PACCAR FINANCIAL EUROPE BV
FINANCIAL STATEMENTS 2016

PACCAR Financial Europe BV
Hugo van der Goeslaan 1
5643 TW Eindhoven
The Netherlands

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FINANCIAL REVIEW BY MANAGEMENT

General

PACCAR Financial Europe BV (“the Company”) is an indirect wholly owned subsidiary of PACCAR Inc (“PACCAR”) headquartered in Bellevue, Washington, USA and provides financing of trucks and related equipment manufactured primarily by DAF Trucks NV (“DAF”) and principally sold by independent authorized DAF dealers. The Company also finances DAF dealer inventories of new and used DAF trucks. Furthermore, the Company provides short term and long term truck and trailer rental services through its full service lease subsidiary, PACCAR Leasing GmbH (PacLease).

The current board has been selected based on their wide ranging experience, backgrounds, skills, knowledge and insights, regardless of gender. Currently, there are no female representatives on the board of directors. With respect to the board of directors, the legislation regarding diversity will be taken into account at the moment of new appointments.

2016 Group Results compared to 2015

The Western European above 16 ton truck market increased 12% to 303,000 registrations (2015: 269,000). The 6-16 ton truck market in Western Europe increased 8% to 53,000 registrations (2015: 49,000).

The Company provided retail financing for 25.3% of DAF trucks registered in all markets in which the Company operated in 2016 compared to 26.4% in 2015. The decrease in market share reflected a higher number of cash buyers and increased bank competition.

The portfolio of finance receivables and equipment on operating leases increased from €1.88 billion to €2.03 billion at December 31, 2016. The higher asset base resulted from growth in all markets reflecting the strong truck market as well as the increase of DAF market share. Strong new business growth in the U.K. was more than offset by the negative effect of the depreciation of the pound sterling compared to the euro. Furthermore, lower repossessions due to improved portfolio quality contributed to the growth. Wholesale receivables decreased to €484 million at December 31, 2016 from €572 million at December 31, 2015 reflecting a reduction in Dealer wholesale unit inventories and increased wholesale financing alternatives for dealers. Commercial paper, loans and term debt, on which the Company pays interest, increased to €2.12 billion at the end of 2016 from €2.02 billion, consistent with the asset growth.

Company revenue decreased by €19 million to €367 million reflecting lower used truck revenues and lower revenue from financing reflecting the decreased interest rates. The decrease is partially offset by increased average receivables and higher rental income. The Company reported pre-tax income of €48.0 million for the year ended December 31, 2016, compared to pre-tax income of €44.4 million in 2015. The pre-tax result reflects lower interest expense, lower operating expenses and lower additions to the allowance for impairment losses, partially offset by lower revenue, higher depreciation and higher selling and administrative expenses. Net income in 2016 is €38.9 million compared to 2015 net income of €34.8 million. The effective tax rate of 18.9% decreased from 21.5% reflecting the recognition of the deferred tax asset in Germany.

At year end, 320 people were working for the Company compared to 303 at year end 2015.

Risks and Risk Management

The company has an excellent risk management process in place. The following are significant risks which could have a material impact on the Company's financial condition or results of operations.

Sales of DAF products

As a captive lease company, the Company's business is substantially dependent upon the sale of DAF products and its ability to offer competitive financing in Europe. Changes in the volume of DAF sales due to a variety of reasons could impact the level of business of the Company.

Competitive risk

The Company competes with banks, other commercial finance companies and financial services firms which may have lower costs of borrowing, higher leverage or market share goals that result in a willingness to offer lower interest rates or assume greater risk. This may lead to decreased company margins, lower market share or both. Compared to the competition, the Company benefits from the relationships with PACCAR Inc., the Company's ultimate parent, DAF, the DAF dealer network and superior knowledge of DAF products.

Foreign currency risk and translation risk

The Company's consolidated financial results are reported in Euro while a significant part of the Companies operations are denominated in GBP. Currency exchange rate fluctuations can affect the Company's assets, liabilities and results of operations through both translation and transaction risk, as reported in the Company's financial statements. The Company uses certain derivative financial instruments to reduce the effects of foreign currency exchange rate fluctuations. The Company strives to limit the effects of foreign currency exchange rate fluctuations to net investments in foreign currency entities. Foreign currency risk and financial instruments are further disclosed in notes 18 and 19 of the consolidated financial statements.

Interest rate risk

The Company is subject to interest rate risks, because increases in interest rates can reduce demand for its products, increase borrowing costs and potentially reduce interest margins. The Company uses derivative contracts to match the interest rate and related currency characteristics of its debt to interest rate characteristics of its finance receivables in order to mitigate the risk of changing interest rates. The effectiveness of hedging interest rate risk and other information about interest rate risk and financial instruments are further disclosed in notes 18 and 19 of the consolidated financial statements.

Residual value risk

Residual value risk is the risk that the estimated residual value of leased assets established at lease origination will not be recoverable when the leased asset is returned to the Company. The Company has extensive knowledge of the residual value development of the trucks and has access directly and through DAF and its dealer network to public and private sales outlets to remarket trucks. When the market value of these leased assets at contract maturity or at early termination is less than its contractual residual value, the Company is exposed to a risk of loss on sale of returned equipment. Also changes in legislation and regulatory requirements can impact the residual value of leased assets of the Company. For example, changes in emission standards could impact the demand for and the timing of the delivery of new trucks as well as the residual value of trucks returning from operating lease agreements. A frequent review of the residual values of leased equipment is performed and when necessary, depreciation is adjusted as appropriate.

Credit risk

Credit risk is the risk that a counterparty will be unable to repay amounts in full when due. Before financing equipment, the Company evaluates the creditworthiness of customers utilizing both internal and external sources of information. A separate credit department is responsible for establishing guidelines for granting credit to customers. Business origination and the credit department work independently within the Company. Credit policy, procedures and risk analysis methods establish the framework for credit control, in order to guarantee consistent procedures in risk analysis and credit decisions. Credit risk is further disclosed in note 18 of the consolidated financial statements.

Liquidity risk

Disruptions or volatility in the European financial markets could limit the Company's sources of liquidity, or the liquidity of customers and dealers. The Company is exposed to liquidity risk from the potential limited market availability of funds at the time of repayment of short-term and long-term debt. The Company's policies strive to mitigate liquidity risk by overdraft and credit facilities. Debt maturities are managed to reflect the maturity profile of the assets. The Company, including its wholly owned subsidiary in the U.K., PACCAR Financial Plc, funds it's financing activities through a €1.25 billion Commercial Paper (CP) program, a €2.5 billion Euro Medium Term Note (EMTN) and loans from other PACCAR group companies. The CP program is rated A-1 and the EMTN program is rated A+ by Standard & Poor's Rating Services. These programs are supported by a keep-well agreement from PACCAR Inc. A lowering of the Company's credit ratings could increase the cost of borrowing and adversely affect access to capital markets.

The medium-term notes are listed on the London Stock Exchange and SIX Swiss Stock exchange. The Company issued €300 million of debt under the EMTN program in 2016.

The Company was able to meet its 2016 financing needs through collections on outstanding loans and leases, the issue of commercial paper, Euro Medium Term Notes and loans from other PACCAR group companies. In 2016 the Company borrowed $122 million from PACCAR Financial Corp and $228 million from PACCAR Inc.

Back-up liquidity is provided to the Company through overdraft and credit facilities and PACCAR's consolidated cash. The capital and liquidity policies are further disclosed in notes 18 and 19 to the consolidated financial statements.

Operational risks

Operational risks include the risk that systems or processes fail or do not work properly due to human or technical errors or unforeseen external influences (business risks) or due to contractual relationships (legal risks) of the Company.

The Company relies on information technology systems, including the internet and other computer systems, which may be subject to disruptions during the process of upgrading or replacing software, databases or components, power outages, hardware failures, computer viruses or outside parties attempting to disrupt the Company's business or gain unauthorized access to the Company's electronic data. The Company maintains protections to guard against such events. If the Company's computer systems were to be damaged, disrupted or breached, it could result in a negative impact on the Company's operating results and could also cause reputational damage, business disruption or the disclosure of confidential data.

The Company's reputation and its brand name are valuable assets and claims or regulatory actions, even unsuccessful or without merit, could adversely affect the Company's reputation and the brand image. An extensive compliance program is in place to ensure that employees are aware of applicable rules and regulations. On 31 December 2016, as in the previous year, the company had no special reserves for lawsuits.

2017 Outlook

It is estimated that European truck industry sales in the above 16-ton market in 2017 will be in the range of 260,000-290,000 vehicles, dependent on economic developments. With a class-leading product range, top quality services and a strong dealer network, DAF is well positioned to grow market share in the coming years. 2017 production levels are expected to develop in line with the estimated truck market.

The Company expects its finance receivables and equipment on operating lease portfolio in 2017 to increase modestly by growing new business in current markets and entering new markets through cross border leasing. Furthermore, the Company will start doing business in Portugal through a new legal entity. The Company expects to continue to meet its debt funding needs in 2017 through the public debt market and loans from other PACCAR group companies. The credit risks to which the Company is exposed are forecasted to be comparable to 2016. Furthermore, the value of the Company's collateral is expected to be comparable to the current levels.

The Company continues to manage its selling and administrative expenses commensurate to economic circumstances. The number of people working for the Company is expected to grow slightly in 2017 reflecting the increasing business and continued geographic expansion.

Forward Looking Statements

Certain information presented in this financial review by management contains forward-looking statements, which are subject to risks and uncertainties that may affect actual results. Risks and uncertainties include, but are not limited to: European and individual country economic, political and industry conditions; changes in levels of new business volume due to unit fluctuations in new DAF truck sales; changes in competitive factors; changes affecting the profitability of truck owners and operators, including fuel costs, price changes impacting equipment costs and residual values; changes in costs, credit ratings or other factors that would affect financing costs; insufficient liquidity in the capital markets and availability of other funding sources; and legislation and governmental regulation.

Eindhoven, The Netherlands
April 7, 2017

G.J.B. Bas R. E. Armstrong

R. A. Bengston
Directors PACCAR Financial Europe BV

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016

(Before appropriation of net income)

In €'000

ASSETS	**Notes**	**2016**	2015
Cash and cash equivalents	4	25,048	18,154
Wholesale receivables, net	5	484,449	571,810
Inventory, prepaid expenses and other current assets	6	63,397	42,373
Equipment on operating lease, net	7	739,769	629,632 *
Finance and other receivables, net	8	1,294,131	1,249,658
Deferred income tax assets	9	23,495	16,255
Other non-current assets	10	29,818	14,399 *
Intangible assets	11	323	485
Total Assets		**2,660,430**	**2,542,766**

EQUITY & LIABILITIES			
Liabilities			
Accounts payable, accrued expenses and other	12	79,484	99,875
Commercial paper, bank loans and other short-term debt	13	604,574	791,101
Term debt	14	1,517,501	1,231,037
Deferred income tax liabilities	9	1,643	837
Other non-current liabilities	15	49,612	29,130
Total Liabilities		**2,252,814**	**2,151,980**
Shareholder's equity			
Paid-in capital	16	13,000	13,000
Additional paid-in capital	16	224,046	224,046
Foreign currency translation	16	(18,516)	(8) *
Accumulated fair value changes of financial instruments	16	(8,122)	(4,495)
Retained earnings previous years		158,243	123,407 *
Net income		38,965	34,836
Total Equity		**407,616**	**390,786**
Total Equity and Liabilities		**2,660,430**	**2,542,766**

* See note 2. 'Summary of significant accounting policies' for further details regarding the correction.

CONSOLIDATED INCOME STATEMENT - 2016

In €'000	**Notes**	**Year ended December 31**	
		2016	2015
Revenue	20	**367,038**	**385,554**
Cost of sales used trucks	20	107,605	136,601
Interest expense	21	17,798	21,932
Depreciation and operating expense - operating leases	7	143,646	127,572
Other operating expense	22	18,058	20,182
(Release of) / addition to allowance for impairment losses	8	(1,463)	3,496*
Selling and administrative expense	23	33,349	31,379
		318,993	**341,162**
Income before income taxes		**48,045**	**44,392***
Income tax expense	24	9,080	9,556
Net income		**38,965**	**34,836**

* See note 2. 'Summary of significant accounting policies' for further details regarding the correction.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME - 2016

In €'000	**Notes**	**Year ended December 31**	
		2016	2015
Net income		**38,965**	**34,836**
Other comprehensive income/ (loss)			
Foreign currency translation	16	(18,502)	6,152
Movement on cash flow hedges	16	(4,560)	2,989
Income tax effect	16	927	(711)
Net movement on financial instruments		(3,633)	2,278
Total other comprehensive income to be reclassified to income statement in subsequent periods		**(22,135)**	**8,430**
Total comprehensive income, net of tax		**16,830**	**43,266**

CONSOLIDATED STATEMENT OF CASH FLOWS - 2016

In €'000	Notes	Year ended December 31	
		2016	2015
Operating activities:			
Net income		38,965	34,836
Acquisition of equipment on operating lease	7	(374,225)	(313,052)
Disposal of equipment on operating lease	7	126,825	109,138
Net decrease/(increase) in wholesale receivables	5	87,629	(111,852)
Items included in net income not affecting cash:			
Depreciation and amortization	7,10,11	139,181	124,362
Allowance for impairment	5,7,8	2,062	5,534
Deferred income tax expense	9	(5,701)	167
Derivative contracts	19	(36,646)	5,588
Net foreign exchange differences		(18,546)	6,222
Other, net	26	1,366	741
Net cash used in operating activities		**(39,090)**	**(138,483)**
Investing activities:			
Finance and other receivables originated	8	(606,620)	(595,893)
Collections on finance and other receivables	8	561,391	431,199
Other, net	10	(26)	(395)
Net cash used in investing activities	26	**(45,255)**	**(165,089)**
Financing activities:			
Net change in Commercial Paper	13	(187,196)	342,004
Net proceeds from/ (payments to) affiliates	12, 13, 14	325,186	(122,747)
Net proceeds from/ (payments on) Medium Term Notes	14	(46,630)	97,892
Net cash used in financing activities	26	**91,360**	**317,149**
Net foreign exchange difference on cash		(121)	(89)
Net increase in cash and cash equivalents		**6,894**	**13,488**
Cash and cash equivalents at beginning of period	4	18,154	4,666
Cash and cash equivalents at end of period		**25,048**	**18,154**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - 2016

In €'000	Paid-in capital*	Additional paid-in capital*	Foreign currency trans-lation*	Accumu-lated fair value changes financial instruments*	Retained earnings previous years	Net income	**Total**
As of January 1, 2015	13,000	224,046	(6,163)	(6,767)	88,961	32,151	345,228
Correction	-	-	(3)	-	-	2,295	2,292 **
Restated as per January 1, 2015	13,000	224,046	(6,166)	(6,767)	88,961	34,446	347,520
Net income	-	-	-	-	-	34,836	34,836
Other comprehensive income			6,152	2,278	-	-	8,430
Total comprehensive income	-	-	6,152	2,278	-	34,836	43,266
Appropriation of net income	-	-	-	-	34,446	(34,446)	-
As of December 31, 2015	13,000	224,046	(14)	(4,489)	123,407	34,836	390,786
Net income	-	-	-	-	-	38,965	38,965
Other comprehensive income	-	-	(18,502)	(3,633)	-	-	(22,135)
Total comprehensive income	-	-	(18,502)	(3,633)	-	38,965	16,830
Appropriation of net income	-	-	-	-	34,836	(34,836)	-
As of December 31, 2016	13,000	224,046	(18,516)	(8,122)	158,243	38,965	407,616

* See note 16.

