

Remuneration report 2023

Introduction

This remuneration report provides an outline of how the guidelines for executive remuneration of AB Volvo, adopted by the Annual General Meeting in April 2023 (the “Remuneration Guidelines”), have been implemented in 2023. The report also provides details on the remuneration of AB Volvo’s President and CEO.

The report has been prepared in compliance with the Swedish Companies Act and the Swedish Stock Market Self-Regulation Committee’s Remuneration Rules.

Further information on executive remuneration is available in note 27 in the Volvo Group’s annual report for 2023 (the “Annual Report 2023”).

Information on the work of the Remuneration Committee of the AB Volvo Board of Directors in 2023 is set out in the corporate governance report, which is available on p. 194 – 211 in the Annual Report 2023.

Remuneration of the Board of Directors is not covered by this report. Such remuneration is resolved annually by the Annual General Meeting and disclosed in note 27 in the Annual Report 2023.

2023 summary

Overall performance in 2023

An update on the overall performance of the Group and AB Volvo is provided in the statement of the President and CEO, Martin Lundstedt, and in the Group Performance section of the Annual Report 2023, available on p. 8 - 11 and p. 56 - 89 in the Annual Report 2023.

In 2023 the Volvo Group continued to perform well towards more sustainable transport systems, despite continued geopolitical challenges and challenges in the value chain such as component shortages, supply chain disturbances and increased energy prices.

Overview of the application of the Remuneration Guidelines in 2023

The current Remuneration Guidelines, adopted by the annual general meeting 2023, can be found in note 27 in the Annual Report 2023. Under these guidelines, remuneration of the Volvo Group executive management shall be on market terms and shall consist of the following components: fixed cash salary, variable remuneration, pension benefits and other benefits. The company has complied with the applicable Remuneration Guidelines during 2023.

The sustainability target that the Board decided upon for 2022, focusing on electric vehicle volume was continued in 2023. Electric trucks, buses, construction equipment and drivelines are key drivers for achieving the Volvo Group’s sustainability targets and commitment to the ambitions of the Paris Agreement. The aggregated volume for electric vehicles remains low in comparison to other vehicle volumes, which makes it challenging to set performance ranges. The Volvo Group continues its strong efforts to increase the sales of electric vehicles, to the benefit of Volvo Group’s sustainability performance, and these incentive targets are aimed to promote such sales.

The auditor’s report regarding whether the company has complied with the Remuneration Guidelines is available on the Group’s website: www.volvogroup.com. No remuneration has been reclaimed.

New long-term incentive plan

As described in the Remuneration Report 2022, a new long-term incentive plan with a three-year performance period was proposed in the beginning of 2023, aimed at replacing the then current long-term incentive plan adopted in 2016. It was also proposed that the transition into the new long-term incentive plan would be made in parallel with the phasing out of the current plan through two long-term transition programs for 2023 and 2024. These proposals were approved by the Annual General Meeting in 2023.

The new long-term incentive plan comprises a maximum number of 600 participants, including executive management and employees in certain business-critical positions within the Volvo Group. The new plan has a three-year performance measurement period followed by a one-year lock-in period for the AB Volvo shares that the participants are required to acquire. At the end of the lock-in period, participants may sell their shares. However, members of the Volvo Group Executive Board may only do so if they meet the requirement for owning AB Volvo shares at a value of at least two years of gross base salary for the President and CEO and one year of the gross base salary for the other executives, unless the Board of Directors approve otherwise.

In 2023 the Board of Directors approved a long-term incentive program for 2023 to 2025 (the “LTI Program 2023-2025”) issued under the new long-term incentive plan adopted in 2023. In addition, as part of the two-year phase out of the current long-term incentive plan, the Board of Directors also approved a transition program for 2023 (the “LTI Transition Program 2023”) based on the terms of the long-term incentive plan adopted in 2016. The LTI Transition Program 2023 only applies to long-term incentive participants who were also enrolled in the long-term incentive program decided by the Board of Directors in 2022. Measures have been taken to ensure that parallel application of the long-term programs do not lead to annual payouts exceeding the annual maximum percentage for long-term incentives.

The LTI Program 2023-2025 is linked to two predetermined performance measures:

- AB Volvo’s three-year average ROCE with a linear scale (0% at minimum, 100% at maximum of the scale; relative weighting 70%) and
- The relative three-year average Volvo B total shareholder return vs. MSCI World Machinery Index with a linear scale (20% at minimum, 100% at maximum of the scale; relative weighting 30%) (relative TSR).

The result on each of these two performance measures is determined after the relevant three-year measurement period has ended. The final outcome of the LTI Program 2023-2025 will be presented in the annual report for 2025. The accounting treatment of the LTI Program 2023-2025 is described in Note 27 on p. 141 - 145 of the Annual Report 2023.

Total remuneration of the President and CEO in 2023

Table of total remuneration

The table below sets out total remuneration to AB Volvo’s President and CEO during 2023. All amounts are stated in thousands of SEK (TSEK). It is noted that the information stated in column “Variable remuneration” refers to entitlements built up and accrued during the performance period year 2023, to be paid in 2024.

| Name of individual and position | Financial year | Fixed remuneration * | | Variable remuneration * | | Extraordinary items * | Pension expense | Total remuneration | Proportion fixed/variable remuneration out of total remuneration | |
|-------------------------------------|----------------|----------------------|------------------|----------------------------|-------------------------------|-----------------------|-----------------|--------------------|--|-----------|
| | | Base salary | Other benefits** | One-year variable (STI)*** | Multi-year variable (LTI)**** | | | | Fixed: | Variable: |
| Martin Lundstedt, President and CEO | 2023 | 18 073 | 239 | 17 271 | 26 700 | - | 6 230 | 68 513 | 35,8% | 64,2% |

* The President and CEO has only received remuneration from AB Volvo and not from any other Volvo Group company. The President and CEO has not received any extraordinary remuneration (remuneration that under the remuneration guidelines may be awarded under extraordinary circumstances).

