

AB VOLVO BOARD'S REPORT AS OF MARCH 2018 ON THE RESULTS FROM THE REMUNERATION COMMITTEE'S EVALUATION OF REMUNERATION SYSTEMS APPLIED IN VOLVO

The Remuneration Committee

The Board of AB Volvo has established a Remuneration Committee for the purpose of preparing and deciding on issues relating to remuneration to senior executives. The Remuneration Committee further monitors and evaluates:

- (i) programs for variable remuneration to senior executives in Volvo,
- (ii) the application of the guidelines for remuneration to the Executive Board members (the "Executives"), established by the Annual General Meeting, and
- (iii) the current remuneration structures and levels.

2017 Reward Systems

Remuneration Policy

The Remuneration Policy adopted by the AGM in 2017 stipulates that it applies for the Executives. The Remuneration Policy sets forth the guiding principle that remuneration and other terms of employment for the Executives shall be competitive in order to ensure that the Volvo Group can attract and retain competent Executives. Further the Policy stipulates that the Executives may receive short term and long term incentives in addition to fixed salaries, up to a certain percentage of the Executives' fixed salary.

The Policy further stipulates maximum 12 months' notice period if the termination is initiated by the company and a maximum 6 months' notice period if the termination is initiated by the Executive. In addition thereto, the Executives, provided that termination has been made by the company, may be granted 12 months' severance pay.

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

Short term incentive (STI) program 2017

The STI program for 2017 was based on annual performance targets measured on operating income and operating cash flow levels achieved for 2017 with annual pay-outs.

The operating income and operating cash flow targets were measured on a Group level for the Executives. For senior management levels below the Executives, targets were measured either on Group only or if active in a business area, partly on a Group level and partly on a business area/regional/brand/local level.

The pay-out levels under the STI program are maximum 100 % of the base salary for the CEO and maximum 80 % of the base salary for the other Executives.

The outcome of the 2017 STI targets relating to operating income and operating cash flow amounted to 100% of the fixed salary for the CEO and to about 78% of the fixed salary in average for the other Executives.

Long term incentive (LTI) program 2017

The cash based LTI plan comprised the top 300 executives in the Volvo Group with the purposes of rewarding long-term company performance.

The cash-based plan was introduced in 2016, and no major changes were made to the 2017 LTI plan as compared to previous year. It is a cash-based plan with annual performance targets measured on operating income and operating cash flow levels achieved for 2017 with annual pay-outs. The operating income and operating cash flow targets were measured on a

Group level for all LTI plan participants. The participants in the LTI plan undertake to invest the annual net (after tax) pay-out amounts under the plan in Volvo B-shares and to hold those shares for at least three years

The pay-out levels under the LTI program are maximum 100 % of the base salary for the CEO and maximum 80 % of the base salary for the other Executives. There will however be no pay-out under the LTI plan if AB Volvo's AGM held decides not to distribute any dividend to the shareholders.

The outcome of the 2017 LTI targets relating to operating income and operating cash flow amounted to 100% of the fixed salary for the CEO and to 80% of the fixed salary in average for the other Executives.

2018 Reward Systems

STI and LTI programs 2018

It is considered that the LTI and STI programs 2016 and 2017 have been well balanced and worked well. Hence, as for 2018, the Remuneration Committee has proposed to the Board, and the Board has approved, to in all major parts keep the content of the STI and LTI programs unchanged as compared to the STI and LTI programs for 2017.

Remuneration policy

The Remuneration Committee has proposed to the Board, for presentation by the Board to the AGM in April 2018, to not make any revisions to the 2018 Remuneration Policy as compared to the 2017 Remuneration Policy, with the exception of editorial changes.

March 2018

AB Volvo (publ)
The Board of Directors