** See note 2. 'Summary of significant accounting policies' for further details regarding the correction.

NOTES TO THE CONSOLIDATED STATEMENTS - 2016

1. GENERAL NOTES

Description of the business

PACCAR Financial Europe BV (the “Company”), Eindhoven, The Netherlands (registered under number 17133742), is an indirect wholly owned subsidiary of PACCAR Inc (“PACCAR”) headquartered in Bellevue, Washington, USA. The Company’s 100% direct parent is PACCAR Holding BV (“Parent”), Eindhoven, The Netherlands.

The Company provides financing of trucks and related equipment manufactured primarily by DAF Trucks NV (“DAF”) and mainly sold by independent authorized DAF dealers. The Company finances dealer inventories of new and used DAF trucks (“wholesale finance”). The finance activities for end users of the equipment, including finance leases and operating leases, are indicated throughout these financial statements as “retail finance”. Furthermore, the Company administers residual value guarantees to third parties in the United Kingdom. The risk relating to these residual value guarantees remains with DAF. The Company is paid a fee for these services. The Company provides short term and long term truck and trailer rental services through its full service lease subsidiary, PACCAR Leasing GmbH (PacLease). This activity is indicated throughout these financial statements as ‘rental’.

The operations of the Company are fundamentally affected by its relationship with PACCAR (see note 25).

Due to the nature of the Company’s business, customers are concentrated in the transportation industry primarily throughout Western Europe. Retail finance, rental and wholesale finance receivables are generally collateralized by the equipment being financed.

Statement of compliance

The consolidated financial statements of PACCAR Financial Europe BV have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code. The accounting policies adopted are consistent with those of the previous financial year.

PACCAR Financial Europe BV has presented the Consolidated Statement of Financial Position in order of liquidity of the assets and liabilities.

With reference to the income statement in the company financial statements, use has been made of the exemption pursuant to Section 402 of Book 2 of the Netherlands Civil Code.

The following new and amended standards and IFRIC Interpretations (International Financial Reporting Interpretations Committee) did not have any impact on the accounting policies, financial position or performance of the Company:

- Annual improvements to IFRSs 2010-2012 Cycle, effective 1 January 2016
- Annual improvements to IFRSs 2012-2014 Cycle, effective 1 January 2016
- Amendments to IAS 16 and IAS 38 – Clarification of accountable methods of depreciation and amortization, effective date 1 January 2016
- Amendments to IAS 27 – Equity method in separate financial statements, effective 1 January 2016
- Amendments to IFRS 11 – Accounting for acquisition of interests in joint operations, effective 1 January 2016
- Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment entities: applying the consolidation exception, effective 1 January 2016
- Amendments to IAS 1 – Disclosure initiative, effective 1 January 2016
- Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

A number of new standards and amendments to standards are effective for annual periods beginning after January 1, 2017 and earlier application is permitted; however, the Company has not early adopted those standards in preparing these consolidated financial statements.

Relevant standards and interpretations issued but not yet effective up to the balance sheet date of the Company's financial statements are listed below. The Company intends to adopt these standards and interpretations when they are adopted by the European Union and become effective. These standards, improvements, amendments and interpretations are expected to have no material impact on the financial statements of the Company:

- Amendments to IAS 12 – Recognition of deferred tax assets for unrealised losses, effective 1 January 2017
- Amendments to IFRS 10 and IAS 28 – Sale or contribution of assets between an investor and its associate or joint venture, endorsement process is postponed, IASB effective date is deferred indefinitely
- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions
- Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, effective 1 January 2018
- Annual Improvements to IFRS 2014-2016, Cycle, effective 1 January 2017
- Amendments to IAS 40 Transfers of Investment Property, effective 1 January 2018
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations, effective 1 January 2018

The below standards are expected to have minor impact on the financial statements of the Company:

- IFRS 15 Revenue from contracts with customers, effective 1 January 2018 and subsequent clarifications (Clarifications to IFRS 15 Revenue from Contracts with Customers)
- Amendments to IAS 7 – Disclosure initiative, effective 1 January 2017

The Company has not yet considered the full impact of adopting IFRS 9 Financial Instruments and subsequent amendments (amendments to IFRS 7 and IFRS 9: Mandatory effective date and transition disclosures and Hedge accounting and amendments to IFRS 7, 9 and IAS 39) and IFRS 16 Leases as the expected effective dates for these standards are 1 January 2018 and 1 January 2019 respectively.

Authorization of the financial statements

On April 7, 2017, the Board of Directors authorized the issuance of the Company's 2016 financial statements at the shareholder's meeting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements are prepared under the historical cost convention except for the derivative financial instruments and the liabilities that are hedged items in cash flow hedges. These have been measured at fair value.

Prior years correction

The financial statements for 2015 have been adjusted due to the incorrect application of the accounting policy for impairment on Equipment on Operating Leases (IAS 36) in previous years. This adjustment has been retrospectively accounted for in the 2016 financial statements. The effect on the opening balance is specified as follows:

	January 1, 2015		
In €'000	As Reported	Adjusted	As restated
Equipment on Operating Leases	545,843	3,129	548,972
Deferred tax asset	24,198	(837)	23,361
Shareholder's equity	345,228	2,292	347,520

The effect of the 2015 restatement on the 2016 net income amounts to €42.

Functional and presentation currency

These consolidated financial statements are presented in euro, which is also the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.
The Statement of Financial Position is presented before appropriation of the current year's net income.

Basis of consolidation

The consolidated financial statements are comprised of the financial accounts of PACCAR Financial Europe BV and its wholly owned subsidiaries.

Subsidiaries

Subsidiaries are entities controlled by The Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as those of PACCAR Financial Europe BV using consistent accounting principles. Adjustments have been made to conform for any dissimilar accounting policy.

Loss of control

When The Company loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any non-controlling interests and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation
Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted subsidiaries are eliminated against the investment to the extent of The Company's interest in the subsidiary. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

These financial statements consist of PACCAR Financial Europe BV presented alone and consolidated with the following subsidiaries:

Group company	*Share in Capital*	*Country of incorporation*	*Date of transfer of control to The Company*
PACCAR Financial Holdings Europe BV	100%	Netherlands	March 15, 2001
PACCAR Financial Nederland BV	100%	Netherlands	March 15, 2001
PACCAR Financial Deutschland GmbH	100%	Germany	May 29, 2001
PACCAR Financial France S.A.S.	100%	France	May 30, 2001
PACCAR Financial Plc	100%	United Kingdom	March 29, 2001
PACCAR Financial Belux BVBA	100%	Belgium	May 28, 2001
PACCAR Financial España S.L.	100%	Spain	June 5, 2001
PACCAR Financial Italia S.r.l.	100%	Italy	April 5, 2001
PACCAR Financial Services Europe BV	100%	Netherlands	December 31, 2003
PACCAR Leasing GmbH	100%	Germany	May 31, 2007
PACCAR Financial Polska Sp. z o.o.	100%	Poland	August 29, 2008
PACCAR Financial CZ s.r.o.	100%	Czech Republic	October 22, 2013
PACCAR Financial Slovakia s.r.o.	100%	Slovakia	May 30, 2015

There are no changes in group companies compared to prior year.
No significant restriction exists on the ability of the subsidiaries to transfer funds to the Company.

Use of estimates and judgements
The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported and disclosed in the financial statements. The estimates and assumptions are based on the most recent information available. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Assumptions and estimation uncertainties
The most important assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment relate to the collectability of receivables from loan and lease agreements and the residual value of leased equipment. The risk of uncollectability is taken into account in the allowances for impairment. For further details, see the accounting principles on allowances for impairment on wholesale receivables, finance receivables and impairment of equipment on operating lease and notes 5, 7 and 8. Residual values are reviewed periodically and depreciation is adjusted if market conditions warrant. This review includes analysis of actual used trucks market data of the different truck types and by market.

For the assumptions used to determine the fair value of derivatives, see the accounting principles on derivative financial instruments and note 19.

Judgements

Judgements made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements relate to the lease classification. The Company uses standard contract types that are classified as either operating lease or finance lease following pre-defined criteria. See the accounting principles on operating lease and finance lease and note 20.

Changes in accounting policies

The Company has consistently applied the accounting policies set out in this paragraph to all periods presented in these consolidated financial statements.

Foreign currency

Foreign currency transactions

The functional currency of the Company and all of its subsidiaries is the Euro, except for the subsidiaries based in the United Kingdom, where the British Pound ("GBP") is the functional currency. All assets and liabilities of these subsidiaries are translated at year-end exchange rates and all income statement amounts are translated at average monthly rates into Euros. Adjustments resulting from the translation of assets and liabilities are recorded in the foreign currency translation component of shareholder's equity in other comprehensive income.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

The following exchange rates have been applied for the non-Euro currencies.

	Dec. 31, 2016	Average 2016	Dec. 31, 2015	Average 2015
GBP/€	1.1733	1.2272	1.3567	1.3759
US$/€	0.9508	0.9027	0.9206	0.8990
PLN/€	0.2271	0.2294	0.2347	0.2390
CZK/€	0.0370	0.0370	0.0370	0.0366

Classification of financial instruments

The Company classifies non-derivative financial assets into the following categories: wholesale receivables, finance receivables and other assets. The Company classifies non-derivative financial liabilities into the following categories: Financial liabilities originated from funding, and other liabilities.

All financial assets are classified as "loans and receivables" except for derivative financial instruments which are classified as "financial assets/ liabilities measured at fair value through profit & loss" or "hedging instruments" respectively.

Derivative financial instruments

Derivative financial instruments are initially recorded at fair value when the Company becomes a party to a derivative contract and subsequently re-measured at fair value. The fair value is determined using a valuation model based on the discounted cash flow method. The trade date is used in accounting for derivatives.

The Company applies cash flow hedge accounting for its derivative financial instruments except for derivatives used for hedging the foreign currency risk of the intercompany funding of the U.K. subsidiary. For cash flow hedge transactions, changes in the fair value of the derivative instruments are reported net of income tax to shareholder's equity. The gains and losses on cash flow hedge transactions, initially reported to shareholder's equity, are reclassified to the income statement in the line "interest expense" in the same period that the related cash flows of the hedge transaction affect the income statement. The Company performs hedge effectiveness testing on all its derivatives that are designated as a hedge instrument at inception and subsequently at least on a quarterly basis. Any ineffective portion of hedges is recognized in the income statement.

Derivatives used for hedging foreign currency risk of the intercompany funding of the subsidiary in the U.K. and derivatives used to hedge other foreign currency risk are accounted for at fair value through profit and loss. These derivatives serve as economic hedges but do not qualify for hedge accounting in the consolidated financial statements of the Company. As such these are classified as held for trading, and thereby meet the conditions to be accounted for as financial assets or liabilities at fair value through profit and loss.

Non-derivative financial assets and financial liabilities – recognition and derecognition

The Company initially recognizes loans and receivables and debt issued on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Classification of contracts

In contracts with customers to finance equipment, the Company generally retains the legal title of the leased equipment while providing the use of the equipment to these customers. These types of contracts are leases. For some agreements however, the legal title of the equipment is with the user and the equipment is collateralized to the Company. These types of contracts are loans. The other major terms and conditions in the finance agreements relate to the monthly installments, interest rate, repair and maintenance obligations, insurance obligations and requirements for the return conditions of the leased equipment.

Leases are classified as “finance leases” if substantially all the risks and rewards incidental to ownership are transferred from the Company to the customer or a third party. If the contract does not substantially transfer all the risks and rewards incidental to ownership, the lease is classified as an “operating lease”. In general if at inception the unguaranteed residual value of the leased assets is lower than 25% of the gross cost or if at inception the lease term is greater than 75% of the economic life of the asset or if the ownership is transferred automatically at the end of the contract period, the lease is classified as a finance lease.

In general if at inception the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset or if at inception the lease term is for the major part (greater than 75%) of the economic life of the asset or if the lease transfers ownership of the asset to the lessee by the end of the lease, the lease is classified as a finance lease.

Wholesale receivables

Wholesale receivables are recorded upon payment to DAF based on terms and conditions for wholesale financing in the Truck Sales Dealer agreements between DAF and its independent dealers or its owned dealers. The equipment financed serves as the collateral for the wholesale receivables. The Company controls the documents needed to register the trucks during the wholesale financing period and releases these documents conditional to the dealer fully meeting its obligations for the related truck within a very limited period.

Wholesale receivables are recorded at amortized cost on initial recognition using the effective interest method, which approximates the fair value. Wholesale receivables are derecognized when the dealer pays his obligations in full for the related trucks or the Company (through legal action) repossesses the trucks or charges off the receivable.

Inventories

Inventories are measured at the lower of cost and net realizable value.

Equipment on operating lease

Equipment leased to customers under an operating lease is recorded at cost including commission expense incurred to enter into the contract and netted with amounts, if any, to be received from related or third parties to support the financial structure of the contract (“support”). Equipment on operating lease is depreciated on a straight line basis over the contract term to its estimated residual value. Equipment for rental agreements is depreciated on a straight line basis over the economic life to its estimated residual value.

When a customer voluntarily returns the equipment, the Company repossesses the equipment through legal action or the customer returns the equipment at the end of the lease, the equipment is accounted for as used trucks inventory at the lower of the carrying amount of the equipment on operating lease or its net realizable value. In case of repossession or voluntary return of the equipment during the contract term or return of the equipment at the end of the lease, any excess of the carrying amount over the fair value is recorded as an impairment of equipment on operating lease. This difference is recorded in “Depreciation and operating expense – operating leases”.

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

When all impairment conditions of IAS 36, “Impairment of Assets”, are met, the impairment is the difference between the carrying value of the assets and the recoverable amount. The recoverable amount is the higher of the value in use and its fair value less costs to sell. The Company uses discounted estimated future cash flows from the operating lease contracts based on historic operating experience to determine the value in use which is generally higher than the net realizable value of the related equipment. The Company has an impairment allowance on equipment on operating lease.

Changes to this allowance are recorded in the line “Depreciation and operating expense – operating leases” in the income statement.

Finance receivables
Finance receivables are recognized at an amount equal to the initial net investment in the lease, less subsequently collected amounts. The initial net investment is the discounted amount of the contractual lease payments to be received and, if applicable, the support to be received from related or third parties plus any residual values guaranteed by third parties or unguaranteed less commission expense (“initial direct cost”) incurred to enter into the contract. The discount rate used is the implicit interest rate of the lease.

The Company uses the settlement date when accounting for finance receivables. Finance receivables are subsequently valued at amortized cost using the effective interest method.

When the customer voluntarily returns the equipment at the end of the contract or during the contract term or the Company (through legal action) repossesses the equipment, the equipment is accounted for as used trucks inventory at the lower of the carrying amount of the finance receivable or the fair value of the equipment less cost to sell. Any excess of the carrying amount over the net realizable value is recorded as impairment in case of repossession of the equipment during the contract lifetime. This loss is recorded as “Addition to allowance for impairment losses” in the income statement. In case of return of the equipment at the end of the contract, any excess of the carrying amount over the net realizable value is recorded in “Revenue from financing”. Finance receivables are also derecognized when the customer voluntarily pays off his obligations under the lease agreement during the contract term. In that case any difference between the carrying amount and the amount received is recorded in the income statement as “Revenue from financing”.

