

The Board of Directors' of AB Volvo proposal to the Annual General Meeting 2011 concerning a long-term share-based incentive plan for senior executives in the Volvo Group comprising the years 2011–13 and the transfer of treasury shares to participants in the plan (Point 18 on the proposed agenda)

Background

With the exception of 2010, AB Volvo has for the past several years offered annual equity based incentive plans to senior executives in the Volvo Group. The guiding principle for remuneration within the Volvo Group is that the remuneration and the other terms of employment for the executives shall be competitive in order to ensure that the Volvo Group can attract and retain competent executives.

In view of the above and with the aim of achieving increased alignment between the interests of the executives and the shareholders of AB Volvo, the AB Volvo Board proposes, after preparation by the Remuneration Committee, that the Annual General Meeting 2011 shall approve to:

- (i) implement a new long-term, share-based incentive plan comprising the years 2011–13 according to the conditions set forth in point A below, and to
- (ii) transfer treasury shares to participants in the plan according to the conditions set forth in point B below.

Under the proposed incentive plan a participant may invest a certain percentage of his or her monthly gross base salary in Volvo B shares and may receive, per share invested and retained during a qualifying period of three years, one matching share and, if certain financial targets are achieved, one or several performance shares. The percentage of the monthly gross base salary to be invested in Volvo B shares is expected to be at least at the same level as initially chosen throughout the three years 2011-2013. If a participant for personal reasons is unable to participate at the initially chosen investment level, the CEO is authorized to make an exception from the investment requirement (if the participant is the CEO, the Chairman of the AB Volvo Board is so authorized). Any such exception is to be reported to the Remuneration Committee.

Participating members of the Group Executive Committee (the "GEC") are expected to invest in and to retain on an ongoing basis, Volvo B shares at least to such extent that their respective holding of invested shares, together with matching shares and performance shares allotted and shares otherwise purchased, corresponds to a value of two annual base salaries for the CEO and one annual base salary for other members of the GEC.

Proposal

A. Long-term share-based incentive plan for senior executives in the Volvo Group comprising the years 2011–13 (the "Plan")

Duration and participation

The proposed Plan consists of three yearly plans: one plan for 2011, one plan for 2012 and one plan for 2013. A maximum of 300 senior executives, including the members of the GEC and other executives nominated by the Remuneration Committee shall be offered to participate in each yearly plan. Nomination and offer shall take place yearly.

Prerequisites

Participation in the Plan presupposes that such participation is legally possible in the various jurisdictions concerned and that the administrative costs and financial efforts are reasonable in the opinion of the AB Volvo Board. The intention is that the terms and conditions for the Plan put forth under Plan Version I below will be offered only to senior executives in Belgium, China, France, Japan, Sweden and the United States of America. Senior executives in countries

where the terms and conditions for Plan Version I will not be offered, will instead be offered to participate in the Plan on the terms and conditions put forth under Plan Version II below.

Plan Version I

Main Principles

The Plan Version I presupposes that the participants shall invest quarterly in Series B shares in AB Volvo ("Investment Shares") at market price and keep those Investment Shares for a time period of at least three years from investment (the "Holding Period"). After the end of the Holding Period the participants may be allotted Volvo B shares as Matching and Performance Shares (defined below).

Allotment of Matching and Performance Shares under the Plan is always made on the conditions that (i) the participant makes an own investment in Investment Shares, (ii) the participant is still an employee of the Volvo Group at the time of allotment of shares except in good leaver situations, and that (iii) the participant still owns the Investment Shares invested in at the time of allotment. The CEO is authorized to decide whether a participant is a good leaver, such as in case of retirement, redundancy or outsourcing (if the participant is the CEO, the Remuneration Committee is so authorized). Such decisions by the CEO shall be reported to the Remuneration Committee. The number of shares to be allotted will increase if certain financial targets are met.

Investment

A participant in a yearly plan may, under such yearly plan, invest an amount corresponding to a percentage of his or her monthly gross base salary for each month that he or she participates in the yearly plan in question. The maximum percentage of the monthly gross base salary that could be invested for each month of participation is 15 % for the CEO and for other members of the GEC and 10 % for other participants.

The participant chooses the amount of his or her gross base salary that he or she wants to invest in Investment Shares under each yearly plan, within the percentage levels above. Deduction is made monthly from his or her net salary. Investment in Investment Shares will be made quarterly (immediately after the release of the quarterly report) for each participant by an external administrator of the Plan.

Matching Shares

At the end of the Holding Period, the participants will be allotted one Volvo B share (a "Matching Share") for each Investment Share purchased at the beginning of the Holding Period and held thereafter until the respective Allotment Date. If the Annual General Meeting to be held following the expiry of any of the financial years 2011, 2012 or 2013 decides that no dividend shall be distributed to the shareholders, no Matching Shares shall thereafter be allotted under the yearly plan related to the financial year immediately preceding such decision by the Annual General Meeting.

