

Remuneration report 2022

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 2022 (the “Remuneration Guidelines”), have been implemented in 2022. The report also provides details on the remuneration of AB Volvo’s President and CEO and Deputy CEO. It is noted that AB Volvo’s Deputy CEO, Jan Gurander, has stepped down as Deputy CEO at the end of 2022.

The report has been prepared in compliance with the Swedish Companies Act and the 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 2022 (the “Annual Report 2022”).

Information on the work of the Remuneration Committee of the AB Volvo Board of Directors in 2022 is set out in the corporate governance report, which is available on p. 186 – 203 in the Annual Report 2022.

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 2022.

2022 summary

Overall performance in 2022

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 2022, available on p. 6-9 and p. 42-73 in the Annual Report 2022.

In 2022 the Volvo Group continued to perform well and took again important steps to transform the Group towards more sustainable transport systems, despite challenges such as component shortages, supply chain disturbances, increased energy prices, and general impacts from the war in Ukraine and imposed sanctions against Russia.

Overview of the application of the Remuneration Guidelines in 2022

The current Remuneration Guidelines, adopted by the annual general meeting 2022, can be found in note 27 in the Annual Report 2022. 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 2022.

As highlighted in previous remuneration reports, the pension commitments for the President and CEO, the Deputy CEO and other executive managers employed in Sweden were changed in 2021, with the aim to simplify the structure of the pension schemes and bring them more in line with the prevailing pension schemes in the Swedish market. As part of the implementation process, the base salary of the employees affected was adjusted and a one-off payment, payable in two instalments, was agreed to. The last instalment was paid in 2022. See note 27 in the Annual Report 2022 for more information.

As informed in the Remuneration Report 2021, the Board decided to add a new sustainability target to the short-term incentive program for 2022, based on electric vehicle volume. 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 volumes is still low, which makes it challenging to set performance ranges. Strong efforts have been made in 2022 to increase the sales of electric vehicles, and this work will continue in 2023, to the benefit of Volvo Group's sustainability performance.

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.

Looking ahead to 2023

Redesign of Volvo's long-term incentive plan

As set out in the Remuneration Report 2021, the Remuneration Committee has during 2022, following a dialogue with shareholders, concluded a review of the design of the company's long-term incentive plan. As a result of this review and dialogue with shareholders, it is proposed to introduce a new long-term incentive plan with a three-year performance period, to be implemented as from 2023 (subject to the approval of the general meeting 2023).

The objective of AB Volvo's long-term incentive plans is to drive long-term value creation and align the interests of the senior management, including the members of the Volvo Group Executive Board ("Executives"), and employees in other business critical positions with those of shareholders. The current plan has served the Volvo Group and its shareholders well in these respects. However, with the Group's current performance and the acceleration of longer-term transformation efforts, the Board believes the time has come to develop a better balance between short-term and long-term goals. This should add an important parameter for the steering of the Group and alignment of longer-term interests, while bringing the long-term incentive plan design further in line with current market practices. Both the current and the new plan, to be proposed, operate on a four-year cycle. However, while the current plan measures performance on an annual basis with a three-year lock-in of shares, it is proposed that the new plan shall have a three-year performance period with a one-year lock-in period for the AB Volvo shares that the participants are required to acquire.

As a consequence of the introduction of the new three-year plan commencing in 2023 it is proposed to phase out the current one-year plan in two years. Hence, it is proposed to continue with the current plan (to be implemented after the annual general meetings 2023 and 2024 respectively), but only for participants who were already enrolled in the current plan by year end 2022. Measures have been taken to ensure that these participants will not be overcompensated under the proposed plan, taking into account awards received under the current plan.

Both plans – the current one-year plan and the new three-year plan to be proposed – are cash-based, where the participants are required to immediately invest the after-tax portion of the payment in AB Volvo shares which must be held for a minimum lock-in period, as defined by each plan. This way, the participants build up a shareholding and have a vested interest in the longer-term development in the value of the AB Volvo shares. At the end of the defined lock-in period, participants may sell their shares. However, Executives may only do so if they meet the requirement for owning AB Volvo shares at a value of at least two years of pre-tax base salary for the President and CEO and one year of the pre-tax base salary for the other Executives. The holding requirements for participants shall cease upon termination of a participant's employment, and the Board may grant such other exceptions to the requirements as the Board deems appropriate.

