

**POLICY ON REMUNERATION TO SENIOR EXECUTIVES, proposed by the Board of Directors of AB Volvo to be adopted by the Annual General Meeting 2014 (point 19 on the proposed agenda).**

This Policy concerns the remuneration and other terms of employment for the Volvo Group Executive Team. The members of the Volvo Group Executive Team, including the President and any possible Deputy President, are in the following referred to as the “Executives”.

This Policy will be valid for employment agreements entered into after the approval of the Policy by the Annual General Meeting and for changes made to existing employment agreements thereafter.

1 Guiding principles for remuneration and other terms of employment

The guiding principle 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.

The annual report 2013 sets out details on the total remuneration and benefits awarded to the Executives during 2013.

2 The principles for fixed salaries

The Executive’s fixed salary shall be competitive and based on the individual Executive’s responsibilities and performance.

3 The principal terms of variable salary and incentive schemes, including the relation between fixed and variable components of the remuneration and the linkage between performance and remuneration

The Executives may receive variable salaries in addition to fixed salaries. The variable salary may, as regards the President, amount to a maximum of 75% of the fixed annual salary and, as regards the other Executives, a maximum of 60% of the fixed annual salary.

The variable salary may be based on inter alia the performance of the entire Volvo Group or the performance of a certain part of the Group where the Executive is employed. The performance will be related to the fulfilment of various improvement targets or the attainment of certain financial objectives. Such targets will be set by the Board and may relate to inter alia operating income, operating margin or cash flow. The Board may under certain conditions decide to reclaim variable salary already paid or to cancel or limit variable salary to be paid to the Executives.

The Annual General Meeting 2011 decided to adopt a share-based incentive program for senior executives in the Volvo Group relating to the financial years 2011, 2012 and 2013. Since the program adopted in 2011 has expired, the Board has decided to propose to the Annual General Meeting to be held in April 2014 to approve the adoption of a share-based incentive program for senior executives in Volvo relating to the financial years 2014, 2015 and 2016, based on the same principles as the program adopted in 2011.

4 The principal terms of non-monetary benefits, pension, notice of termination and severance pay

4.1 Non-monetary benefits

The Executives will be entitled to customary non-monetary benefits such as company cars and company health care. In addition thereto in individual cases company housing and other benefits may also be offered.

4.2 Pension

In addition to pension benefits which the Executives are entitled to according to law and collective bargaining agreements, Executives resident in Sweden may be offered two different defined-contribution plans with annual premiums. For the first plan the annual premiums amount to SEK 30,000 plus 20% of the pensionable salary over 30 income base amounts and for the second plan the annual premiums amount to 10% of pensionable salary. In the two defined-contribution plans, the pension earned will correspond to the sum of paid-in premiums and possible return without any guaranteed level of pension received by the employee. Further no definite retirement date is set in the two plans but premiums will be paid for the employee until his or her 65<sup>th</sup> birthday.

Executives resident outside Sweden or resident in Sweden but having a material connection to or having been resident in a country other than Sweden may be offered pension benefits that are competitive in the country where the Executives are or have been resident or to which the Executives have a material connection, preferably defined-contribution plans.

4.3 Notice of termination and severance pay

For Executives resident in Sweden, the termination period from the Company will be 12 months and 6 months from the Executive. In addition thereto, the Executive, provided that termination has been made by the Company, will be entitled to 12 months' severance pay.

Executives resident outside Sweden or resident in Sweden but having a material connection to or having been resident in a country other than Sweden may be offered notice periods for termination and severance payment that are competitive in the country where the Executives are or have been resident or to which the Executives have a material connection, preferably solutions comparable to the solutions applied to Executives resident in Sweden.

5 The Board's preparation and decision-making on issues concerning remuneration and other terms of employment for the Volvo Group Executive Team

The Remuneration Committee is responsible for (i) preparing the Board's decisions on issues concerning principles for remuneration, remunerations and other terms of employment for Executives, (ii) monitoring and evaluating programs for variable remuneration, both ongoing and those that have ended during the year, for Executives, (iii) monitoring and evaluating the application of this Policy, and (iv) monitoring and evaluating current remuneration structures and levels in the Company.

The Remuneration Committee prepares and the Board decides on (i) terms of employment and remuneration of the President and the Deputy President, if any, and (ii) principles for remuneration (incl. pension and severance pay) for the Executives. The Remuneration Committee shall approve proposals on remuneration of the members of the Volvo Group Executive Team.

The Remuneration Committee is further responsible for the review and recommendation to the Board of share and share-price related incentive programs to be decided upon by the Annual General Meeting.

6 Authority to decide on deviations from this Policy

The Board of Directors may deviate from this Policy if there are specific reasons to do so in an individual case.

7 Information on earlier decisions on remuneration that has not become due for payment at the time of the Annual General Meeting's consideration of this Policy

The decisions already taken on remuneration to the Executives that has not become due for payment at the time of the Annual General Meeting 2014 fall within the frames of this policy.

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