Performance Shares

At the end of the Holding Period the participants may, in addition to any Matching Shares, be allotted Volvo B shares if certain financial targets are met ("Performance Shares"). The maximum number of Performance Shares for each Investment Share purchased at the beginning of the Holding Period is seven (7) for the CEO, six (6) for other members of the GEC and five (5) for other participants in the Plan.

Time of Allotment

Allotment of Matching Shares and Performance Shares related to Investment Shares invested in during a quarter is made quarterly in connection with each quarterly report of the Volvo Group, three years after the participants' respective purchase of Investment Shares (the "Allotment

Dates”). In good leaver situations, allotment of Matching Shares and Performance Shares may on an individual basis take place prior to the Allotment Dates.

Plan Version II

Main Principles

For administrative, legal, tax and cost reasons the terms and conditions of the Plan Version I will not be offered to senior executives in all countries. Senior executives in countries where the terms and conditions for Plan Version I will not be offered, will instead be offered to participate in Plan Version II on conditions mainly corresponding to the conditions for Plan Version I, however without a matching element and with a cash-based allotment and on the other principal conditions set forth herein.

The Plan Version II does consequently not presuppose any investments in Volvo shares. Volvo will instead quarterly calculate a fictive number of Volvo B shares for each participant (“Fictive Investment Shares”), which will serve as basis for the allotment to be made under the Plan Version II. Furthermore, the allotment of shares will be replaced with an allotment in cash three years after each quarterly calculation of a number of Fictive Investment Shares has been made by Volvo (the “Qualification Period”). The cash allotment is always made on the condition that the participant is still an employee of the Volvo Group at the time of allotment, except in good leaver situations.

Fictive Investment Shares

For each calendar quarter during the Plan, Volvo will calculate a number of Fictive Investment Shares for each participant comprised by the Plan Version II, according to the following formula:

Number of Fictive Investment Shares for a calendar quarter = 10% of the participant’s gross base salary for the relevant calendar quarter, (converted into SEK) divided by the Volvo B-share price (in SEK) at NASDAQ OMX Stockholm on the first date of purchase of Investment Shares according to the Plan Version I after the end of the calendar quarter in question.

Cash Allotment

At the end of the Qualification Period the participants may be allotted an amount (in local currency) equivalent to the market value of maximum five (5) Volvo B shares for each Fictive Investment Share, if certain financial targets are met.

Time of Allotment

The cash allotment is made quarterly in connection with each quarterly report of the Volvo Group, three years after the Volvo Group has calculated the number of the Fictive Investment Shares to which the allotment relates (the “Cash Allotment Dates”). In good leaver situations, cash allotment may on an individual basis take place prior to the Cash Allotment Dates.

Financial Targets

The financial target for each yearly plan is that the Volvo Group’s ROE, as stated in the annual report for the relevant financial year (2011 for plan 2011, 2012 for plan 2012 and 2013 for plan 2013), amounts to at least 10 percent. Maximum allotment to a participant will be effected if ROE reaches 25 percent. Allotment of the first Performance Share or equivalent cash amount will be made at a ROE of 10.0 percent and allotment of Performance Shares and cash amounts will thereafter be made proportionally within the ROE interval.

Limitation of Allotment

The AB Volvo Board shall, in the event of exceptional conditions, be entitled to limit or omit allotment of Performance Shares and cash allotment according to the Plan Version II if such a measure is considered to be reasonable and consistent with the company’s responsibility towards its shareholders, employees and other interested parties.

Authority to Adjust the Plan

The AB Volvo Board may make amendments to the Plan to the extent such amendments are deemed necessary or appropriate in light of the circumstances at hand, for example to comply with relevant legal, tax or administrative requirements.

Financing

The shares to be allotted under the Plan Version I shall be existing shares. Assuming (i) that all eligible executives qualify for participation in the Plan Version I (thus assuming that no eligible executives qualify for participation in the Plan Version II) (ii) that the maximum investment level is applied by all 300 participants under each yearly plan (iii) that the current salary level of the 300 intended participants in each yearly plan is unchanged throughout the Plan (iv) that ROE for each of the financial years 2011 – 2013 reaches at least 25 percent and (v) a fixed share price of SEK 115 between the start of the Plan 2011 and the last acquisition of Investment Shares under the Plan 2013, the total number of Volvo shares to be transferred as Matching Shares and Performance Shares under the Plan will amount to approximately 9,742,050 (whereof 3,247,350 for each yearly plan, respectively).

For the purpose of meeting AB Volvo's obligations to deliver shares under the Plan Version I AB Volvo may enter into equity swaps with a third party or another arrangement with a third party, which would acquire and transfer the shares in its own name, and/or, subject to approval by the Annual General Meeting under point B below, transfer treasury shares to participants.

The fulfilment of AB Volvo's obligations under the Plan Version II entails only cash transfers.

Costs and cash flow effects

Effect on income statement

The final cost of the proposed Plan is difficult to predict since it depends on several future parameters, such as the participants' investment levels, the ROE outcome and the development of the Volvo share price during the Plan. An estimate of the final cost must thus be based on assumptions regarding those parameters, as made below.

