

Remuneration report 2021

Introduction

This remuneration report provides an outline of how the guidelines for executive remuneration of AB Volvo, adopted by the Annual General Meeting in March 2021 (the "Remuneration Policy"), have been implemented in 2021. The report also provides details on the remuneration of AB Volvo's President and CEO and Deputy CEO.

The report has been prepared in compliance with the Swedish Companies Act and the Remuneration Rules issued by the Swedish Corporate Governance Board.

Further information on executive remuneration is available in note 27 in the Volvo Group's annual and sustainability report for 2021 (the "Annual Report 2021").

Information on the work of the Remuneration Committee of the AB Volvo Board of Directors in 2021 is set out in the corporate governance report, which is available on p. 180 - 195 in the Annual Report 2021.

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 2021.

2021 summary

Overall performance in 2021

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 2021, available on p. 6 - 9 and p. 76- 151 in the Annual Report 2021.

It was noted that 2021 was a challenging year, where the Volvo Group continued to be impacted by the effects from the Covid-19 pandemic, such as component shortages and supply chain disturbances. However, despite the challenging situation, the Volvo Group continued to perform well and took important steps to transform the Group towards more sustainable transport systems.

Overview of the application of the Remuneration Policy in 2021

The current Remuneration Policy, adopted by the Annual General Meeting 2021, can be found in note 27 in the Annual Report 2021. Under this policy, 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 Policy during 2021.

As highlighted in the Remuneration Report 2020, the Remuneration Committee and the Board proposed in 2021 a change to the pension commitments for the President and CEO, the Deputy CEO and other executive managers employed in Sweden, 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. The proposed changes were implemented from 1 July 2021, following adoption by the Annual General Meeting of a revised Remuneration Policy in March 2021 and upon acceptance by the employees concerned. To make the changes cost neutral for the employees concerned, the employees' base salary was adjusted, and a one-off payment, payable in two instalments, was agreed to. See note 27 in the Annual Report 2021 for more information.

The auditor's report regarding whether the company has complied with the Remuneration Policy is available on the Group's website: www.volvogroup.com. No remuneration has been reclaimed.

Looking ahead to 2022

Review of remuneration structure and consideration of shareholder views

The Remuneration Committee has spent time throughout 2021 reviewing the current Remuneration Policy and Volvo Group's incentive structure. The aim has been to ensure that the remuneration structure supports the delivery of Volvo Group's long-term strategy and sustainable shareholder value, alignment with the interests of shareholders and wider community while delivering market competitive remuneration to employees, enabling the Volvo Group to attract, incentivize and retain the best talents. During 2021, the Remuneration Committee has reviewed the competitive market practice and trends, emerging best practices and consulted with both internal and external stakeholders. The Remuneration Committee has carefully considered feedback received from shareholders and proxy advisors in connection with the Annual General Meeting and otherwise during the year. As a result of this review, the following changes are proposed to the remuneration structure in 2022.

Inclusion of a sustainability measure in 2022 short-term incentive program

The Board has decided to add a sustainability target to the short-term incentive program for 2022. Sustainability is an integral part of the Volvo Group's business, and the Group supports the ambitions of the Paris agreement. In 2020, the Volvo Group committed to the Science-Based Targets initiative "Business Ambition for 1.5°C". The Volvo Group is targeting a net zero value chain offer by 2040. In June 2021, the Group's proposed targets and pathway towards a net-zero greenhouse gas emissions value chain as per the time-plan stated above were validated by the Science Based Targets initiative. To further promote this on-going transformation, the Board has decided to add a specific sustainability target to the short-term incentive program for 2022. A key driver for achieving the Science-Based Targets is to put electric trucks, buses, construction equipment and drivelines in use. Electric vehicle volume has therefore been chosen as the most relevant sustainability measure to introduce short term.

Adjustments to 2022 Remuneration Policy

In order to bring the total remuneration towards more market competitive level, it is proposed to increase the maximum long-term incentive opportunity level for the President and CEO, from maximum 100 % of base salary as of today to maximum 150 % of the base salary. In addition, increasing the long-term incentive where the pay-out is 100% invested into Volvo shares subject to a three-year holding period will further strengthen the alignment with long-term shareholder interests. The 2022 Remuneration Policy will also include some clarifications regarding pensionable salary and incentive programs.

