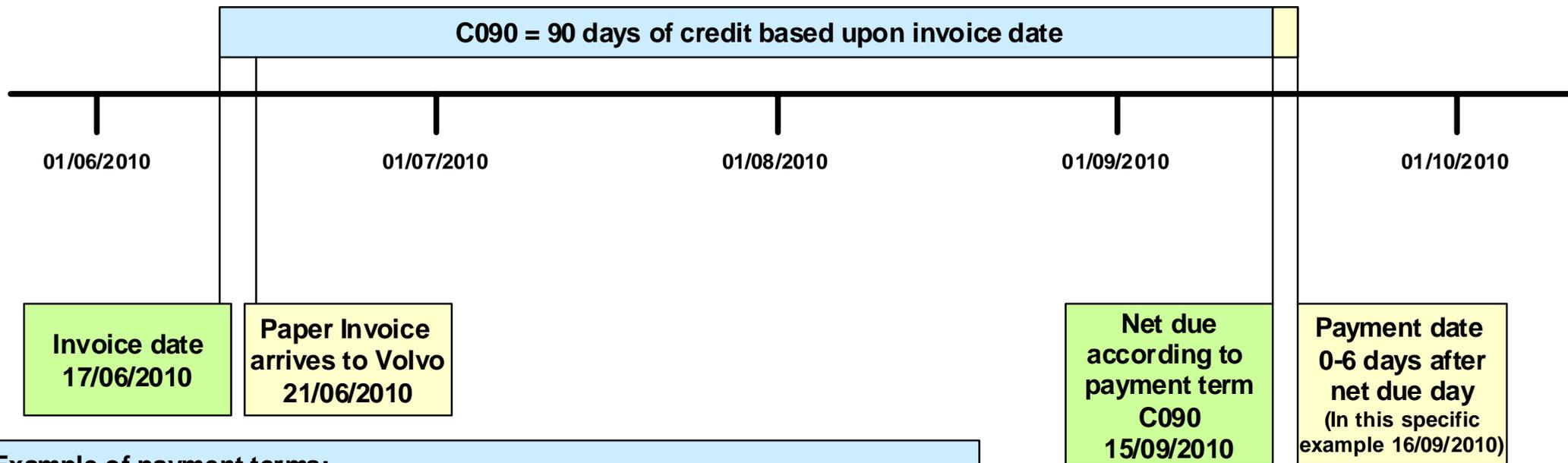
B090 – 90 days of credit based upon receipt of invoice or goods (whichever is latest), paid next coming Thursday.

Payment Frequency

- Volvo Group units should only execute payments to suppliers once a week (each Thursday). (0-6 days after net due date).
- Domestic supplier contracts, which are paid in domestic currency, may in addition be executed each Monday if not contrary to contractual terms. In this case suppliers will be paid Monday and Thursday (0-3 days after net due date).

Example of Payment term

- starting with "C" for paper invoices



Example of payment terms:

In the example above you can see how the payment term starting with "C" works. In this example we have used payment term C090.

C090 – 90 days of credit based upon invoice date, paid next coming Thursday.

Payment Frequency

- Volvo Group units should only execute payments to suppliers once a week (each Thursday). (0-6 days after net due date).
- Domestic supplier contracts, which are paid in domestic currency, may in addition be executed each Monday if not contrary to contractual terms. In this case suppliers will be paid Monday and Thursday (0-3 days after net due date).