

# Short summary of the Board's proposal for a share plan for senior executives of the Volvo Group, 2014-2016

## Background

On the Annual General Meeting held in 2011, a share-based incentive plan for senior executives comprising the years 2011-2013, and consisting of three yearly plans, was adopted. For several years prior thereto, with the exception of 2010, Volvo has had yearly incentive plans for the senior executives of the Group. Initially, this was in the form of option programs. Since 2004, Volvo's incentive programs have been share-based.

The Board proposes that the 2014 Annual General Meeting decides on a new share-based incentive plan to senior executives comprising the years 2014-2016, based on the same main principles as the plan for 2011- 2013, however with a gradual increase of the performance targets. The value of the plan for the participants depends on the Group's future return on equity and the price trend of the Volvo share.

The Board considers that a share plan will provide favorable conditions for the Group being able to recruit and retain competent senior executives and provide an alignment between the interests of the senior executives and AB Volvo's shareholders and thereby creating value for the company's shareholders. The share plan is part of the total remuneration for the senior executives and the Board considers that it is in the company's interest that these executives are provided with personal incentives that are linked to the development of the Volvo Group's operations.

## Scope in time and sphere of participants

The proposed share plan is long-term and covers the three years 2014, 2015 and 2016, but comprises three yearly plans, one for each year, 2014, 2015 and 2016. Invitations to participate will be made annually to one yearly plan at a time. A maximum of 300 senior executives will be invited to participate in each yearly plan.

## Personal savings in Volvo shares

Participants in the plan are offered to invest a maximum of 10% to 15% of their gross monthly base salary in Volvo shares ("Investment Shares"). Maximum investment limits depend on position. Within the stated maximum limits, the participants individually decide how large a percentage of the salary they wish to invest in Volvo shares. The percentage that a participant chooses for the first yearly plan in which he or she is invited to participate will apply as a minimum level also for future yearly plans in which the participant is invited to participate (exceptions may be granted by the CEO).

The chosen investment amount will be deducted from the net salary monthly and will be invested quarterly in Volvo shares through an external administrator of the plan.

## Matching Shares

Under the conditions that the participants retain the Investment Shares for at least three years from the investment date and that the participants are employed within the Volvo Group at the end of the three-year period (exceptions may be granted in Good Leaver situations), they will be allotted one Volvo share (a "Matching Share") for each Investment Share. However, allotment of Matching Shares for a yearly plan will not be made if the Annual General Meeting in the following year decides not to distribute dividends to the shareholders.

## **Performance Shares**

In addition to the Matching Shares, the participants in a yearly plan may be allotted additional Volvo shares, ("Performance Shares"), under the conditions that the participants retain the Investment Shares for at least three years from the investment date, at the end of the three-year period are employed within the Volvo Group (exceptions may be granted in Good Leaver situations), and that the Volvo Group's return on shareholders' equity for the fiscal year in question amounts to a minimum level of 10 % for the annual plan 2014, 11 % for the annual plan 2015 and 12 % for the annual plan 2016. The plan has a cap that is reached if the Volvo Group's return on shareholders' equity for the respective fiscal year amounts to 25% for the annual plan 2014, 26 % for the annual plan 2015 and to 27 % for the annual plan 2016. At a return on equity of 10%, 11 % and 12 % respectively, one Performance Share is allotted. Thereafter, the allotment of Performance Shares is proportionate within the ROE interval

At maximum allotment of Performance Shares during a yearly plan, the CEO is allotted seven shares, other members of the Group Executive Team six shares and other participants in the plan five shares each for each Investment Share they have invested in and held during the three-year period.

In the event of exceptional conditions, the Board of AB Volvo is entitled to limit or omit allotment of Performance Shares if such a measure is considered to be reasonable and consistent with the company's responsibility towards its shareholders, employees and other interested parties.

## **Group Executive Team's holdings of Volvo shares**

Participating members of the Group Executive Team 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 Investment 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 Group Executive Team.

## **Cash version**

The aim is to offer senior executives in Belgium, France, Japan, China, Sweden and the US participation in the share plan. For administrative, legal, tax or cost reasons, participants in other countries will be offered to participate in a cash version of the share plan, which does not involve any savings or any matching element. The performance element is based on fictive investment shares and comprises a cash allotment amounting to the value of a maximum of five Volvo shares per fictive investment share if the financial goals that apply for the share plan are fulfilled. A three-year qualification period also applies for the cash version of the plan.

## **Financing**

Under the condition that (i) all 300 participants should receive allotment of actual shares (and that consequently no participant should be included in the cash version of the plan) (ii) all participants invest maximally during each yearly plan (iii) the current salary level of the 300 intended participants in each yearly plan is unchanged throughout the entire plan (iv) that the return on equity for the Volvo Group reaches at least 25 %, 26 % and 27 % respectively for all three years 2014-2016 and that the price of the Volvo B share is fixed at SEK 90 during the entire plan, the total number of Volvo shares to be allotted as Matching Shares and Performance Shares in accordance with the plan will amount to approximately 14,539,536 (of which 4,846,512 for each yearly plan, respectively).

Allotment of Volvo shares in the plan will be implemented either through Volvo entering into a third-party arrangement, in which the acquisition and transfer of shares is carried out in the name of the third party, and/or, subject to approval by an Annual General Meeting, through the transfer of treasury shares to the participants.

**Cost and dilution**

It is difficult to predict the total cost for the plan since this depends on a number of future factors such as the investment level of the participants, the outcome of return on equity for the Volvo Group and the price trend of the Volvo share. Accordingly, an estimate of the final cost must be based on assumptions regarding these factors. Based on the assumptions stated under Financing above, the estimated cost amounts at minimum to SEK 0 and at maximum to SEK 436.9 M for each yearly plan and a maximum dilution is estimated to amount to app. 0.7%.

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