

# Volvo Group share program for senior executives

For the past several years, Volvo has offered annual incentive programs to senior executives in the Group. Initially, they were in the form of option programs. Since 2004, Volvo has a long-term share-based program. The Board proposes that the Annual General Meeting 2009 adopt a new share-based incentive program. The design of the program will correspond with the prior years' share program.

The Board believes that the share program will be beneficial to the company's shareholders and contribute to recruiting and retaining skilled employees in the Group. The share program is part of the total remuneration for senior executives and the Board believes that it is in the best interest of the company that senior executives are offered personal incentives that are connected to the financial results of the Volvo Group. The value of the program for participants is based on a combination of return on equity for the Group and the share trend.

## The proposed share program in brief:

- Allotment may be a maximum of 2,950,000 Volvo shares.
- Allotment of shares will occur only if return on equity for the Volvo Group exceeds 12%.
- The program has a ceiling that is reached if return on equity for the Volvo Group reaches 15%.
- If return on equity is within the 12 – 15% interval, shares will be allotted proportionally.
- A maximum of 275 senior executives will be included in the program and allotment will occur only to senior executives remaining as employees in the Volvo Group at the grant date.
- Allotted shares must be retained for three years before they can be utilized freely.

The offer to participants in the program is expected to be distributed in April.

The Board's proposal is presented in its entirety on [www.volvo.com](http://www.volvo.com)

The most common questions about the share program prior to the decision by the Annual General Meeting are described below:

### Question

*How is the proposed program designed?*

The value of the program is based on return on equity for the Volvo Group. The years that return on equity exceeds 12%, allotment will occur. Maximum allotment will occur if return on equity amounts to 15%. Proportional allotment will occur within the interval.

The offer to senior executives, who receive an offer to participate in the program, will include information about the targets and the number of shares each individual will receive if the targets are achieved. At the end of each fiscal year, participants will be allotted, free of charge, a number of B shares based on the return on equity achieved. However, the company may decide to allot participants not living in Sweden a cash amount, instead of shares, corresponding to the shares on the grant date. The allotted shares must be retained for three years before participants are allowed to sell the shares, unless permission was received from the person responsible for Human Resources issues within the Group

Executive Committee. However, without such permission, participants are entitled to sell the shares to cover possible income tax for the benefit. Tax regulations vary in different countries. In Sweden, income tax is payable on the value of the shares.

If maximum allotment of shares is achieved for a fiscal year, the President will receive 40,000 shares, other members of the Group Executive Committee 20,000 shares each and other participants in the program 10,000 shares each.

The share program is part of the senior executives' total remuneration package. The other portions of the package include fixed salary, variable salary based on the annual goals, and other benefits, for example, pension. One of the advantages of variable salary is that the company's salary expenses vary with the company's performance.

### **Question**

*How much does the proposed program cost?*

In the event of maximum allotment of shares (2,950,000 shares), it is estimated that the company's cost for the program will amount to SEK 123 M, including social security costs, based on a share price of SEK 35.50.

### **Question**

*How will the number of shares outstanding affect the program?*

Allotment of repurchased shares according to the program would mean a maximum increase in the number of shares outstanding by approximately 0.15%.

### **Question**

*What dividends can the program pay to the individual employee?*

The example below shows the value of the share program for a senior executive who is not a member of the Group Executive Committee.

1. In April 2009, Bertil received an offer to participate in the share program. The program offer stated that Bertil may receive a maximum of 10,000 shares. On the date offered, these shares were valued at SEK 355,000, based on a share price of SEK 35.50.
2. The size of the outcome for Bertil is entirely dependent on how well the Volvo Group operations perform. If the company does not attain its target of at least 12% return on equity, there will be no allotment of shares at all. The same applies if Bertil has resigned from her position at the time of allotment.
3. In our example, it is assumed that return on equity for the Volvo Group for the 2009 fiscal year amounted to 13.5%. Bertil will then receive 5,000 shares during the first six months of 2010, corresponding to 50% of a maximum of 10,000 shares.
4. Bertil may not dispose freely of his shares for three years. Bertil is now a shareholder in the company. If he lives in Sweden or another country where tax is paid, he is entitled to sell as many shares as needed to cover the income tax. Since Bertil has 55% marginal tax, he will sell 2,750 shares and pay the entire sum as tax.

5. At the end of the lock-in period, 2013, Bertil is free to dispose of the shares. He has 2,250 shares. If the Volvo share price has increased to SEK 50.00, the value of the shares will be SEK 112,500. The outcome of the share program was impacted by the Group's return on equity and by the increase in the share price.

If you have any questions, contact AB Volvo, Investor Relations at: Tel: +46 (0) 31-66 13 34  
or E-mail: [investorrelations@volvo.com](mailto:investorrelations@volvo.com)