

Long-term, share-based incentive plan for senior executives in the Volvo Group, comprising the years 2011-2013

Background

For the past several years, 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 Annual General Meeting of AB Volvo held on April 6, 2011 decided to implement a share-based incentive plan for senior executives comprising the years 2011-2013, according to a proposal from the Board. The value of the plan for the participants depended on the Group's future return on equity and the price trend of the Volvo share. Allotments of shares under the program for 2011-2013 are still on-going.

Scope in time and sphere of participants

The share plan was long-term and covered the three years, 2011 to 2013, but comprised three yearly plans for each year, 2011, 2012 and 2013. Invitations to participate were made annually to one yearly plan at a time. A maximum of 300 senior executives were invited to participate in each yearly plan.

Personal savings in Volvo shares

Participants in the plan were offered to invest a maximum of 10% to 15% of their gross monthly salary in Volvo shares ("Investment Shares"). Within the stated maximum limits, the participants individually decided how large a percentage of the salary they wished to invest in Volvo shares. The percentage that a participant chose for the first yearly plan in which he or she was invited to participate did apply as a minimum level also for future yearly plans in which the participant was invited to participate (exceptions could be granted by the CEO).

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

Matching Shares

Under the condition that the participants retained the Investment Shares for at least three years from the investment date and at the end of the three-year period were employed within the Volvo Group (exceptions could be granted by the CEO), they could be allotted one Volvo share (a "Matching Share") for each Investment Share. However,

allotment of Matching Shares for a yearly plan would not be made if the Annual General Meeting in the following year decided not to distribute dividends to the shareholders.

Performance Shares

In addition to the Matching Shares, the participants in a yearly plan could be allotted additional Volvo shares, ("Performance Shares"), if the main terms for allotment of Matching Shares were fulfilled and the Volvo Group's return on equity for the fiscal year in question amounted to at least 10% according to the Volvo Group's Annual Report. The plan had a cap that was reached if the Volvo Group's return on shareholders' equity for the respective fiscal year amounted to 25%. At a return on equity of 10%, one Performance Share per Investment Share was allotted. Thereafter, the allotment of Performance Shares was proportionate within the interval 10-25%.

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

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

Group Executive Committee's holdings of Volvo shares

Participating members of the Group Executive Committee were 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, corresponded to a value of two annual base salaries for the CEO and one annual base salary for other members of the Group Executive Committee.

Cash version

The aim was to offer senior executives in Belgium, France, Japan, China, Sweden and the US partici-

pation in the share plan. For administrative, legal, tax and cost reasons, participants in other countries were offered to participate in a cash version of the share plan, which did not involve any savings nor any matching element. The performance element was based on fictive investment shares and comprised a cash allotment amounting to the value of a maximum of five Volvo shares per fictive Investment Share if the financial goals that applied for the share plan were fulfilled. A three-year qualification period did apply also for the cash version of the plan.

Financing and costs

At year-end 2013/2014 the total number of Volvo shares, to be allotted after the three-year period as Matching- and Performance Shares under the program 2011- 2013, amounted to about 3,422,000.

The total cost for the whole program for 2011-2013, including social security cost, is according to the Volvo Group Annual Reports of 2011-2013 estimated to 466 MSEK, whereof 273 MSEK relate to the program for 2011, 148 MSEK relate to the program for 2012 and 45 MSEK relate to the program for 2013.