Allowance for impairment on wholesale and retail receivables

Wholesale receivables are generally assessed collectively for impairment. Wholesale receivables with dealers for which the Truck Sales Dealer Agreement has been terminated or wholesale receivables with dealers that are expected to be uncollectable are assessed individually. The Company uses historical loss experience combined with the dealer creditworthiness to assess impairment. The creditworthiness and economic conditions of the dealers is assessed periodically based on quarterly financial information of the dealers. For the expected uncollectible amounts, the Company has established an allowance for impairment on wholesale receivables. Additions or reductions to this allowance are recorded in the line “Addition to allowance for impairment losses” in the income statement.

Impairment for retail receivables is assessed on an individual basis for customers that are individually significant based on gross exposure and for which an indicator for impairment is available. From these customers the Company generally receives interim financial and forward looking financial information. All other retail receivables are assessed collectively for impairment.

For the estimated uncollectable amounts, the Company has established an allowance for impairment on finance receivables. The Company uses discounted estimated future cash flows from the finance lease contracts based on historic loss experience. These future cash flows may relate to the sale of the repossessed equipment. Adjustments to the allowance are recorded in the line “Addition to allowance for impairment losses” in the income statement.

Income taxes

Income tax payable is calculated on the basis of the reported income before income taxes applying the applicable tax laws in each jurisdiction.

The Company forms a fiscal unity with other PACCAR companies in the Netherlands. It is the policy of PACCAR Holding BV, the Company’s parent, to charge (credit) the subsidiaries in the fiscal unity for current income tax expenses (benefits) arising in the individual subsidiaries as if these are independent tax payers.

Deferred income tax liabilities and assets are recognized for temporary differences between the carrying amounts of assets and liabilities in the Statement of Financial Position and their tax bases, which will result in taxable or deductible temporary differences. Deferred income tax benefits, including net operating loss carry-forwards, consider the probability that sufficient taxable income will be available against which these differences can be utilized. When future taxable income is not likely to be earned, the operating loss carry forwards and deferred income tax benefits are not recognized. Deferred income tax assets and liabilities are valued at the current or enacted income tax rates applicable in the year in which the deferred income taxes are expected to reverse into taxable income (see note 9).

Current and deferred income tax liabilities and assets are recognized into income tax expense (benefit) except for deferred income taxes relating to changes in the fair value of derivative instruments designated as cash flow hedges, which are recorded in “Accumulated fair value changes of financial instruments” within shareholder’s equity.

Other non-current assets / intangible fixed assets
Other assets and liabilities are initially recognized at cost which approximates fair value. These assets and liabilities are subsequently measured at amortized cost less, when required, an allowance for impairment. Tangible assets are recorded at cost less accumulated depreciation and any accumulated impairment losses and are amortized over their useful life.

Financial liabilities originated from funding
Euro Medium Term Notes (EMTN), long-term advances from affiliates, commercial paper and short-term advances from affiliates are initially recognized at fair value. Subsequently the effective interest method is used to measure these debt obligations from fair value at inception to the redemption value over the lifetime of the liability. The costs related to the Company's credit facilities (note 18) and the cost to set up and maintain the Euro Medium Term Note program are recognized in the income statement over the credit facility life and the term of the notes issued, respectively.

Deferred revenue
Deferred revenue primarily relates to deferred revenue from operating leases. The deferred revenue from operating leases mainly originates from the differences between the payment schedules as agreed upon with customers and the straight line recognition to income of the lease payments over the contract term. These differences mainly relate to down payments or advance rental payments at the beginning of the operating lease.

Non-derivative financial liabilities
A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, including any interest expense, are recognized in profit or loss.

Other non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method, which approximates the fair value.

Revenue

Operating leases

The operating lease rental income and support income are recognized in the income statement on a straight line basis over the contract term and presented in note 20 as “Rental income”.

Finance leases

The interest income and support income, net of commission expenses on finance leases are recognized in the income statement on a constant rate of return basis and presented in note 20 as “Revenue from financing”.

Retail finance fee income

The Company provides additional services for some customers who have entered into a finance lease or operating lease. These services are primarily administrative but may incorporate a financing element. The Company acts as an agent with respect to these additional services as the Company does not incur additional risks except for the risk of non-collectability. This is generally applicable for repair and maintenance, insurance, road taxes in case of retail finance contracts and toll expenses for short term rental contracts. The fees are recognized at fair value net of related cost in note 20 as “Other revenue”. Fees for administrative services are generally recognized on a straight line basis over the contract life time. Fees for services which are predominately for financing are generally recognized using the effective interest method.

Interest income wholesale financing

Interest from wholesale financing is recognized in the income statement using the effective interest method and is presented in note 20 as “Revenue from financing”.

Used truck sales

When the Company sells its used trucks from inventory that have been held as equipment on operating lease for rental to others, the related proceeds from the sale of such trucks is recorded in the line “Revenue from sale of used trucks” in the income statement. The related carrying amount of the used trucks inventory is recorded as cost of sales in the line “Cost of sales used trucks”. Used truck proceeds are recognized in the income statement at settlement date. Sales of repossessed used trucks previously related to finance lease receivables are recorded net of cost in the “Addition to allowance for impairment losses” line.

Suspension of revenue

Operating lease rental income, interest income finance lease, interest income wholesale financing and support income is suspended when it is no longer probable that the economic benefits associated with the contracts will flow to the Company. This is generally the case when the contract is past due for more than 90 days. Previously recorded revenue is not reversed. Suspended revenue is recorded in the related revenue line of the income statement when the contract becomes current again as a result of a cash payment. In case a contract becomes current as a result of restructure of the contract, the contract must be current for three consecutive months before suspended income is recorded in the income statement.

3. OPERATING SEGMENTS

The Company's operating segments are finance and rental. These business segments are managed separately. The finance segment includes wholesale and retail finance. Rental relates to full service operating lease (renting) of transportation equipment to end customers. For these separate activities no combined income statement is reported to the chief operating decision maker. All amounts in the segments are reported under U.S. GAAP. Transfer prices are at an arms-length basis. No revenue from transactions with a single external customer exceeded 10% or more of the Company's total revenue.

The segment reporting as of and for the year ended December 31, 2016 was as follows:

In €'000	Finance	Rental	Elimi-nations	Internal Total	Reported adjustments	IFRS
Revenue						
Revenue from external customers	207,604	51,591	-	259,195	107,843	367,038
Inter-segment revenue	1,092	-	(1,092)	-	-	-
Segment revenue	208,696	51,591	(1,092)	259,195	107,843	367,038
Cost of sales used trucks	-	-	-	-	(107,605)	(107,605)
Interest expense	(17,035)	(730)	685	(17,080)	(718)	(17,798)
Depreciation and operating expense - operating leases	(120,965)	(19,570)	-	(140,535)	(3,111)	(143,646)
Other operating expense	(13)	(25,301)	-	(25,314)	7,256	(18,058)
Addition to allowance for impairment losses	(219)	(115)	-	(334)	1,797	1,463
Selling and administrative expense	(23,395)	(4,652)	407	(27,640)	(5,709)	(33,349)
Total income before income taxes	47,069	1,223	-	48,292	(247)	48,045

The segment reporting as of and for the year ended December 31, 2015 was as follows:

In €'000	Finance	Rental	Elimi-nations	Internal Total	Reported adjustments	IFRS
Revenue						
Revenue from external customers	195,737	54,860	-	250,597	134,957	385,554
Inter-segment revenue	1,786	-	(1,786)	-	-	-
Segment revenue	197,523	54,860	(1,786)	250,597	134,957	385,554
Cost of sales used trucks	(56)	-	-	(56)	(136,545)	(136,601)
Interest expense	(21,855)	(1,153)	1,119	(21,889)	(43)	(21,932)
Depreciation and operating expense - operating leases	(106,771)	(20,587)	-	(127,358)	(214)	(127,572)
Other operating expense	(21)	(27,236)	-	(27,257)	7,075	(20,182)
Addition to allowance for impairment losses	(1,298)	(349)	-	(1,647)	(1,849)	(3,496)
Selling and administrative expense	(22,775)	(4,686)	667	(26,794)	(4,585)	(31,379)
Total income before income taxes	44,747	849	-	45,596	(1,204)	44,392

Reconciliation to the financial statements

The internal reported revenue of the finance segment does not include the revenue of the sales of used trucks. This revenue is internally presented net on the line “Depreciation and operating expense - operating leases”. The internal reported revenue of the operating segments includes the amortization of the deferred cost incurred to acquire retail finance contracts and rental contracts.

The adjustment of interest expenses is due to differences in applying hedge accounting.

The internal reported “Depreciation and operating expense - operating leases” include result on sale of used trucks for the finance segment and a timing difference on the impairment charges on the equipment on operating lease.

The allowance for impairment losses under IFRS is calculated under a different method and this is reflected in the lines “Depreciation and operating expense - operating leases” and “Addition to allowance for impairment losses”.

The internal reported “Selling and administrative expense” of the operating segments include a deferral of cost incurred to acquire retail finance contracts and rental contracts

Product information

The following table presents the revenue for each product for the year ended December 31, 2016:

In €’000	Retail Finance	Rental	Wholesale Finance	Total
Revenue				
Revenue from external customers	272,411	77,767	16,860	367,038

The following table presents the revenue for each product for the year ended December 31, 2015:

In €’000	Retail Finance	Rental	Wholesale Finance	Total
Revenue				
Revenue from external customers	290,960	77,199	17,395	385,554

Geographic information

The geographical segment reporting for the year ended December 31, 2016 was as follows:

In €’000	Domestic	Other Continent	U.K.	Eliminations	Total
Revenue					
Revenue from external customers	43,813	250,817	72,408	-	367,038
Inter-segment revenue	13,237	-	-	(13,237)	-
Segment revenue	57,050	250,817	72,408	(13,237)	367,038

Total assets					
Segment assets	2,441,748	1,123,910	757,837	-	4,323,495
Eliminations/unallocated	-	-	-	(1,663,065)	(1,663,065)
Total assets	2,441,748	1,123,910	757,837	(1,663,065)	2,660,430

Inter-segment revenue relates to interest on funding charged to the subsidiaries of the Company. The interest is based on the actual cost, both direct and indirect, attributable to the funding of the Company.

For wholesale receivables, the assets mainly reside in a Dutch entity. In all other cases, the location of the assets resides in the same location as the customers. The following table states the segment assets based on the location of the customers.

In €'000	Domestic	Other Continent	U.K.	Eliminations	Total
Total assets					
Segment assets	2,015,189	1,342,905	965,401	-	4,323,495
Eliminations/unallocated	-	-	-	(1,663,065)	(1,663,065)
Total assets	2,015,189	1,342,905	965,401	(1,663,065)	2,660,430

The geographical segment reporting as of and for the year ended December 31, 2015 was as follows:

In €'000	Domestic	Other Continent	U.K.	Eliminations	Total
Revenue					
Revenue from external customers	41,392	269,900	74,262	-	385,554
Inter-segment revenue	17,749	-	-	(17,749)	-
Segment revenue	59,141	269,900	74,262	(17,749)	385,554
Total assets					
Segment assets	2,354,065	966,846	773,127	-	4,094,038
Eliminations/unallocated	-	-	-	(1,551,272)	(1,551,272)
Total assets	2,354,065	966,846	773,127	(1,551,272)	2,542,766

In €'000	Domestic	Other Continent	U.K.	Eliminations	Total
Total assets					
Segment assets	1,860,567	1,201,925	1,031,546	-	4,094,038
Eliminations/unallocated	-	-	-	(1,551,272)	(1,551,272)
Total assets	1,860,567	1,201,925	1,031,546	(1,551,272)	2,542,766

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the cash on hand, positive bank balances and short-term bank deposits and is available without restrictions. A floating interest based on either EURIBOR or LIBOR interest rates is earned on positive bank balances.

5. WHOLESALE RECEIVABLES, NET

In €'000	**2016**	2015
Wholesale receivables, Euro denominated	276,805	313,530
Wholesale receivables, GBP denominated	209,954	260,857
Wholesale receivables gross	486,759	574,387
Allowance for impairment losses wholesale receivables	(2,310)	(2,577)
Wholesale receivables, net	484,449	571,810

Wholesale receivables are from dealers located primarily in Western Europe. There are no significant concentrations of wholesale receivables with individual dealers.

Interest rates for wholesale receivables reset monthly based on three month EURIBOR rates for Euro-denominated receivables and on three month LIBOR rates for GBP-denominated receivables. Wholesale receivables are generally collected within six months after inception.

Wholesale receivables are considered to be past due when the age of the receivable exceeds the maximum agreed upon time in the related wholesale program, which is generally set at 180 days. The Company continues charging interest during the past due period.

The aging of the wholesale receivables is as follows:

	2016			2015		
In €'000	Individually assessed	Not individually assessed	Total	Individually assessed	Not individually assessed	Total
Current	-	484,590	484,590	-	573,536	573,536
Past due accounts						
0 - 30 days	99	2,032	2,131	123	728	851
31 - 60 days	-	38	38	-	-	-
61 - 90 days	-	-	-	-	-	-
Over 90 days	-	-	-	-	-	-
Receivables, gross	99	486,660	486,759	123	574,264	574,387
Allowance	(99)	(2,211)	(2,310)	(123)	(2,454)	(2,577)
Receivables, net	-	484,449	484,449	-	571,810	571,810

The movement in the allowance for impairment losses wholesale receivables is as follows:

In €'000	**2016**	2015
Balance as of January 1	(2,577)	(3,000)
Charge off/ Write downs	9	285
Release	258	138
Balance as of December 31	(2,310)	(2,577)

The individually assessed part of the allowance for impairment loss is €99 (2015: €123).

6. INVENTORY, PREPAID EXPENSES AND OTHER CURRENT ASSETS

In €'000	**Notes**	**2016**	2015
Used trucks inventory		21,196	19,681
Short term derivative assets	19	19,343	182
Income tax refund		3,227	3,227
Prepaid expenses and other current assets		19,631	19,283
Inventory, prepaid expenses and other current assets		63,397	42,373

Used trucks inventory

Used trucks inventory represents trucks and other transportation equipment repossessed or returned by customers or dealers. The net realizable value is reassessed periodically and, when deemed necessary, the carrying amount is decreased to net realizable value. The decrease is accounted for in the same way as a write-down. Equipment is derecognized from used trucks inventory at sale of the equipment to a third party or a related PACCAR entity or when the equipment is financed with a customer.

The company has consignment stocks on behalf of related parties. While the company takes title to these units the company is not exposed to inventory risk related to used trucks, and has no significant responsibility in respect of the goods to be sold. Therefore these consignment stock – amounting to €883 – is not recognized as inventory.

The movement of the used trucks inventory has been as follows:

In €'000	**2016**	2015
Balance as of January 1	19,681	18,348
Used trucks returned/ repossessed from operating leases or external trade-in	100,914	106,376
Used trucks returned/ repossessed from finance leases	18,341	19,020
Recoveries/ (write-downs) of inventory	(690)	1,371
Used trucks sold	(99,186)	(107,323)
Used trucks refinanced	(17,730)	(18,150)
Foreign currency translation difference	(134)	39
Balance as of December 31	21,196	19,681

Income tax asset

The income tax receivable related to a carry back receivable for the French subsidiary that can be offset with future income tax payables. The amount was received in March 2017.

Prepaid expenses and other current assets

The prepaid expenses and other current assets mainly relate to prepaid amounts in the course of providing administrative services to customers. These administrative services primarily relate to handling of insurance for leased equipment, repair and maintenance of this equipment and government charges on the use of this equipment. Included in prepaid expenses is an amount of prepaid borrowing cost of €2,648 (2015: €2,300).