The accumulated effect on the income statement (salary costs and social security costs) relating to the proposed Plan 2011 – 2013, is estimated to be minimum SEK 0 (no participation) and maximum MSEK 485.5 for each yearly plan (assuming (i) that all eligible executives qualify for participation in the Plan Version I and consequently no eligible executives qualify for participation in the Plan Version II, (ii) that a maximum investment level is applied by all 300 participants and (iii) maximum allotment of Performance Shares), whereof MSEK 78.1 relates to the Matching part and MSEK 407.4 relates to the Performance part. The estimates are based on the assumptions that the share price will be fixed at SEK 115 for the whole duration of the Plan and that the current salary level of the intended participants will remain unchanged for the whole duration of the Plan.

The participants comprised by the conditions set forth in the Plan Version II are not entitled to receive any Matching Shares, or the equivalent thereof. The salary and social security costs related to those participants will therefore, under the same assumptions as set forth in the second paragraph above, be less than for corresponding participants in the Plan Version I. The above estimate of the Plan's maximum effect on the income statement is thus based on full participation in the Plan Version I and no participation in Plan Version II.

Effect on Cash Flow

Provided that treasury shares are used for delivery of shares under the Plan Version I and for covering payments of certain costs associated with the Plan the Plan Version I will have no effect on Volvo's cash flow.

If the Annual General Meeting 2011 does not approve the transfer of treasury shares to participants in the Plan, AB Volvo has to transfer Volvo B shares to the participants in the Plan Version I through a third party arrangement. This would lead to a negative cash flow effect as these shares will need to be acquired in the market. The final cash flow effect of the proposed Plan in such a situation is however difficult to predict since it depends on several future parameters, such as the participants' investment levels, the ROE outcome and the development of the Volvo share price during the Plan. An estimate of the final cash flow effect must thus be based on assumptions regarding those parameters, as made below.

Assuming (i) that all eligible executives qualify for participation in the Plan Version I (thus assuming that no eligible executives qualify for participation in the Plan Version II) (ii) that the maximum investment level is applied by all 300 participants under each yearly plan (iii) that the current salary level of the 300 intended participants in each yearly plan is unchanged throughout the Plan (iv) that ROE for each of the financial years 2011 – 2013 reaches at least 25 percent and (v) that the share price will be SEK 115 at implementation of each of the yearly plans and remain at the same level until the final allotment of shares has been made, the total cash flow effect of each yearly plan will amount to approximately MSEK 485.5 (including social security costs).

The participants comprised by the conditions set forth in the Plan Version II are not entitled to receive any Matching Shares, or the equivalent thereof. The cash flow effects related to those participants will therefore, under the same assumptions as above, be less than for corresponding participants in the Plan Version I if treasury shares could not be used for delivery of shares to participants in the Plan. The above estimate of the Plan's maximum effect on the cash flow is thus based on full participation in the Plan Version I and no participation in Plan Version II.

Dilution

AB Volvo has approximately 2.1 billion registered shares. As per 31 December 2010, AB Volvo held approximately 101.0 million shares in treasury. In order to implement the proposed Plan a total of approximately 9.7 million Volvo B shares are required, assuming a share price throughout the Plan's periods of SEK 115. The transfer of the approximately 9.7 million Volvo B shares to the participants free of consideration could cause a dilutive effect of approximately 0.48 percent on earnings per share.

Majority rules

The resolution as regards the approval of the Plan as such requires that more than half of the votes cast at the Annual General Meeting approve the proposal.

Description on ongoing variable remuneration plans

Volvo's ongoing variable remuneration plans are described in the Annual Report 2010 in Note 34 to the Consolidated Financial Statements and on AB Volvo's website.

B. Transfer of treasury shares to participants in the Plan

Transfer of treasury shares to participants in the Plan

Transfer of shares of series B in AB Volvo in order to fulfill AB Volvo's undertakings according to the Plan on the following terms and conditions:

1. The right to acquire shares shall accrue to participants in the Plan and to subsidiaries within the Volvo Group. Such subsidiaries shall be obligated to immediately transfer, free of consideration, shares to participants covered by the terms and conditions of the Plan.

2. The participants in the Plan and subsidiaries within the Volvo Group shall exercise their rights to acquire shares during the period when the participants in the Plan are entitled to receive shares, on one or more occasions, pursuant to the terms and conditions of the Plan, i.e. during the period to and including 2017.
3. Participants in the Plan and Volvo Group subsidiaries shall receive shares of series B in AB Volvo, free of consideration.
4. The reason for deviating from the shareholders' preferential rights is to minimize the cash flow effect of fulfilling Volvo's undertakings according to the Plan.
5. The maximum number of shares of series B that may be transferred shall be the total number of treasury shares held by AB Volvo upon execution of the resolution to transfer the shares.

Majority rules

The resolution on transfer of treasury shares to participants in the Plan requires that shareholders representing at least nine-tenths of the votes cast as well as the shares represented at the Annual General Meeting approve the proposal.