The proposed program will be brought to the annual general meeting in 2023 for approval. The implementation of the new plan is subject to adoption, by simple majority, of the proposal at the 2023 general meeting. Once approved, the plan is to be implemented, as overseen by the Board and the Remuneration Committee, on a consecutive annual basis going forward, each year’s implementation with a three-year performance measurement period.

Total remuneration of the President and CEO and Deputy CEO in 2022

Table of total remuneration

The table below sets out total remuneration to AB Volvo’s President and CEO and Deputy CEO during 2022. 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 2022, to be paid in 2023.

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)****				
Martin Lundstedt, President and CEO	2022	17,497	279	13,911	19,183	1,199	6,036	58,105	Fixed: 41.0% Variable: 59.0%
Jan Gurander, Deputy CEO	2022	9,543	211	6,051	5,563	532	3,231	25,131	Fixed: 51.7% Variable: 48.3%

* The President and CEO and the Deputy CEO have only received remuneration from AB Volvo and not from any other Volvo Group company. As part of changes of the pension commitments for both individuals, a second instalment was paid under the one-off arrangement agreed (one paid in 2021 and the second one in 2022), as described in previous remuneration reports. Apart from the aforementioned payment, neither the President and CEO nor the Deputy CEO has received any extraordinary remuneration (remuneration that under the remuneration guidelines may be awarded under extraordinary circumstances).

** This includes for both individuals 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 2022.

**** 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 program is reported as multi-year variable for purpose of this table. There will be no payout under this LTI program if the annual general meeting in 2023 decides not to distribute any dividends to the shareholders.

***** For the President and CEO, 2022 is the first full calendar year in which pension is calculated on base salary only.

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 2022, it is deemed that the total remuneration of the President and CEO and the Deputy CEO is in line with the business performance and implementation of the Group’s strategy.

In the beginning of 2022, 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 long-term incentive program.

Performance on all 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 and Deputy CEO, the above resulted in the following result as regards the 2022 incentive programs (payable in 2023):

V O L V O

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%	79.4%	80.7%
			Operating cash flow from industrial operations	45%	100.0%	
			Electric Vehicle Volume	10%	0.0%	
	Long-term	150%	Operating income	30%	79.4%	111.3%
			Return on Capital Employed	70%	72.0%	
Jan Gurander Deputy CEO	Short-term	80%	Operating income	45%	79.4%	64.6%
			Operating cash flow from industrial operations	45%	100.0%	
			Electric Vehicle Volume	10%	0.0%	
	Long-term	80%	Operating income	30%	79.4%	59.4%
			Return on Capital Employed	70%	72.0%	

More information can be found in note 27 in Annual Report 2022.

Derogations and deviations from the Remuneration Guidelines

During 2022, no compensation has been provided or promised to the President and CEO, the Deputy 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 2018-2022

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

		2018		2019		2020		2021		2022	
President and CEO remuneration	TSEK	43,454	-1.0%	35,277	-18.8%	43,926	24.5%	49,338	12.3%	58,105	17.8%
Short term incentive; outcome as % base salary	%	87.7%	-12.3%	88.8%	1.3%	70.3%	-20.8%	88.1%	25.3%	80.7%	-8.4%
Long term incentive; outcome as % of base salary	%	70.5%	-29.5%	0.0%	-100.0%	70.3%	-	66.1%	-6.0%	111.3%	68.4%
Deputy CEO remuneration*	TSEK	21,099		17,515	-17.0%	21,308	21.7%	23,691	11.2%	25,131	6.1%
Group Operating Income	SEK M	34,478	13.7%	49,531	43.7%	27,484	-44.5%	43,074	56.7%	45,712	6.1%
Operating Cash Flow in industrial operations	SEK bn	26.6	-6.3%	38.3	44.0%	18.5	-51.7%	29.4	58.9%	35.3	20.1%
Return on Capital Employed	%	22.4		28.4	26.8%	14.7	-48.2%	25.3	72.1%	27.4	8.3%
Electric Vehicles Volume	#	-		-		-		-		2,073	0.0%
Average remuneration on a full-time equivalent basis of employees (excl. executive management) of the parent company	TSEK	2,100	24.6%	1,622	-22.8%	1,478	-8.9%	1,799	21.7%	1,675	-6.9%

* The Deputy CEO (previously CFO) assumed his position as per Q4 of 2018, but the amounts disclosed for 2018 relate to the full year.

V O L V O

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 83.1% for the short-term incentive and 56.2% for the long-term incentive, to be measured against the maximum incentive opportunity.