7. EQUIPMENT ON OPERATING LEASE, NET

In €'000	**2016**	2015
Equipment on operating lease	740,082	630,432
Impairment	(698)	(800)*
Equipment on operating lease, net	739,769	629,632

* See note 2. 'Summary of significant accounting policies' for further details regarding the correction.

The movement of these items is as follows:

In €'000	Equipment on operating lease	Impairment	Total
Book value as of January 1, 2016	630,432	(800)	629,632
Additions	374,225	(3,060)	371,165
Disposal to inventory	(100,726)	3,095	(97,631)
Other movements	(8,228)	-	(8,228)
Depreciation	(138,832)	-	(138,832)
Impairment from repossession	(67)	67	-
Foreign currency translation differences	(16,333)	-	(16,333)
Book value as of December 31, 2016	740,467	(698)	739,769
Accumulated depreciation	238,759	-	238,759
Gross Cost as of December 31, 2016	979,226	(698)	978,528

In €'000	Equipment on operating lease	Impairment	Total
Book value as of January 1, 2015	550,182	(4,339)	545,843
Correction	-	3,129	3,129 *
Corrected book value as op January 1, 2015	550,182	(1,210)	548,972
Additions	313,052	(2,118)	310,934
Disposal to inventory	(106,376)	2,156	(104,220)
Other movements	(5,850)	-	(5,850)
Depreciation	(124,049)	-	(124,049)
Impairment from repossession	(372)	372	-
Foreign currency translation differences	3,845	-	3,845
Book value as of December 31, 2015	630,432	(800)	629,632
Accumulated depreciation	220,336	-	220,336
Gross Cost as of December 31, 2015	850,768	(800)	849,968

* See note 2. 'Summary of significant accounting policies' for further details regarding the correction.

The equipment on operating lease includes an amount of €117,864 (2015: €113,013) for the rental fleet. In 2016 the additions to the PacLease rental fleet amounted to €53,987 (2015: €66,108), the depreciation of the rental fleet amounted to €20,552 (2015: €20,581) and the disposals from the rental fleet amounted to €20,080 (2015: €31,680). Other movements relate primarily to restructures, early settlements and movements from inventory.

During 2016, €3,060 (2015: €2,118) was charged to the income statement for impairments of the equipment on operating lease. In 2016, €3,162 (2015: €2,528) was utilized or released to the income statement from impairment provision recorded in previous years and was recorded under "Depreciation and operating expense - operating leases".

The average remaining term of the outstanding operating lease agreements in 2016 is 33 months (2015: 32 months). For rental agreements the average remaining term is 8 months (2015: 7 months).

The minimum lease payments to be received after December 31, 2016 and 2015 were as follows (amounts in €'000):

Term	**2016**	2015
< 1 year	148,560	131,886
2 – 5 years	171,346	145,534
>5 years	163	80
Total	320,069	277,500

Minimum lease payments consist of the contractual lease terms to be received on operating lease contracts. The average term of the operating lease agreements at inception in 2016 is 42 months (2015: 43 months). The average term of the rental agreements at inception is 21 months (2015: 22 months). The operating lease installments due are recorded in "Trade and other receivables" (Note 8).

The carrying amount of the equipment on operating lease includes the unguaranteed residual values of the equipment at the end of the contract for an amount of €372,470 at December 31, 2016 (2015:

€330,000) and guaranteed residual values of €63,619 (2015: €33,000). These residual values relate to the estimated value of the equipment at maturity of the lease agreements. The residual value of the equipment on operating lease is evaluated regularly against the market value of comparable used trucks at the contractual end of the lease contracts or the residual value at the earlier expected return date. Depreciation is adjusted as necessary by adjusting future depreciation amounts. When additional depreciation is higher than the future net operating lease income to be earned an immediate impairment is recorded.

Depreciation and operating expense - operating leases in Income Statement

In €'000	**2016**	2015
Depreciation on equipment on operating lease	138,832	124,049
Net additions to the impairment allowance of equipment on operating lease	3,060	2,118
Operating expense on equipment on operating lease	1,754	1,405
Depreciation and operating expense – operating leases	143,646	127,572

In 2016 the Company incurred an average write-off of €5 on 96 customers (2015: €4 on 149 customers) with repossessed operating lease contracts and recovered an average of €6 from 79 customers (2015: €5 from 72 customers).

Operating expenses on equipment on operating lease consist mainly of repair and maintenance cost, cost of insurance and cost of tires.

8. FINANCE AND OTHER RECEIVABLES, NET

In €'000	**2016**	2015
Finance receivables, net	1,271,337	1,225,787
Trade and other receivables	22,794	23,871
Balance as of December 31	1,294,131	1,249,658

Finance receivables, net

In €'000	**2016**	2015
Retail finance receivables	1,373,526	1,328,621
Unearned interest retail finance receivables	(90,689)	(89,885)
Allowance for impairment losses	(11,500)	(12,949)
Finance receivables, net	1,271,337	1,225,787
Current portion of finance receivables	433,434	424,174
Non-current portion of finance receivables	837,903	801,613

Retail finance receivables include receivables under agreements for which the Company does not have the legal title, but retains a secured interest in the equipment. At December 31, 2016 the carrying amount of receivables under these loans was €387,587 (2015: €361,663).

During 2016 new business volume of €606,621 (2015: €595,893) was added to the retail finance receivables.

The retail finance receivables are detailed as follows:

In €'000	**2016** Fixed rate	Variable rate	Total	2015 Fixed rate	Variable Rate	Total
Euro denominated	752,712	-	752,712	649,913	-	649,913
GBP denominated	567,982	52,832	620,814	625,810	52,898	678,708
Total	1,320,694	52,832	1,373,526	1,275,723	52,898	1,328,621

The interest rates of the Euro and GBP denominated variable retail finance receivables are generally set monthly based on one-month EURIBOR or one-month LIBOR respectively.

The split of the retail finance receivables and the net present value of the minimum lease payments to be received after December 31, 2016 and 2015 was as follows (amounts in €'000):

	2016		2015	
Term	*Retail finance receivables*	*Net present value of the minimum lease payments*	*Retail finance receivables*	*Net present value of the minimum lease payments*
< 1 year	464,756	431,480	451,890	421,201
2 – 5 years	884,834	691,813	856,907	679,536
>5 years	23,936	13,464	19,824	9,694
Total	1,373,526	1,136,757	1,328,621	1,110,431

Minimum lease payments consist of payments to be received from finance lease contracts as well as residual value guarantees by third parties. The net present value of the minimum lease payments has been calculated using the effective interest rates as of December 31, 2016 and December 31, 2015 respectively taking into account the estimated impairment losses to be incurred.

The reconciliation between the retail finance receivables and the net present value of the minimum lease payments was as follows:

In €'000	**2016**	2015
Retail finance receivables, gross	1,373,526	1,328,621
Unguaranteed residual values	(158,430)	(134,560)
Present value of unearned interest	(67,174)	(71,163)
Present value of incurred credit losses	(11,048)	(12,467)
Net present value of minimum lease payments	1,136,874	1,110,431

The movement in the allowance for impairment losses on finance receivables was as follows:

In €'000	**2016**	2015
Balance as of January 1	(12,949)	(12,041)
(Additions charged to) / releases to profit and loss account	1,391	(3,285)
Credit losses incurred	1,440	2,139
Further write downs / (write ups)	(1,848)	238
Foreign currency translation differences	466	-
Balance as of December 31	(11,500)	(12,949)

The net release to the allowance for impairment losses on finance receivables was €1,449 (2015 addition: €908).

The individually assessed portion of the allowance for impairment losses is €4,104 (2015: €4,384).

Addition to allowance for impairment losses in Income Statement

In €'000	**Notes**	**2016**	2015
Addition to the impairment retail finance lease receivables		(1,391)	3,285
Addition to the impairment on wholesale receivables	5	(267)	(138)
Addition to the impairment for rental receivables		195	349
Allowance for impairment losses		(1,463)	3,496

In 2016 the Company incurred an average write-off of €4 on 305 customers (2015: €4 on 395 customers) with repossessed finance lease contracts and recovered an average of €9 from 223 customers (2015: €5 from 315 customers).

The aging of the finance lease receivables at December 31, 2016 and 2015 was as follows:

	2016			2015		
In €'000	Individually assessed	Not individually assessed	Total	Individually assessed	Not individually assessed	Total
Current portfolio	355	1,363,584	1,363,939	1,833	1,317,110	1,318,943
0 - 30 days	-	2,115	2,115	72	1,803	1,875
	355	1,365,699	1,366,054	1,905	1,318,913	1,320,818
Past due						
31 - 60 days	-	467	467	367	388	755
61 - 90 days	-	126	126	-	327	327
over 90 days	6,556	323	6,879	6,576	145	6,721
Total past due	6,556	916	7,472	6,943	860	7,803
Total	6,911	1,366,615	1,373,526	8,848	1,319,773	1,328,621

Past due amounts relate to the invoiced terms. An amount is considered past due when it is over 30 days after the invoice date. The amount of the portfolio of past due accounts was €13,076 (2015: €29,377). The portfolio amount of the past due accounts that have been individually assessed was €6,556 (2015: €6,943).

Non-performing amounts are generally more than 90 days past the contractual due date. As of December 31, 2016 the total portfolio amount of customer balances that were non-performing was €9,136 (2015: €8,005).

Troubled debt restructures (further: Forborne receivables)
In solving a customer's inability to meet his obligations under the finance contract, the Company may restructure the contract. A restructure generally involves granting payment delay of one or more periodic installments that may lead to extension of the end date of the contract. Also the amount of one or more installments may be changed, but the Company generally does not forgive payments in a restructure. If the agreed upon delay in payment is significant and the Company was unable to obtain additional collateral or the agreed upon interest rate is below the interest rate the Company would charge to customers with a similar risk profile at the time of the restructure, the Company has granted a concession. A concession resulting from the finance contract restructure of a customer in financial difficulty, that would otherwise not be considered, is objective evidence of impairment and impairment losses are measured accordingly. A restructured wholesale or retail receivable is presented as impaired when there has been a change in the contractual cash flows as a result of a concession which the Company would otherwise not consider, and it is probable that without the concession, the customer would be unable to meet the contractual payment obligations in full.

Forborne receivables, net

In €'000	**2016**	2015
Forborne retail finance receivables	7,190	7,151
Unearned interest forborne retail finance receivables	(215)	(10)
Forborne finance receivables, net	6,975	7,141

The movement of the forborne finance receivables was as follows:

In €'000	**2016**	2015
Balance as of January 1	7,141	7,428
Additions	-	29
Impairments	-	(47)
Payments received	(166)	(269)
Balance as of December 31	6,975	7,141

The interest income recognized on forborne finance receivables in the year amounted to €6 (2015: €56).

The aging of the forborne receivables was as follows:

In €'000	2016 Individually assessed	2016 Not individually assessed	2016 Total	2015 Individually assessed	2015 Not individually assessed	2015 Total
Current portfolio	-	50	50	429	2	431
0 - 30 days	555	-	555	-	144	144
	555	50	605	429	146	575
Past due						
31 - 60 days	-	8	8	-	-	-
61 - 90 days	-	1	1	-	-	-
over 90 days	6,576	-	6,576	6,576	-	6,576
	6,576	9	6,585	6,576	-	6,576
Total receivables	7,131	59	7,190	7,005	146	7,151

Of the €7,131 (2015: €7,005) individually assessed forborne receivables in 2016, €6,576 (2015: €6,576) related to one customer. The remaining risk and exposure on this account is limited.

Trade and other receivables

In €'000	Notes	2016	2015
VAT receivable		5,031	5,416
Interest and lease receivables, net		8,212	8,161
Accounts receivable affiliates	25	9,551	10,294
Trade and other receivables		22,794	23,871

VAT receivable

The VAT receivables are with tax authorities in various European countries and mainly originate from the wholesale business as well as recoverable VAT on uncollectable retail finance receivables.

Interest and lease receivables

In €'000	2016	2015
Interest and lease receivables	6,437	5,414
Rental receivables	2,387	3,812
Impairment rental receivables	(612)	(1,065)
Interest and lease receivables, net	8,212	8,161

Interest and lease receivables mainly relate to receivables on customers from operating lease. Interest and lease receivables and rental receivables are non-interest bearing and generally have a 30-120 day term.

The aging of the interest and lease and rental receivables was as follows:

	2016			2015		
In €'000	Individually assessed	Not individually assessed	Total	Individually assessed	Not individually assessed	Total
0 - 30 days	149	4,294	4,443	64	5,650	5,714
Past due Accounts						
31 - 60 days	210	417	627	30	747	777
61-90 days	3	327	330	1	225	226
Over 90 days	864	2,560	3,424	1,687	822	2,509
Receivables, gross	1,226	7,598	8,824	1,782	7,444	9,226
Impairment	(392)	(220)	(612)	(845)	(220)	(1,065)
Receivables, net	834	7,378	8,212	937	7,224	8,161

The movement of the impairment of the rental receivables is as follows:

In €'000	**2016**	2015
Balance as of January 1	(1,065)	(1,765)
Additions	(195)	(349)
Charge offs	648	1,049
Balance as of December 31	(612)	(1,065)

9. DEFERRED TAX

Deferred income taxes as of December 31, 2016 and 2015 consist of the following:

	Statement of Financial Position		Income Statement	
In €'000	**2016**	2015	**2016**	2015
Deferred income tax assets				
Impairment on portfolio assets	2,191	2,370	(179)	(137)
Lower future depreciation of equipment on operating lease for income tax purposes/ (impairments)	134	36	98	(118)
Lease accounting	6,830	5,181	2,050	786
Fair value changes of financial instruments used for hedging	2,221	1,625	-	-
Fair value changes of financial instruments through profit and loss	2,497	942	1,555	542
Losses available to offset future taxable income	4,625	5,623	(998)	(2,712)
Depreciation operating lease	4,260	2,172	2,088	(32)
Other	4,807	3,674	1,133	457
Effect of netting with deferred tax liabilities	(4,070)	(5,368)	1,298	(4,909)
Gross deferred income tax assets	23,495	16,255	7,045	(6,123)

In €'000	**2016**	2015	**2016**	2015
Deferred income tax liabilities				
Impairment on portfolio assets	(298)	(1)	(297)	438
Accelerated depreciation of equipment on operating lease for income tax purposes	(118)	(363)	245	(8)
Lease accounting	(2,524)	(1,153)	(1,371)	(401)
Fair value changes financial instruments through profit and loss	-	(2,271)	2,271	(1,504)
Depreciation operating lease	(2,102)	(1,775)	(327)	1,449
Other	(671)	(642)	(29)	(642)
Effect of netting with deferred tax assets	4,070	5,368	(1,298)	4,909
Gross deferred income tax liabilities	(1,643)	(837)	(806)	(4,241)
Net deferred income tax	21,852	15,418	6,239	(1,882)

** See note 2. 'Summary of significant accounting policies' for further details regarding the correction.

The utilization of the deferred income tax asset depends on future taxable profits in excess of the profits arising from the reversal of taxable temporary differences for an amount of €4,625 (2015: €5,623). This arises mainly from operating losses in the past years in France, Germany and Spain. Recognition of deferred income tax assets is based on the Company's expectation that the development of the business in these countries in the foreseeable future and the tax planning measures available to the Company will generate adequate future taxable profits.