Redesign of Volvo's long-term incentive plan during 2022

The Remuneration Committee has also initiated a review of the design of the long-term incentive program. The long-term incentive program has since 2016 operated on a four-year cycle, with a performance based annual award which, after tax, is entirely invested in Volvo shares with a mandatory lock-in period of three years. The intention is to conclude the on-going review of the long-term incentive program during 2022 and to propose a new program with a three-year performance period with start of implementation in 2023. It is envisaged that the transition into a new long-term incentive program with a three-year performance period might require a transition plan and that the performance measures will have to be revisited due to the cyclicity of the Volvo Group's businesses.

Total remuneration of the President and CEO and Deputy CEO in 2021

Table of total remuneration

The table below sets out total remuneration to AB Volvo’s President and CEO and Deputy CEO during 2021. All amounts are stated in thousands of SEK (TSEK). It is noted that the information stated under column “Variable remuneration” refers to entitlements built up and accrued during the performance period year 2021, to be paid in 2022.

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	2021	16 308	300	14 157	10 609	745	7 219	49 338	Fixed 44,4% Variable: 55,6%
Jan Gurander, Deputy CEO	2021	8 843	152	6 132	4 595	344	3 629	23 691	Fixed: 49,7% Variable: 50,3%

* The President and CEO and the Deputy CEO have only received remuneration from AB Volvo, and not from any other Volvo Group company. In order to make the changes of the pension commitments cost neutral for both individuals, the base salary in scope was adjusted and a one-off arrangement was made for each individual. The one-off arrangement is made in two instalments (one in 2021 and one in 2022). Apart from the aforementioned payment, neither the President and CEO nor the Deputy CEO has received any extraordinary remuneration (remuneration that under the remuneration policy 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 2021.

**** 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 2022 decides not to distribute any dividends to the shareholders.

***** For the President and CEO, the pension expense consists of 5,295 TSEK related to fixed salary, and 1,923 TSEK related to variable salary. For the Deputy CEO, the pension expense consists of 2,773 TSEK related to fixed salary, and 852 TSEK related to variable salary.

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 2021, 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 2021, targets on operating income and operating cash flow 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 2021 incentive programs (payable in 2022):

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	50%	76,3%	88,1%
			Operating cash flow from industrial operations	50%	100,0%	
	Long-term	100%	Operating income	30%	76,3%	66,1%
			Return on Capital Employed	70%	61,7%	
Jan Gurander, Deputy CEO	Short-term	80%	Operating income	50%	76,3%	70,5%
			Operating cash flow from industrial operations	50%	100,0%	
	Long-term	80%	Operating income	30%	76,3%	52,8%
			Return on Capital Employed	70%	61,7%	

More information can be found in note 27 in Annual Report 2021.

Derogations and deviations from the Remuneration Policy

During 2021, 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 Policy and no derogations or deviations from the Remuneration Policy or the procedure for determining remuneration under the policy have taken place.

Comparative information on the change of remuneration and company performance

Table: remuneration and company performance 2017-2021

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

		2017	2018		2019		2020		2021	
President and CEO remuneration	TSEK	43 906	43 454	-1,0%	35 277	-18,8%	43 926	24,5%	49 338	12,3%
Short term incentive; outcome as % base salary	%	100,0%	87,7%	-12,3%	88,8%	1,3%	70,3%	-20,8%	88,1%	25,3%
Long term incentive; outcome as % of base salary	%	100,0%	70,5%	-29,5%	0,0%	-100,0%	70,3%	-	66,1%	-6,0%
Deputy CEO remuneration*	TSEK		21 099		17 515	-17,0%	21 308	21,7%	23 691	11,2%
Group Operating Income	SEK M	30 327	34 478	13,7%	49 531	43,7%	27 484	-44,5%	43 074	56,7%
Operating Cash Flow in industrial operations	SEK bn	28,4	26,6	-6,3%	38,3	44,0%	18,5	-51,7%	29,4	58,9%
Return on Capital Employed	%		22,4		28,4	26,8%	14,7	-48,2%	25,3	72,1%
Average remuneration on a full time equivalent basis of employees (excl. executive management) of the parent company	TSEK	1 685	2 100	24,6%	1 622	-22,8%	1 478	-8,9%	1 799	21,7%

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

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 87.0% for the short-term incentive and 61.4% for the long-term incentive, to be measured against the maximum incentive opportunity.

Remuneration Report format – increasing the pay-for-performance transparency

As in line with comments received from shareholders during 2021 as regards the format of the Remuneration Report, the Report has been developed to include further details regarding the historical comparative information on the change of remuneration and company performance, as set out in the table above.

As per mandate from the Board of Directors, I hereby approve the above remuneration report.