** This includes a company car benefit and medical benefits.

*** See below (*Application of performance criteria*) for a further description of terms and performance targets of the programs 2023.

**** As value to the participants is not available until the fourth year of the program and is based on a combination of both operating performance and share price performance, the LTI Transition Program 2023 is reported as multi-year variable for purpose of this table. There will be no payout under the LTI Transition Program 2023 if the Annual General Meeting in 2024 decides not to distribute any dividends to the shareholders. The President and CEO also participates in the LTI Program 2023-2025. As no remuneration for participants has accrued under 2023 under the terms of this program, no remuneration has been recorded in the table relating to this program. Such remuneration (if any) will be recorded in the Remuneration Report for 2025, when the performance period has ended. For the accounting treatment of the LTI Program 2023-2025, please see Note 27 on p. 141 - 145 of the Annual Report 2023.

Application of performance criteria

A prerequisite for successful implementation of the Group's business strategy is the ability to recruit and retain qualified personnel. To this end, it is necessary that AB Volvo offers competitive remuneration. The Board of Directors and the Remuneration Committee continuously review remuneration to align it with the overall business performance and strategy of the company. For 2023, it is deemed that the total remuneration of the President and CEO is in line with the business performance and implementation of the Group's strategy.

In the beginning of 2023, targets on operating income, operating cash flow and electric vehicle volume were established for the short-term incentive program, and targets on operating income and return on capital employed were established for the LTI Transition Program 2023.

Performance on the short-term and long-term metrics were measured against a range with a minimum and maximum for the financial period and a linear payout in the range.

For the President and CEO, the above resulted in the following result as regards the 2023 short-term incentive program and the LTI Transition Program 2023 (payable in 2024):

| Name, Position | Program | Maximum opportunity as % of base salary | Performance Metrics | Relative weight | Result | Payable as % of base salary |
|-----------------------------------|------------|---|--|-----------------|--------|-----------------------------|
| Martin Lundstedt, President & CEO | Short-term | 100% | Operating income | 45% | 100,0% | 97,0% |
| | | | Operating cash flow from industrial operations | 45% | 100,0% | |
| | | | Electric Vehicle Volume | 10% | 70,3% | |
| | Long-term | 150% | Operating income | 30% | 100,0% | 150,0% |
| | | | Return on Capital Employed | 70% | 100,0% | |

More information can be found in note 27 in Annual Report 2023.

Derogations and deviations from the Remuneration Guidelines

During 2023, no compensation has been provided or promised to the President and CEO or other executive managers which would constitute a derogation or deviation from the Remuneration Guidelines and no derogations or deviations from the Remuneration Guidelines or the procedure for determining remuneration under the Guidelines have taken place.

Comparative information on the change of remuneration and company performance

Table: remuneration and company performance 2019-2023

As per each year, the actual numbers as well as the percentual change as compared to last year, is disclosed.

| | | 2019 | | 2020 | | 2021 | | 2022 | | 2023 | |
|--|--------|--------|---------|--------|--------|--------|-------|--------|-------|--------|--------|
| President and CEO remuneration | TSEK | 35 277 | -18,8% | 43 926 | 24,5% | 49 338 | 12,3% | 58 105 | 17,8% | 68 513 | 17,9% |
| Short term incentive; outcome as % base salary | % | 88,8% | 13% | 70,3% | -20,8% | 88,1% | 25,3% | 80,7% | -8,4% | 97,0% | 20,2% |
| Long term incentive; outcome as % of base salary | % | 0,0% | -100,0% | 70,3% | - | 66,1% | -6,0% | 111,3% | 68,4% | 150,0% | 34,8% |
| Deputy CEO remuneration* | TSEK | 17 515 | -17,0% | 21 308 | 217% | 23 691 | 112% | 25 131 | 6,1% | - | - |
| Group Operating Income | SEK M | 49 531 | 43,7% | 27 484 | -44,5% | 43 074 | 56,7% | 45 712 | 6,1% | 66 782 | 46,1% |
| Operating Cash Flow in industrial operations | SEK bn | 38,3 | 44,0% | 18,5 | -51,7% | 29,4 | 58,9% | 35,3 | 20,1% | 45,8 | 29,7% |
| Return on Capital Employed | % | 28,4 | 26,8% | 14,7 | -48,2% | 25,3 | 72,1% | 27,4 | 8,3% | 36,7 | 33,9% |
| Electric Vehicles Volume | # | | | | | | | 2 073 | 0,0% | 5 110 | 146,5% |
| Average remuneration on a full time equivalent basis of employees (excl. executive management) of the parent company | TSEK | 1 622 | -22,8% | 1 478 | -8,9% | 1 799 | 21,7% | 1 675 | -6,9% | 1 903 | 13,6% |

* The Deputy CEO stepped down at the end of 2022 and was not replaced in this position. Hence, no remuneration is reported for 2023 for this position.

As for the information relating to remuneration, it is noted that the variable remuneration is reported in the year it was accrued, even though paid the year after.

The average incentive outcome for the five years' period amounts to 85,0% for the short-term incentive and 62,1% for the long-term incentive, to be measured against the maximum incentive opportunity.