The effect of netting between deferred tax assets and deferred tax liabilities reflects the reclassification needed to offset the deferred tax position for the respective country and taking into account fiscal unity and tax authority. The reclassification from deferred tax liability to deferred tax asset mainly relates to France, Germany and Poland.

In Spain "losses available to offset future taxable income" and other temporary tax differences are recognized in 2016 for an amount of €2,163 and €2,791 respectively. For 2015 an amount of €2,604 and €2,769 for respectively "losses available to offset future taxable income" and other temporary differences were recognized for the Spanish subsidiary.

Due to uncertainty of realization, in 2016 no "losses available to offset future taxable income" and other temporary tax differences have been recognized for PACCAR Financial CZ s.r.o. for an amount of €361 (2015: €208).

Deferred income tax assets and liabilities on the fair value changes of financial instruments on cash flow hedges are recorded directly into shareholder's equity in the line "Accumulated fair value changes financial instruments".

10. OTHER NON-CURRENT ASSETS

In €'000	Notes	2016	2015
Long term derivative assets	19	24,602	9,023
Fixed assets		5,216	5,376
Other non-current assets		29,818	14,399

Fixed assets

	2016			2015		
In €'000	Land & Buildings	Equipment	Total	Land & Buildings	Equipment	Total
Book value as of January 1	5,179	197	5,376	5,323	232	5,555
Additions	-	28	28	-	40	40
Disposal	-	-	-	(3)	(1)	(4)
Depreciation	(142)	(46)	(188)	(141)	(74)	(215)
Book value as of December 31	5,037	179	5,216	5,179	197	5,376
Accumulated depreciation	1,476	777	2,253	1,335	744	2,079
Gross Cost as of December 31	6,513	956	7,469	6,514	941	7,455

Fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses. In "Land & Buildings" an amount of €2,385 (2015: €2,385) is included for land. Land is not depreciated. The remaining average depreciation period at December 31, 2016 is 21 years (2015: 22) for Buildings and 1 year (2015: 1) for equipment. Buildings are depreciated in 33 years on a straight line basis and equipment is depreciated on a straight line basis in 5 years. There are no contractual obligations to acquire any fixed assets.

11. INTANGIBLE ASSETS

In €'000	2016	2015
Software	323	485

Intangible assets

The movement of the intangible assets is as follows:

	2016	2015
In €'000	Soft-Ware	Soft-Ware
Book value as of January 1, 2016	485	210
Additions	-	372
Depreciation	(162)	(97)
Book value as of December 31, 2016	323	485
Accumulated depreciation	516	354
Accumulated impairments	311	311
Gross Cost as of December 31, 2016	1,150	1,150

Software mainly relates to the development of software to customize the loan and lease administration system as well as the software used to manage the rental fleet. These assets are depreciated on a straight line basis over the estimated time of 3 or 5 years respectively. The depreciation expense is recorded in the line “Depreciation on other assets” in “Selling and administrative expense” line of the Income statement.

12. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER

In €'000	Notes	**2016**	2015
Accounts payable affiliates	25	33,200	35,076
Accounts payable		9,231	9,118
Income tax payable		12,759	6,714
Derivative contracts	19	977	22,750
Accrued expenses		14,699	15,914
Deferred income		5,864	5,780
Other current liabilities		2,754	4,523
Accounts payable, accrued expenses and other		79,484	99,875

Accounts payable affiliates
Accounts payable affiliates mainly relate to payables to DAF originating from the retail and wholesale financing activities. These accounts payable are generally paid within 30 days.

Accounts payable
The accounts payable mainly relate to payables to dealers. The average payment term is approximately 30 days.

Accrued expenses
Accrued expenses relate to costs for this year, which will be invoiced by the supplier in the next year.

Deferred income
Deferred income mainly relates to the differences between the payment schedule and straight line recognition of revenue for operating leases.

Other current liabilities
Other current liabilities include customer deposits and guarantor deposits for an amount of €1,731 (2015: €1,702). Customer deposits relate to amounts received from customers as collateral for the outstanding lease receivables. These customer deposits have to be repaid to the customers when the customers have fulfilled all their obligations under the lease agreements. Also included in other current liabilities are “Other taxes”.

Guarantor deposits relate to differences between market value and the guaranteed residual value. These differences have been deposited by the guarantor.

13. COMMERCIAL PAPER, BANK LOANS AND OTHER SHORT TERM DEBT

In €'000	**2016**	2015
Commercial paper	604,574	791,101
Commercial paper, bank loans and other short-term debt	604,574	791,101

Commercial paper

Since 2001, PACCAR Financial Europe BV has maintained a commercial paper program. In 2009, PACCAR Financial Plc was named as an issuer under the program.

The main terms of the program are:

- Tenors of 1 to 183 days; Interest rates are based on money market rates prevailing at the issue date for the specific term of the note;
- Investment rating of P-1 by Moody's Investors Services, Inc. and A-1 by Standard & Poor's rating Services;
- A keep-well agreement from PACCAR Inc.

As of December 31, 2016 and 2015, the carrying amounts of the outstanding notes under the commercial paper program were as follows:

	2016			2015		
Currency	*Amount (in €'000)*	*Effective interest rate*	*Weighted average number of days to repayment in 2017*	*Amount (in €'000)*	*Effective interest rate*	*Weighted average number of days to repayment in 2016*
Euro denominated	134,700	(0.31)%	43	281,100	(0.07)%	30
GBP denominated	374,790	0.31%	27	463,969	0.52%	23
USD denominated	95,084	0.89%	16	46,032	0.28%	9
Total	604,574	0.26%	29	791,101	0.30%	25

The effective interest rates are the weighted average interest rates as of December 31, 2016 and December 31, 2015, respectively.

14. TERM DEBT

In €'000	**Notes**	**2016**	2015
Long term advances	25	332,794	-
Euro Medium Term Notes		1,184,707	1,231,037
Term debt		1,517,501	1,231,037

Euro Medium Term Notes

Since September 10, 2004, PACCAR Financial Europe BV has maintained a Euro Medium Term Note program. All notes outstanding as of December 31, 2016 are listed on the London Stock Exchange (PSM) and SIX Swiss Stock exchange. The Professional Securities Market is not a regulated market, and consequently, the company is not a Dutch 'OOB'.

Terms of the Euro Medium term Note program include:

- Issuance tenors of 9 months to 10 years; actual issuances to date have generally been three to five years;
- Investment rating of A-1 by Moody's Investors Services Inc and A+ by Standard & Poor's Rating Services;
- Fixed or variable interest rates. The variable interest rate resets every 3 months and is based on three months EURIBOR or three months LIBOR, depending on the denomination of the notes;
- A keep-well agreement from PACCAR Inc.

As of December 31, 2016 and 2015, the carrying amounts of the outstanding notes under the Euro Medium Term Notes program were as follows:

	2016			2015		
Currency	*Amount (in €'000)*	*Effective interest rate*	*Weighted average number of months to repayment*	*Amount (in €'000)*	*Effective interest rate*	*Weighted average number of months to repayment*
Euro denominated	798,073	0.09%	17	800,000	0.27%	16
GBP denominated	293,324	1.51%	17	339,166	1.51%	29
CHF denominated	93,310	1.13%	2	91,871	1.13%	14
Due within one year	516,382			300,000		
Due after one year	668,325			931,037		

The effective interest rates are the weighted average interest rates including the effect of hedging instruments as of December 31, 2016 and December 31, 2015, respectively.

15. OTHER NON-CURRENT LIABILITIES

In €'000	**Notes**	**2016**	2015
Accounts payable affiliates	25	-	1,616
Deferred income	12	7,645	8,063
Derivative contracts	19	39,498	17,811
Other non-current liabilities	12	2,469	1,640
Other non-current liabilities		49,612	29,130

16. SHAREHOLDER'S EQUITY

Paid-in capital
As of December 31, 2016 and 2015, 130,000 ordinary shares at €100 nominal value were authorized, issued and outstanding. In 2016 no changes in the available-to-issue capital occurred.

Additional paid-in capital
No additional paid in capital has been paid in cash in 2016 and 2015.

Foreign currency translation
The foreign currency translation account is used to record exchange rate differences which arise from the translation of the net investments in foreign subsidiaries.

Accumulated fair value changes of financial instruments
The 2016 addition to the cash flow hedges through equity is €3,694 (2015: €(627)) and the release is €825 (2015: €1,645). The release is recorded in the interest expense line in the income statement.

As of December 31, 2016, the fair value changes of financial instruments were net of deferred income tax for an amount of €2,375 (2015: €1,447). The profit in 2016 on cash flow hedges, recognized in equity were net of deferred income tax of €928 (2015 loss: €711).

Net income and total comprehensive income net of tax
Net income and total comprehensive income net of tax are fully attributable to PACCAR Holding BV, the parent of the Company.

17. LEASES

The Company leases certain equipment under operating leases as a lessee. The lease expenses for the transportation equipment in the rental business are recognized in the period the expenses occur and recorded under lease expenses rental fleet in the "Other operating expenses" line of the income statement. Furthermore the Company leases facilities in Germany for the rental business and a number of company cars. These lease expenses are recognized in the period the expenses occur and recorded under "Other expense" in the "Selling and administrative expense" line of the income statement.

Annual minimum lease rental payments under non-cancellable operating leases are as follows:

Term	**2016**	2015
< 1 year	834	674
2 – 5 years	1,175	770
Total	2,009	1,444

There are no restrictions placed upon the Company by entering into these leases and there are no purchase or renewal obligations included in these leases. The amount of lease payments that are recognized as an expense for 2016 is €919 (2015: €1,066).

18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Interest rate risk

The Company is exposed to changes in interest rates. The Company uses derivative contracts to match the interest conditions of funding with the interest conditions of receivables arising from the retail and wholesale finance business. See note 19 for information on hedging activities.

The Company provides a portion of the funding for PACCAR Financial Plc, a wholly owned U.K. subsidiary whose functional currency is GBP. For the management of the foreign currency and interest rate risks, PACCAR Financial Plc enters into interest rate swaps and cross currency swaps with respect to the intercompany funding. In 2012 the Company entered into a loan in CHF and in 2016 the Company entered into USD loans with PACCAR Financial Corp. and PACCAR Inc. To manage the currency risk the Company entered into cross currency swaps.

The Company estimates the amount by which the fair value of interest rate sensitive assets and liabilities, including derivative financial instruments, would change assuming an immediate 100 basis points (“bps”) increase or decrease across the yield curve as shown below:

	2016		2015	
In €’000	100 bps increase	100 bps decrease	100 bps increase	100 bps decrease
Assets				
Retail finance & wholesale receivables	(26,809)	28,028	(25,773)	26,933
Derivatives	(2,599)	4,307	(2,328)	2,399
Liabilities				
Debt	4,078	(4,168)	8,919	(9,301)
Derivatives	9,761	(23,836)	13,066	(13,371)
	(15,569)	4,331	(6,116)	6,660

The effect on shareholder’s equity of a 100 bps increase across the yield curve is an increase of €9,761 (2015: €13,313) and the effect on the income statement is an expense of €2,599 (2015: €2,575). The effect on shareholder’s equity of a 100 bps decrease is a decrease of €(23,836) (2015: €(13,371)) and the effect on the income statement is a profit of €4,307 (2015: €2,399). The income tax effect is not taken into account in these numbers.

Based on the interest re-pricing periods, the interest earning assets and interest bearing liabilities can be detailed as follows:

As of December 31, 2016 *(in €'000)*	Within 1 year	1-5 years	> 5 years	Total
Assets				
Fixed rate finance lease	405,840	800,156	22,457	1,228,453
Fixed rate operating lease	270,665	461,765	8,036	740,466
Variable rate finance lease	53,061	-	-	53,061
Wholesale receivables	486,759	-	-	486,759
Cash and cash equivalents	25,048	-	-	25,048
Total of interest earning assets	1,241,373	1,261,921	30,493	2,533,787
Liabilities				
Term debt	(516,382)	(668,325)	-	(1,184,707)
Commercial paper	(604,574)	-	-	(604,574)
Long term loans affiliates	(332,795)	-	-	(332,795)
Total of interest bearing liabilities	(1,453,751)	(668,325)	-	(2,122,076)
Gross gap	(212,379)	593,596	30,493	411,710
Effect of derivative contracts	213,886	(213,886)	-	-
Net gap	1,507	379,710	30,493	411,710

As of December 31, 2015 *(in €'000)*	Within 1 year	1-5 years	> 5 years	Total
Assets				
Fixed rate finance lease	394,287	773,371	18,636	1,186,294
Fixed rate operating lease	242,105	378,004	10,324	630,433
Variable rate finance lease	52,443	-	-	52,443
Wholesale receivables	574,387	-	-	574,387
Cash and cash equivalents	18,154	-	-	18,154
Total of interest earning assets	1,281,376	1,151,375	28,960	2,461,711
Liabilities				
Term debt	(800,000)	(431,037)	-	(1,231,037)
Commercial paper	(791,101)	-	-	(791,101)
Total of interest bearing liabilities	(1,591,101)	(431,037)	-	(2,022,138)
Gross gap	(309,725)	720,338	28,960	439,573
Effect of derivative contracts	390,454	(369,963)	(20,491)	-
Net gap	80,729	350,375	8,469	439,573

The interest on floating rate financial instruments is generally re-priced at intervals less than one year. Trade and other receivables, accounts payable affiliates and trade and other payables are not directly exposed to interest rate risk. The presentation of the interest rate exposure shows the net gap as being the part of the interest bearing assets funded by equity and non-interest bearing liabilities.

Foreign currency risk

The Company is exposed to changes in foreign currency rates on the cash flows of its assets and debt in non-functional currency. The Company uses derivative contracts to convert the currency used in funding into the functional currency (see note 19). The following table summarizes the impact on the Company balance sheet of a 10% strengthening of GBP, PLN and CZK exchange rates on the measurement of assets and liabilities at year-end which are denominated in these currencies. The risk of exchange rate changes on assets and liabilities denominated in USD and CHF has been fully hedged.

As of December 31, 2016 and 2015 (in €'000)	**2016**	2015
Assets in foreign currency	131,840	131,228
Liabilities in foreign currency	(117,911)	(115,788)
	13,929	15,440
Foreign currency translation – equity	(14,722)	(15,609)
Effect on income before income taxes	(793)	(169)

A 10% exchange rate change is assumed to be a realistic possibility.

Capital resources and liquidity risk

The Company defines capital as the total equity of The Company and manages it in total. Capital is monitored on the basis of a leverage ratio, that is, the ratio of debt to equity. The Company is not subject to externally imposed capital requirements or to any direct financial covenants.

The Company funds its financing activities through a €1.25 billion Commercial Paper (CP) program, a €2.5 billion Euro Medium Term Note Program (EMTN) and loans from other PACCAR group companies.

The Company is exposed to liquidity risk from the potential limited market availability of funds at the time of repayment of short-term and long-term debt. This risk is mitigated by overdraft and credit facilities. The Company participates with other PACCAR affiliates in $3 billion of credit facilities, composed of a 364-day facility and two five-year facilities. The Company did not use these credit facilities for the years ended December 31, 2016 and December 31, 2015. These overdraft and credit facilities and PACCAR's consolidated cash provide back-up liquidity for the Company's short-term borrowings. The Company is liable only for its own borrowings under these credit facilities.

The table below summarizes the maturity profile of the Company's assets and liabilities based on contractual undiscounted interest and repayment obligations.

