

AB VOLVO BOARD'S REPORT AS OF FEBRUARY 2020 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.

2019 Reward Systems

Remuneration Policy

The Remuneration Policy adopted by the AGM in 2019 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 base salaries, up to a certain percentage of the Executives' base 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 2019

The STI program for 2019 was essentially unchanged compared to the previous year's STI program, and was thus based on annual performance targets measured on operating income and operating cash flow levels achieved for 2019 with annual pay-out.

The operating income and operating cash flow targets were measured either exclusively on the Group's performance or partly on Group's performance and partly on the performance of the program participant's organization/regional unit.

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

The outcome of the 2019 STI program amounted to 88.8 % of the annual base salary for the President and CEO and to 68.7 % of the annual base salary in average for the other Executives.

Long term incentive (LTI) program 2019

The objective with the LTI program is to reward long-term company performance. No major changes were made to the 2019 LTI program as compared to the previous year.

The LTI program for 2019 was consequently cash based with annual performance targets measured on operating income and operating cash flow levels achieved for 2019 and comprised the top 300 executives in the Volvo Group.

The operating income and operating cash flow targets were measured on a Group level for all LTI program participants. The LTI program participants are obliged to invest the annual net (after tax) pay-outs amounts 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 annual base salary for the President and CEO and maximum 80 % of the annual base salary for the other Executives. There will however not be any pay-out under the LTI program if AB Volvo's AGM to be held in April 2020 decides not to distribute any dividend to the shareholders.

The outcome of the 2019 LTI program amounted to 93.8 % of the annual base salary for the President and CEO and to 75.0 % of the annual base salaries of the other Executives. Pay-out is however, as set out above, subject to the 2020 AGM's decision to distribute dividend to the shareholders.

2020 Reward Systems

STI and LTI programs 2020

It is considered that the LTI and STI programs 2018 and 2019 have been well balanced and worked well. Hence, as for 2020, the Remuneration Committee has proposed to the Board, and the Board has approved, to keep the content of the STI and LTI programs essentially unchanged as compared to the STI and LTI programs for 2019 with the exception that the cash flow performance parameter will be replaced by a return on capital employed performance parameter in respect of the LTI program.

Remuneration policy

The new remuneration policy, to be adopted at the 2020 AGM, is proposed to be amended for compliance with the new statutory requirements and will be proposed to apply for a four-year term.

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AB Volvo (publ)
The Board of Directors