As of December 31, 2016 (in €'000)	Within 1 year	within 1 to 5 years	> 5 Years	Total Undiscounted 2016	Carrying amount 2016
Non derivative financial liabilities					
Accounts payable, accrued expenses and other	44,012	-	-	44,012	43,819
Commercial paper, bank loans and other short term debt	604,653	-	-	604,653	604,574
Term debt	514,415	722,919	-	1,237,334	1,184,707
Loans from affiliates	36,340	348,433	-	384,773	365,994
Other non-current liabilities	-	13,683	-	13,683	13,683
	1,199,420	1,085,035	-	2,284,455	2,212,777
Derivative financial assets and liabilities					
Derivatives	(2,266)	(5,639)	-	(7,905)	(3,469)
	1,197,154	1,079,396	-	2,276,550	2,209,308

As of December 31, 2015 (in €'000)	Within 1 year	within 1 to 5 years	> 5 Years	Total Undiscounted 2015	Carrying amount 2015
Non derivative financial liabilities					
Accounts payable, accrued expenses and other	42,257	-	-	42,257	42,062
Commercial paper, bank loans and other short term debt	791,247	-	-	791,247	791,101
Term debt	308,543	936,452	-	1,244,995	1,231,037
Loans from affiliates	35,076	2,290	-	37,366	36,692
Other non-current liabilities	-	10,469	-	10,469	15,472
	1,177,123	949,211	-	2,126,334	2,116,364
Derivative financial assets and liabilities					
Derivatives	5,868	3,100	84	9,052	31,355
	1,182,991	952,311	84	2,135,386	2,147,719

The disclosed financial derivative instruments in the tables above are the net undiscounted cash flows. The gross and net amounts are shown in the tables below:

As of December 31, 2016 (in €'000)	Within 1 year	within 1 to 5 years	> 5 years	Total Undiscounted
Inflows	11,679	17,459	-	29,138
Outflows	(9,413)	(11,820)	-	(21,233)
Net	2,266	5,638	-	7,905

As of December 31, 2015 (in €'000)	Within 1 year	within 1 to 5 years	> 5 Years	Total Undiscounted
Inflows	8,531	8,486	-	17,017
Outflows	(14,399)	(11,586)	(84)	(26,069)
Net	(5,868)	(3,100)	(84)	(9,052)

Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to repay amounts in full when due.

Management of credit risk

Within the Company a separate credit function manages the credit risk. The credit officers of the Company are independent of the business originators. Credit policies, procedures and risk analysis tools set the framework for the credit function to ensure a consistent approach towards the process of risk analysis and the credit decision.

The Company performs systematic risk analysis prior to taking any credit risk decision, with the aim of identifying, measuring and evaluating the risk. The credit risk analysis and evaluation focus on three types of risk: the customer, the asset to be financed and the requested structure of the collateralized financial transaction. Various elements of these risk areas are measured in transactional credit quality scorecards and rated into categories of lower than average risk, average risk or higher than average risk. On a periodic basis, using the transaction quality rating from the score cards, the credit quality of both new contracts entered into, as well as of the total portfolio, is evaluated against credit mix targets, general market development, credit losses incurred and past dues.

Concentrations of risks

Inherent to being the captive finance company of a truck manufacturer, the Company's portfolio is concentrated primarily in the truck transportation industry. This concentration risk is mitigated by the knowledge of the residual value development of the trucks and the access the Company has through DAF and its dealer network and public and private auctions to remarket trucks and trailers in case of repossession.

Financing is done generally based on the retention of legal ownership of the underlying assets until the contractual obligations are completely fulfilled by the dealer or customer. This significantly protects the Company from a full loss on unpaid balances as the realizable value of the assets reduces the credit risk. However a risk remains that the value of the underlying equipment will not be sufficient to recover the amounts owed to the Company resulting in credit losses. The company includes credit enhancement instruments such as personal or company guarantees issued by the customer or 3rd parties in evaluating the credit risk. There are no significant risks or counterparty concentrations within the credit enhancements accepted.

The company generally does not have the right to sell or re-pledge the equipment financed or credit enhancement instruments in absence of default of the customer.

Retail finance receivables

The maximum credit exposure for retail receivables before taking account of collateral at December 31, 2016 was €1,512 million (2015: €1,449 million).

For the retail finance portfolio the two types of financial products offered are finance leases and operating leases. Although the operational risk is different, the credit risk of these product types is similar. For customers with a low credit risk profile the Company does not limit the type of financial product it offers. For customers with a higher risk profile this may be of relevance to the credit decision, depending on the individual case. As a result the credit exposure of the retail finance portfolio is analyzed with financial leases and operating leases combined.

In retail finance, customers are mainly involved in all segments of the truck transportation industry and include small owner operators to large international truck fleet enterprises. Based on the experience and knowledge of the industry, the Company understands both the operational risks and the critical success factors of companies that are operating in these segments.

The Company is not significantly exposed to any customer concentration in the retail finance portfolio. As of December 31, 2016 the top ten customers represented 11.8% (2015: 11.4%) of the total portfolio with no single customer representing more than 1.9% (2015: 2.0%) of the retail portfolio.

Portfolio credit quality

To measure the credit quality of the retail finance portfolio, the Company uses an internally developed credit scoring methodology. Utilizing input on financial strength and quality of information, trade references/ metrics and deal variables, to arrive at a credit score as disclosed in the table below. There is no external rating available that would reliably compare with the Company’s credit score methodology.

Based on the methodology, the portfolio credit quality for retail finance portfolio is measured in percentages per risk category as per the table below:

	2016	2015
Risk Category	Portfolio at year-end	Portfolio at year-end
Lower than Average Risk	21%	22%
Average Risk	74%	71%
Higher than Average Risk	5%	7%

Wholesale receivables

The maximum credit exposure for wholesale receivables before taking into account collateral was €486,759 (2015: €574,387).

Both DAF and the Company have well established and longstanding relationships with the dealers. On the basis of regular dealer reviews and frequent dealer contacts the Company has up-to-date information about operational and financial performance of the individual dealers.

Wholesale finance receivables are mainly on new trucks and are typically limited to a 180 day period. Reference is made to note 5 regarding aging of the wholesale receivables.

Portfolio credit quality

To measure the credit quality of the wholesale dealers a dealer score is used. There is no external rating available that would reliably compare with the Company's credit score methodology. This score includes the affiliated dealers.

Risk Category	**2016** Portfolio at year-end	2015 Portfolio at year-end
Lower than Average Risk	10%	18%
Average Risk	80%	67%
Higher than Average Risk	10%	16%

Residual value risks

The Company is exposed to residual value risk. If residual values in the entire operating lease portfolio decrease by 10%, the immediate effect on financial results is an expense of €4,760 (2015: €4,134). Furthermore the future depreciation of equipment on operating lease over the total remaining life of the portfolio would be €29,578 (2015: €25,381) higher. If residual values in the entire operating lease portfolio increase by 10%, the immediate effect on financial results is an income of €768 (2015: €396).

19. FINANCIAL INSTRUMENTS

Fair values

Below is the comparison by category of the carrying amounts and the fair values of all the Company's financial instruments that are not carried in the financial statements at fair value. In all other categories the carrying amount in the Statement of Financial Position equals the fair value because the remaining lifetime is in general shorter than one year.

	2016		2015	
In €'000	Carrying amount	Fair Value	Carrying amount	Fair Value
Financial assets				
Finance receivables, net	1,271,337	1,281,706	1,225,787	1,234,138
Financial liabilities				
Euro Medium Term Notes	1,184,707	1,192,671	1,231,037	1,233,006

The fair value of financial assets and liabilities are affected by changes in current market interest rates. A decrease in current market interest rates causes the higher fair value of the finance receivables over the carrying amount. The fair value of the financial receivables has been calculated using the expected cash flows, the effective interest rates as of December 31, 2016 and December 31, 2015 respectively which are classified as level 3 under IFRS 13.81 - 85, "Fair value measurements" also taking into account the estimated impairment losses to be incurred. The fair value of the liabilities is the market rate of the Euro Medium Term Notes listed on the London Stock Exchange (PSM) and SIX Swiss Exchange which classifies as level 2 under IFRS 13.81 - 85, "Fair value measurements" due to low trading volume. Information on the interest rate risks of the company and the sensitivity analysis is included in note 18.

Hedging activities

The fair value of hedging instruments is determined using a valuation model based on the discounted cash flow method. The input for the model consists of market-observable data like EURIBOR and LIBOR yield curves and exchange rates. The trade date is used in accounting for derivatives. All the derivative financial instruments are classified as level 2 under IFRS 13.81 - 85, “Financial Instruments disclosures, fair value measurements”.

As of December 31, 2016, the carrying amounts of the derivative contracts were as follows:

In €'000	Long-term assets	Short-term assets	Long-term liabilities	Short-term liabilities
Hedging instruments – level 2				
Floating-to-fixed interest rate swaps	-	-	3,660	823
Cross currency swaps	10,028	10,354	35,838	-
At fair value through profit and loss - level 2				
Cross currency swaps	14,574	7,012	-	-
Currency forward contracts	-	1,977	-	153
Total	24,602	19,343	39,498	976

As of December 31, 2015, the carrying amounts were as follows:

In €'000	Long-term assets	Short-term assets	Long-term liabilities	Short-term liabilities
Hedging instruments – level 2				
Floating-to-fixed interest rate swaps	160	-	3,567	1,100
Cross currency swaps	8,547	-	4,947	-
At fair value through profit and loss - level 2				
Cross currency swaps	316	-	9,297	20,782
Currency forward contracts	-	182	-	868
Total	9,023	182	17,811	22,750

Cash flow hedges

Floating-to-fixed interest rate swaps effectively convert an equivalent amount of commercial paper or variable rate term debt to fixed rate debt matching fixed rate retail finance receivables. As of December 31, 2016, 16 (2015: 21) Euro interest rate swap contracts were outstanding with a notional amount of €303.4 million (2015: €635.5 million), an average remaining term of 18 months (2015: 17) and average fixed Euro interest to be paid of 0.67% (2015: 0.75%). Furthermore as of December 31, 2016, 12 (2015: 10) GBP interest rate swap contracts were outstanding with a notional amount of €103.4 million (2015: €107.9 million), an average remaining term of 28 months (2015: 40 months) and fixed GBP interest to be paid of 1.36% (2015: 1.42%). The floating-to-fixed interest rate swaps are generally settled on a three month basis.

Cross currency swaps are designated to hedge the currency risk of the intercompany funding of a U.K. group company or funding from a non-Euro group company. Cross currency swaps are also used to hedge the currency risk of non-Euro term debt or variable rate debt in non-Euro currency and also simultaneously convert floating-to-fixed rate funding, matching fixed rate receivables denominated in Euro. The cross currency swaps are generally settled on a three month basis.

As of December 31, 2016 the Company had the following cross currency swaps:

Nature of swap	Notional Amount in €'000	Average interest pay side	average FX rate	average remaining term in months
EUR/GBP	229,000	2.26%	€/£0.78	18
CHF/EUR	82,871	2.43%	CHF/€0.83	2
GBP/EUR	241,108	0.26%	£/€1.38	17
USD/EUR	259,108	(0.07%)	$/€0.90	35
USD/GBP	62,015	1.55%	$/£0.73	44

As of December 31, 2015 the Company had the following cross currency swaps:

Nature of swap	Notional Amount in €'000	Average interest pay side	average FX rate	average remaining term in months
EUR/GBP	289,000	2.20%	€/£0.80	14
CHF/EUR	82,871	2.43%	CHF/€0.83	14
GBP/EUR	241,379	0.26%	£/€1.38	29

Currency forwards

Currency forward contracts hedge the currency risk of commercial paper and intercompany funding in the non-functional currency of the related company.

As of December 31, 2016 the Company had the following currency forwards:

Currency	Number of contracts	Notional amount in '000	Remaining life time (days)	Exchange rate (€)
GBP	1	GBP 5,800	3	1,16
PLN	2	PLN 51,300	13	0.23
USD	4	USD 100,000	22	0.94
CZK	2	CZK 33,500	13	0.037

As of December 31, 2015 the Company had the following currency forwards:

Currency	Number of contracts	Notional amount in '000	Remaining life time (days)	Exchange rate (€)
GBP	2	GBP 5,000	4	1.4
PLN	3	PLN 33,100	15	0.23
USD	2	USD 50,000	9	0.93
CZK	3	CZK 18,800	15	0.037

20. REVENUE

In €'000	**2016**	2015
Revenue from financing	69,466	72,807
Rental income	186,264	175,341
Revenue from sales of used trucks	108,236	135,301
Other revenue	3,072	2,105
Total Revenue	367,038	385,554

Included in revenue from financing is interest revenue from affiliates is €11,512 (2015: €10,602). In 2016 and 2015 no interest income on individually assessed finance lease receivables is included in revenue from financing.

Sales of used trucks

In 2016 the Company remarketed 3,761 trucks and trailers (2015: 3,870 trucks and trailers).

The revenue of sales of used trucks can be split as follows:

In €'000	**2016**	2015
Revenue from sales of used trucks	99,630	106,185
Revenue from units early settled	8,606	29,116
Total Revenue	108,236	135,301

The cost of sales used trucks can be split as follows:

In €'000	**2016**	2015
Cost of used trucks sold	99,187	107,323
Cost of units early settled	8,467	29,024
Used trucks transaction costs	(49)	254
Total Cost of sales	107,605	136,601

21. INTEREST EXPENSE

In €'000	**2016**	2015
Interest expense commercial paper and term debt	8,768	10,971
Interest expense affiliated PACCAR company debt	3,399	746
Interest expense interest rate derivative contracts	3,041	8,313
Result on derivatives for hedging	77	(327)
Other, net	2,513	2,228
Interest expense	17,798	21,931

Interest expense includes an amount of €79 (2015: €4) relating to exchange rate differences. Included in "Other, net" are the expenses incurred for credit facilities (see note 18) as well as the amortization of costs of setting up and maintaining the Euro Medium Term Note program.

22. OTHER OPERATING EXPENSES

The other operating expenses relate to the rental of trucks and trailers.

In €'000	**2016**	2015
Leasing expenses rental fleet	30	246
Other vehicle expenses	18,028	19,936
Other operating expenses	18,058	20,182

The "Other vehicle expenses" relate to the operational expenses to in-service and maintain the rental fleet such as the costs of road taxes, repair and maintenance and insurance.

23. SELLING AND ADMINISTRATIVE EXPENSE

In €'000	**Notes**	**2016**	2015
Salaries		8,973	8,467
Pension costs	27	863	549
Social security costs		1,218	1,108
Other personnel costs		410	463
Depreciation on other assets	10, 11	350	312
Expenses cross charged by affiliated PACCAR companies	25	14,319	14,052
Other expenses		7,216	6,428
Selling and administrative expense		33,349	31,379

At year end, 320 people were working for the Company (2015: 303) of which 80 were located in the Netherlands (2015: 83).

24. INCOME TAX EXPENSE

The reconciliation of the income tax expense can be detailed as follows:

In €'000	**2016**	2015
Total income before taxes	48,045	44,392
Income tax expense at statutory income tax rate	12,011	11,098
Effect of various tax rates in foreign operations	(63)	(137)
Effect of permanent differences	(1,718)	(1,234)
(Deferred tax expense) / deferred tax income from de-recognition of deferred tax asset	(2,270)	56
Prior year adjustments	972	(695)
Income tax expense due to deferred income tax rate changes	148	468
Income tax expense at effective income tax rate of 18,9% (2015: 21.5%)	9,080	9,556

The effective tax rate of 18.9% is lower than the 2015 effective tax rate of 21.5% mainly reflecting the recognition of the deferred tax assets position of PACCAR Leasing GmbH, Germany in 2016 partially offset by de-recognition of deferred tax assets position in Czech Republic. The permanent differences mainly reflect a tax benefit for silent trucks in the Netherlands and the notional interest deduction in Belgium as well as exchange rate differences in Poland. The prior year adjustments relate to differences between income tax filings and the estimations of those differences in prior years.

Deferred tax
The current part of the taxation is €15,318 (2015: €11,438) and the deferred part of the taxation is €6,239 (2015: €(1,882)). The movement of the deferred tax assets and liabilities through the income statement is disclosed in the note 9.

25. RELATED PARTY TRANSACTIONS

Related parties of the Company are:

- PACCAR Holding BV
- PACCAR Inc
- PACCAR Financial Corp.
- DAF Trucks NV and its subsidiaries
- Leyland Trucks Ltd.
- Key management personnel of the Company

Affiliated PACCAR companies charge the Company for certain administrative services they provide. The costs were charged to the Company on a cost based sharing upon the Company's specific use of the services. Management considers these charges reasonable and not significantly different from the costs that would be incurred if the Company were to operate on a stand-alone basis. The relations of the Company with each of the related parties mentioned above are as follows.

PACCAR Holding BV
PACCAR Holding BV is the sole shareholder of the Company.

PACCAR Inc
PACCAR Inc is the ultimate parent company of the Company. PACCAR Inc has issued keep-well agreements on behalf of the Company's commercial paper and the Euro Medium Term Note programs. PACCAR Inc is the employer of some key managers of the Company (see below). PACCAR Inc charged €203 (2015: €260) to the Company for information technology and other services incurred on behalf of the Company. These expenses are recognized in the “Selling and administrative expense” in the income statement. Further the Company has entered in 2016 into a loan agreement with PACCAR Inc. The interest and other conditions are determined on an arm's length basis. There is a long term amount outstanding at December 31, 2016 of €216,792 (2015: €-). The effective interest rate is 1.44% and the average weighted number of months to repay is 31 months. The company paid €1,176 interest expense in 2016 (2015: €-) to PACCAR Inc.

__PACCAR Financial Corp.__

PACCAR Financial Corp. is the captive finance and lease company of PACCAR Inc in the U.S.A. It provides funding to the Company on both a short-term and medium-term basis when market conditions warrant. For both funding programs, the Company has entered into a loan agreement with PACCAR Financial Corp. The interest and other conditions are determined on an arm's length basis. There is a long term amount outstanding at December 31, 2016 of €116,001 (2015: €-). The effective interest rate is 2.30% and the average weighted number of months to repay is 46 months. The company paid €2,048 interest expense in 2016 (2015: €572) to PACCAR Financial Corp.

The company paid €1,314 (2015: €1,168) to PACCAR Financial Corp. relating to the maintenance of the term debt programs and the overdraft credit facilities (note 18).

__DAF Trucks NV and its subsidiaries__

DAF Trucks NV and its subsidiaries are involved with the following aspects of the Company's business.

Wholesale financing

The wholesale financing program is mainly based on the payment terms that DAF Trucks NV extends with its dealers. The main condition is that the first 30 days of interest is paid by DAF. During 2016, DAF Trucks NV and its subsidiaries have assigned receivables for an amount of €3,173,074 (2015: €3,122,496) to the Company. At December 31, 2016 an amount of €9,469 (2015: €16,870) owed to DAF was outstanding. During 2016 interest income of €10,213 (2015: €10,573) was charged to DAF Trucks NV or its subsidiaries related to the wholesale financing. At December 31, 2016 a receivable of €8,863 (2015: €7,921) on DAF owned dealers was outstanding.

Retail financing

The Company finances trucks that are sold directly by DAF Trucks NV or its subsidiaries to customers. During 2016 an amount of €142,575 (2015: €80,163) of trucks were purchased from DAF Trucks NV or its subsidiaries, to be leased out.

Used trucks remarketing

The Company sells certain trucks that have returned at the end of leases or that have been repossessed to the used trucks organization of DAF Trucks NV. During 2016 used trucks have been sold to DAF Trucks NV for remarketing for an amount of €10,187 (2015: €5,028). Selling price is principally based on market value.

Personnel and services

The people working for the PACCAR Financial Europe group are primarily employed by DAF Trucks NV or its subsidiaries. DAF Trucks NV and its subsidiaries provide general services, including shared office facilities for the PACCAR Financial Europe group. DAF Trucks NV and its subsidiaries charged €14,280 to the Company in 2016 (2015: €13,949) for the employees and services provided.

Taxes

The Company paid €3,447 income taxes to DAF Trucks NV (2015: €369). The Company forms a fiscal unity with DAF Trucks NV for income taxes. The company pays income tax to DAF Trucks NV as if it is independently liable for income tax.

Guarantee contracts

The Company has entered into agreements with DAF Trucks NV, whereby the risk and rewards on the residual value guarantee is borne by DAF Trucks NV.

Leyland Trucks Ltd

During 2016 the Company paid Leyland Trucks Ltd €63 (2015: €24) for received services.

Key Management Personnel

The emoluments, including pension costs charged in the financial year to the company, its subsidiaries and consolidated other companies amounted to EUR 1,629 (2015: €1,541) for key management personnel and former key management personnel. These costs were cross charged by DAF Trucks NV to PACCAR Financial Holdings Europe BV.

26. CASH FLOW STATEMENT

The net cash provided by operating, investing and financing activities includes interest paid for €18,289 (2015: €20,758) and interest received for €70,480 (2015: €75,156). The net cash provided by operating activities includes income tax paid for €10,477 (2015: €9,453) and income tax received for €1,350 (2015: €4,566).

All new equipment on operating leases have been paid upon entering into a lease contract. The disposed equipment on operating leases relates to units sold or transferred to inventory.

The movements in the line “Other, net” in the Operating activities can be specified as follows:

In €’000	**2016**	2015
Inventory	(843)	(1,320)
Payables and other	2,209	2,061
Other, net	1,366	741

The movement in the line “other, net” in investing activities mainly relates to investments and disinvestment in tangible fixed assets.

The movement in The Company/affiliates receivables relating to wholesale has been recorded in “Net (increase)/ decrease in wholesale receivables”.

27. POST EMPLOYMENT BENEFITS AND CONTINGENT LIABILITIES

The Company has employees in Belgium, Italy, France, Spain and Germany. In the other countries in which the Company operates, the Company uses the services provided by affiliated PACCAR companies. The Company is charged for these services and considers the charges as reasonable.

Long-term employee benefits are expensed as the employees render their services. The cost of providing the long term benefits is determined using the projected unit credit actuarial method.

The post-employment benefits are as follows:

Belgium

PACCAR Financial Belux BVBA employees participate in the PACCAR company's pension plan in Belgium. Under this company pension plan, the employees are entitled to a lump sum payment at the retirement age of 65 depending on the annual salary and the number of years of service.

The pension liabilities are insured with an insurance company. A defined benefit asset of €117 (2015: €175) has been recognized as of December 31, 2016. In 2016 contributions of €81 (2015: €48) were recognized in "Selling and administrative expense" in the income statement.

Italy

PACCAR Financial Italia S.r.l. employee's pensions are covered by the Italian State. The type of employee benefits depends on the number of years of contribution to the state pension plan. Depending on the employees' situation, the pension can be based on the average salary, on the contributions paid or on the combination of these two bases. The Company has no other obligations than the payment of the contribution. In 2016 contributions of €213 (2015: €201) were recognized in "Selling and administrative expense" in the income statement.

France

PACCAR Financial France S.A.S. employee's pensions are covered by the French State. The Company has no other obligation than the payment of a contribution. In 2016 contributions of €82 (2015: €80) were recognized in "Selling and administrative expense" in the income statement.

Depending on their position, some employees are entitled to an indemnity payment when they leave the Company. The indemnity payment is based on the number of years of service and the average salary in the year of leaving the Company. In 2016 contributions of €37 (2015: €37) were recognized in "Selling and administrative expense" in the income statement for these future indemnity payments.

Spain

PACCAR Financial España employee's pensions are covered by the Spanish State. The Company has no other obligation than the payment of a contribution. In 2016 an amount of €175 (2015: €183) was paid to the Spanish State for social security and health assistance which was recognized in "Selling and administrative expense" in the income statement.

Germany – PACCAR Financial Deutschland GmbH

PACCAR Financial Deutschland GmbH employees participate in the PACCAR company's pension plan in Germany. Under this company pension plan, employees are entitled to a lump sum payment at the retirement age of 65 depending on annual salary and number of years of service.

The pension liabilities are insured with an insurance company. A defined benefit liability of €428 (2015: €334) has been recognized as of December 31, 2016. In 2016 contributions of €275 (2015: €-) were recognized in "Selling and administrative expense" in the income statement.

28. EVENTS AFTER THE REPORTING PERIOD

There are no events after reporting date.

Signed:

G.J.B. Bas R. E. Armstrong

R. A. Bengston
Directors PACCAR Financial Europe BV

April 7, 2017

COMPANY BALANCE SHEET AS OF DECEMBER 31, 2016

(before appropriation of net result)

In €'000				
ASSETS	**Notes**	**2016**	2015	
Non-current assets				
Financial fixed assets	3	1,300,261	1,172,262	*
Current assets				
Other current assets	4	1,098,326	1,146,680	
Cash and cash equivalents		14,781	3,322	
Total Assets		**2,413,368**	**2,322,264**	
EQUITY AND LIABILITIES				
Shareholder's equity				
Paid-in capital	5	13,000	13,000	
Additional paid-in capital	5	224,046	224,046	
Foreign currency translation	5	(18,516)	(8)	
Accumulated fair value changes of financial instruments	5	(8,122)	(4,495)	
Retained earnings previous years	5	158,243	123,407	*
Net income	5	38,965	34,836	
Total Equity		**407,616**	**390,786**	
Long-term debt and other non-current liabilities	6	1,496,239	1,238,799	
Short-term debt	7	509,513	692,679	
Total Liabilities		**2,005,752**	**1,931,478**	
Total Equity and Liabilities		**2,413,368**	**2,322,264**	

* See note 2. 'Summary of significant accounting policies' of the consolidated financial statements for further details regarding the correction.

COMPANY INCOME STATEMENT - 2016

In €'000	**Year ended December 31**	
	2016	2015
Net income after income taxes from investments in consolidated group companies	37,804	33,592 *
Other income and expenses after income taxes	1,161	1,244
Net income	**38,965**	**34,836**

* See note 2. 'Summary of significant accounting policies' of the consolidated financial statements for further details regarding the correction.

NOTES TO THE COMPANY BALANCE SHEET AND COMPANY INCOME STATEMENT - 2016
(in thousands of Euros)

1. GENERAL NOTES

The company financial statements are part of the 2016 financial statements of PACCAR Financial Europe (the 'Company').

With reference to the income statement in the company financial statements, use has been made of the exemption pursuant to Section 402 of Book 2 of the Netherlands Civil Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The company financial statements have been prepared in accordance with Title 9, Book 2 of the Netherlands Civil Code. For setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its company financial statements, the Company makes use of the option provided in section 2:362(8) of the Netherlands Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the company financial statements of the Company are the same as those applied for the consolidated EU-IFRS financial statements, except for the accounting policies stated below. See note 2 of the consolidated financial statements for a description of these principles.

Investments in group companies
Investments in group companies are accounted for in the company financial statements according to the net equity value. Refer to the basis of consolidation accounting policy in the consolidated financial statements. The list of group companies can be found in note 2 of the consolidated financial statements.

Result of participating interests
The share in the result of participating interests consists of the share of the Company in the result of these participating interests. Results on transactions involving the transfer of assets and liabilities between the Company and its participating interests and mutually between participating interests themselves, are eliminated to the extent that they can be considered as not realized.

Accounts receivable group companies and other
Accounts receivable group companies and other are initially measured at fair value, being the consideration given. Subsequently the advances to group companies are measured at amortized cost.

3. FINANCIAL FIXED ASSETS

As of December 31 (in €'000)	**2016**	2015
Investments in group companies	291,494	274,595 *
Long-term advances to group companies	994,711	888,868
Deferred income tax assets non-current	4,028	250
Derivatives	10,028	8,549
Financial fixed assets	1,300,261	1,172,272

* See note 2. 'Summary of significant accounting policies' of the consolidated financial statements for further details regarding the correction.

The movement in the investments in group companies is as follows:

In €'000	**2016**	2015
Book value as of January 1	274,595	231,917
Correction	-	2,292 *
Restated book value as of January 1	274,595	234,209
Foreign currency translation differences	(18,502)	6,152
Accumulated fair value changes financial instruments	(2,403)	642
Income on investments in group companies	37,804	33,592
Book value as of December 31	291,494	274,595

* See note 2. 'Summary of significant accounting policies' of the consolidated financial statements for further details regarding the correction.

The accumulative fair value changes for financial instruments result from the accounting for derivative instruments held by PACCAR Financial Plc in the United Kingdom.

The movement in the other items of the financial fixed assets is as follows:

Long-term advances to group companies

In €'000	**2016**	2015
Book value as of January 1	888,868	980,018
Increases	1,757,826	1,020,768
Redemptions	(1,651,983)	(1,111,918)
Book value as of December 31	994,711	888,868

The long term advances to group companies in 2016 and 2015 were Euro denominated. At December 31, 2016, all long-term advances to group companies had a remaining term of more than one year. The interest rate of the long-term advances to group companies was fixed for a period equaling the average maturity dates of the retail portfolio of the related group company. As of December 31, 2016 the average interest rate was 1.34% (2015: 1.77%).

Deferred income tax assets In €'000	**2016**	2015
Book value as of January 1	250	1,930
Increase / (Decrease)	3,778	(1,680)
Book value as of December 31	4,028	250

Derivative contracts

As of December 31, 2016, there were 0 (2015: 1) interest rate swap outstanding with a notional amount of €0 (2015: €5,200) and an average term of 0 months (2015: 65.3 months), 2 (2015: 2) CHF cross currency swaps with a notional amount of €82,871 (2015: €82,871) and a remaining term of 2.2 months (2015: 14.2 months), 6 (2015:0) USD cross currency swaps with a notional amount of €259,108 and a remaining term of 35.2 months.

4. OTHER CURRENT ASSETS

As of December 31 (in €'000)	**2016**	2015
Short term advances to group companies	1,085,247	1,144,047
Short term advances to affiliates	-	164
Derivatives	12,331	182
Prepaid expenses and other	748	2,287
Book value as of December 31	1,098,326	1,146,680

The short-term advances to group companies include advances denominated in GBP 293,702 (2015: GBP 264,752), advances in PLN 39,435 (2015: PLN 17,676) and advances in CZK 15,395 (2015: CZK 11,665). The advances to group companies are interest bearing with a monthly floating interest rate. At December 31, 2016, all short-term advances to group companies had a remaining term shorter than one year.

The movement in the Short-term advances to group companies is as follows:

In €'000	**2016**	2015
Book value as of January 1	1,144,047	770,662
Increases	2,243,671	2,368,342
Redemptions	(2,274,708)	(2,019,384)
Interest	13,270	19,228
Foreign currency translation differences	(41,033)	5,199
Book value as of December 31	1,085,247	1,144,047

Derivative contracts

As of December 31, 2016 the Company had the following currency forwards:

Currency	Number of contracts	Notional amount in '000	Remaining life time (days)	Exchange rate (€)
GBP	1	GBP 6,700	3	1.16
PLN	2	PLN 51,300	13	0.22
USD	4	USD 100,000	15.9	0.93
CZK	2	CZK 33,500	13	0.037

As of December 31, 2015 the Company had the following currency forwards:

Currency	Number of contracts	Notional amount in '000	Remaining life time (days)	Exchange rate (€)
GBP	2	GBP 5,000	4	1.4
PLN	3	PLN 33,100	15	0.23
USD	2	USD 50,000	9	0.93
CZK	3	CZK 18,800	15	0.037

5. EQUITY

Issued capital

As of December 31, 2016 and 2015 130,000 ordinary shares at €100 nominal value were authorized, issued and outstanding. The movement in the components of equity is as follows:

In €'000	Paid-in capital*	Additional paid-in capital*	Foreign currency trans-lation*	Accumu-lated fair value changes financial instruments*	Retained earnings previous years	Net income	**Total**
As of January 1, 2015	13,000	224,046	(6,163)	(6,767)	88,961	32,151	345,228
Correction	-	-	(3)	-	-	2,295	2,292 **
Restated as per January 1, 2015	13,000	224,046	(6,166)	(6,767)	88,961	34,446	347,520
Net income	-	-	-	-	-	34,836	34,836
Other comprehensive income			6,152	2,278	-	-	8,430
Total comprehensive income	-	-	6,152	2,278	-	34,836	43,266
Appropriation of net income	-	-	-	-	34,446	(34,446)	-
As of December 31, 2015	13,000	224,046	(14)	(4,489)	123,407	34,836	390,786
Net income	-	-	-	-	-	38,965	38,965
Other comprehensive income	-	-	(18,502)	(3,633)	-	-	(22,135)
Total comprehensive income	-	-	(18,502)	(3,633)	-	38,965	16,830
Appropriation of net income	-	-	-	-	34,836	(34,836)	-
As of December 31, 2016	13,000	224,046	(18,516)	(8,122)	158,243	38,965	407,616

* See note 16.

** See note 2. 'Summary of significant accounting policies' of the consolidated financial statements for further details regarding the correction.

The reserve for accumulated fair value changes in financial instruments and the foreign currency translation reserve are legally required reserves and as such undistributable. The reserve for accumulated fair value changes is collectively determined.

Net income appropriation 2016

The proposal to the shareholder's meeting is to add the net income for the period ended December 31, 2016 to the retained earnings of previous years.

6. LONG-TERM DEBT AND OTHER NON-CURRENT LIABILITIES

As of December 31 (in €'000)	**2016**	2015
Term debt	1,458,549	1,231,037
Derivative contracts	37,690	7,762
Long-term debt and other non-current liabilities	1,496,239	1,238,799

Euro Medium Term Notes

Since September 10, 2004, PACCAR Financial Europe BV has maintained a Euro Medium Term Note program. All notes outstanding as of December 31, 2016 are listed on the London Stock Exchange (PSM) and SIX Swiss Stock exchange.

Terms of the Medium term note program include:

- Issuance tenors of 9 months to 10 years; actual issuances to date have generally been three to five years;
- Investment rating of A-1 by Moody's Investors Services and A+ by Standard & Poor's Rating Services;
- Fixed or Variable interest rates. The variable interest rate that resets every 3 months is based on three months EURIBOR or three months LIBOR, depending on the denomination of the notes;
- A keep-well agreement from PACCAR Inc.

The Company is not subject to externally imposed capital requirements, nor to any direct financial covenants.

As of December 31, 2016 and 2015, the carrying amounts of the outstanding notes under the Euro Medium Term Notes program were as follows:

	2016			2015		
Currency	*Amount (in €'000)*	*Effective interest rate*	*Weighted average number of months to repayment*	*Amount (in €'000)*	*Effective interest rate*	*Weighted average number of months to repayment*
Euro denominated	798,073	0.09%	17	800,000	0.27%	16
GBP denominated	293,324	1.51%	17	339,166	1.51%	29
CHF denominated	93,310	1.13%	2	91,871	1.13%	14
Due within one year	516,382			300,000		
Due after one year	668,325			931,037		

The effective interest rates are the weighted average interest rates including the effect of hedging instruments as of December 31, 2016 and December 31, 2015, respectively.

Derivative contracts

As of December 31, 2016, there were 16 (2015: 12) interest rate swap contracts outstanding with a notional amount of €303,400 (2015: €277,400) and an average term of 18.4 months (2015: 28.5 months) and 4 (2015: 4) GBP cross currency swap contract with a notional amount of €241,379 and a remaining term of 16.9 months.

7. SHORT-TERM DEBT

As of December 31 (in €'000)	**2016**	2015
Commercial paper	499,617	686,582
Short-term payables to group companies	2,259	789
Short term payables	3,763	33
Accounts payable affiliates	1,737	44
Derivative contracts	779	1,968
Accrued interest	1,358	3,263
Short-term debt	509,513	692,679

Commercial paper

Since 2001 PACCAR Financial Europe BV has maintained a commercial paper program. The main terms of the program are:

- Tenors of 1 to 183 days; Interest rates are based on money market rates prevailing at the issue date for the specific term of the note;
- Investment rating of P-1 by Moody's Investors Services, Inc. and A-1 by Standard & Poor's rating Services;
- A keep-well agreement from PACCAR Inc.

As of December 31, 2016 and 2015, the carrying amounts of the outstanding notes under the commercial paper program were as follows:

	2016			2015		
Currency	*Amount (in €'000)*	*Effective interest rate*	*Weighted average number of days to repayment in 2017*	*Amount (in €'000)*	*Effective interest rate*	*Weighted average number of days to repayment in 2016*
Euro denominated	134,700	(0.07)%	43	281,100	(0.07)%	30
GBP denominated	269,833	0.52%	40	359,450	0.52%	16
USD denominated	95,084	0.28%	16	46,032	0.28%	9
Total	499,617	0.32%	36	686,582	0.26%	21

The effective interest rates are the weighted average interest rates as of December 31, 2016 and December 31, 2015, respectively.

Derivative contracts
As of December 31, 2016, there were 7 EUR interest rate swap contracts outstanding with a notional amount of €175,400 and a remaining term of 6.5 months (2015: eight contracts with a notional amount of €352,900 and remaining term of 8.0 months).

8. GUARANTEES AND OTHER FINANCIAL COMMITMENTS

The Company has issued a statement of liability as referred to in article 2:403 of the Netherlands Civil Code for PACCAR Financial Holdings Europe BV, PACCAR Financial Nederland BV and for PACCAR Financial Services Europe BV.

The Company forms a fiscal unity with DAF Trucks NV for income taxes and is severally liable for the tax liabilities of the fiscal entity.

9. OTHER DISCLOSURES

Employees
The Company has no employees.

Remuneration directors
The remuneration of the directors is €382.

Events after the reporting period
There are no events after reporting date.

Auditor's fees

The following fees were charged by EY to the company.

(in €'000)	Ernst & Young Accountants LLP 2016	Other EY network 2016	Total EY 2016
Audit of the financial statements	430	486	916
Other audit engagements	21	-	21
Tax-related advisory services	-	14	14
Other non-audit services	-	-	-
Total	451	500	951

(in €'000)	Ernst & Young Accountants LLP 2015	Other EY network 2015	Total EY 2015
Audit of the financial statements	410	442	842
Other audit engagements	20	-	20
Tax-related advisory services	-	15	15
Other non-audit services	-	-	-
Total	430	457	877

The fees mentioned in the table for the audit of the financial statements 2016 (2015) relate to the total fees for the audit of the financial statements 2016 (2015), irrespective of whether the activities have been performed during the financial year 2016 (2015).

List of capital investments

Consolidated companies

The list of group companies can be found in note 2 to the consolidated financial statements.

With respect to PACCAR Financial Holdings Europe BV, PACCAR Financial Nederland BV and PACCAR Financial Services Europe BV the exemption for group companies has been applied based on article 2:403 of the Netherlands Civil Code. Based on this, the legal requirements for the financial statements are not applicable for these companies.

Signed

G.J.B. Bas R. E. Armstrong

R. A. Bengston
Directors PACCAR Financial Europe BV

April 7, 2017

INFORMATION SUPPLEMENTING THE FINANCIAL STATEMENTS

Articles-of-association rules concerning result appropriation
The rules for net income appropriation have been arranged in article 19 of the articles-of-association. This article states that the net income is at free disposal of the shareholder's meeting. Pay out of net income is only allowed as far as the equity exceeds the issued capital increased with reserves that are legally required.

Independent auditor's report

To: the shareholders of PACCAR Financial Europe BV

Report on the Audit of the Financial Statements 2016

Our Opinion

We have audited the financial statements 2016 of PACCAR Financial Europe BV, based in Eindhoven, the Netherlands. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of PACCAR Financial Europe BV as at 31 December 2016, and of its result and its cash flows for 2016 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- The company financial statements give a true and fair view of the financial position of PACCAR Financial Europe BV as at 31 December 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The consolidated financial statements comprise:

1. The consolidated statement of financial position as at 31 December 2016.
2. The following statements for 2016: The consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows; and
3. The notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. The company balance sheet as at 31 December 2016;
2. The company income statement for 2016; and
3. The notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of PACCAR Financial Europe BV in accordance with the Regulation regarding the independence of accountants in the case of assurance engagements (Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten or ViO) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the Regulation code of conduct and professional practice accountants (Verordening gedrags- en beroepsregels accountants or VGBA).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

Materiality	€2 million
Benchmark applied	5% of income before income taxes
Explanation	We believe income before income taxes to be the financial statement measure most important to users of the financial statements.

We have also taken misstatements into account and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the (non-executive) Board members that misstatements in excess of €100,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of our group audit

PACCAR Financial Europe BV is the head of a group of entities (the Group). The financial information of this group is included in the consolidated financial statements of PACCAR Financial Europe BV.

The Group has structured its activities in 13 legal entity components, of which four are located in the Netherlands and 10 in other European countries. The foreign components mainly contain the equipment on operating lease and other finance receivables of the Group in each respective country.

Our group audit mainly focused on the following significant group entities:

- The Netherlands: PACCAR Financial Europe BV (consolidating entity), PACCAR Financial Holdings Europe BV, PACCAR Financial Nederland BV, PACCAR Financial Services Europe BV.
- Belgium: PACCAR Financial Belux BVBA
- Germany: PACCAR Financial Deutschland GmbH, PACCAR Leasing GmbH
- France: PACCAR Financial France S.A.S.
- United Kingdom: PACCAR Financial Plc,
- Spain: PACCAR Financial España S.r.l.
- Italy: PACCAR Financial Italia S.r.l.
- Poland: PACCAR Financial Polska Sp. z o.o.

We have performed audit procedures ourselves at the group entities located in the Netherlands and used the audit work of other auditors within the EY network when auditing the group entities in Belgium, Germany, the United Kingdom, France, Spain, Italy and Poland. In aggregate these components represent 97% of Total Assets, 97% of Revenue and 97% of Income before income taxes. The components located in the Czech Republic (PACCAR Financial CZ s.r.o.) and in Slovakia (PACCAR Financial Slovakia s.r.o.) were not in scope due to their limited size and assessed risks.

By performing the procedures mentioned above at group entities, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the Group's financial information to provide an opinion about the consolidated financial statements.

Our Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the (non-executive) Board members. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our audit response
Impairment of Finance and other receivables	
Impairment analyses of finance lease receivables involve complex and highly subjective estimates regarding the size, timing, and recognition of impairment loss caused by credit default. We refer to the Summary of significant accounting policies (Note 2) and Notes 8 and 18 of the financial statements.	For impairment loss based on credit default, we verified the correctness of the input data used in the models, and challenged management's main assumptions and the use of loss history data and our own experience regarding such variables as default rates and collateral valuation. For individually calculated impairments, we tested a sample of items and assessed the timely identification of loss events, cash flow forecasts and management's assumptions regarding, for instance, collateral valuation. This includes forborne finance receivables. Management's overall approach to determining those amounts was consistent with that in the prior year. Based on our audit procedures performed, we believe that management appropriately accounted for the impairment of finance lease receivables.

Risk	Our audit response
Revenue recognition: Lease classification and used truck sales	
Lease classification Incorrect lease classification can have an impact on the recognition and presentation of revenues and related income statements captions including depreciation. Management uses standard contract types that are classified as either operating lease or finance lease following pre-defined criteria, such as estimated residual value of the lease object at the end of the contract. We refer to the Summary of significant accounting policies (Note 2) and Notes 7,8 and 20 of the financial statements.	We tested the design and operating effectiveness of the controls governing the leasing processes, which included controls regarding the authorization, recording and classification of lease contracts. We further tested a sample of contracts and assessed the correct classification of the contracts and appropriateness of recognition and presentation of revenues and related expense.
Used truck sales The Group routinely sells trucks from inventory that have been held as equipment on operating lease or for rental to others. The proceeds from the sale of such trucks shall be recognized as revenue in accordance with IAS 18 Revenue. The trucks returning from lease or rental flow through different (sub)systems before the eventual sale of a used truck is recorded. Considering complexity of the reconciliation processes for these different (sub)systems, the risk exists that errors in the reconciliations go unnoticed. We refer to the Summary of significant accounting policies (Note 2) and Notes 20 of the financial statements.	We obtained detailed information about the entire portfolio of trucks with a contract end date during 2016, reconciled the trucks from the inventory management system to the recording of used truck sales in the general ledger. Furthermore, we tested a sample of trucks to understand the flow of the transactions and to ensure all trucks are accounted for as either sales or contract extensions subsequent to the end of the initial lease contract. Based on our audit procedures performed, we believe that management appropriately accounted for lease classification and used truck sales.

Risk	Our audit response
Residual value estimation	
Estimates of residual value are made at inception of each operating lease contract to determine the depreciation expense and the monthly lease term, and each quarter for all active operating lease contracts in the Group's portfolio to assess the need for accelerated depreciation and/or impairments on the underlying lease objects. Management exercises judgment in the estimation of these residual values, and makes use of complex models and market information to make these estimates. We refer to the Summary of significant accounting policies (Note 2) and Notes 7 and 18 of the financial statements.	We evaluated and challenged assumptions made by management in determining the portfolio valuation model and the quarterly used truck price matrix. Management's overall approach to determining those amounts was consistent with that in the prior year. Based on the results of our audit procedures, we believe the process and assumptions used to determine the used truck price matrix and portfolio valuation are reasonable and appropriate.

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The financial review by management
- Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the financial review by management in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the General Meeting of Shareholders as independent auditor of PACCAR Financial Europe BV upon incorporation on 15 March 2001, as of the audit for the (first) financial year 2001 and have operated as independent statutory auditor ever since that date.

Description of responsibilities for the financial statements

Responsibilities of Management and the (Non-executive) Board members for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company’s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company’s ability to continue as a going concern in the financial statements.

The (non-executive) members of the Board are responsible for overseeing the Group’s financial reporting process.

Our Responsibilities for the audit of the Financial Statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included e.g.:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Concluding on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group entities, based on the size and/or risk profile of the group entities or operations. On this basis, we selected group entities for which an audit or review had to be carried out on the complete set of financial information or specific items.

We communicate with the (non-executive) Board members regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the (non-executive) Board members with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the (non-executive) Board members, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Amsterdam, 8 April 2017

Ernst & Young Accountants LLP

signed by P.J.A.J. Nijssen